

Alaska Industrial Development and Export Authority  
BOARD MEETING MINUTES  
Wednesday, October 28, 2020  
Anchorage, Alaska

**1. CALL TO ORDER**

Chair Pruhs called the meeting of the Alaska Industrial Development and Export Authority to order on October 28, 2020, at 11:35 am. A quorum was established.

**2. ROLL CALL: BOARD MEMBERS**

Members present: Chair Dana Pruhs (Public Member); Vice-Chair Bernie Karl (Public Member); Julie Anderson (Commissioner, DCCED) (phone); Albert Fogle (Public Member); Bill Kendig (Public Member); Anna MacKinnon (SOA-DOR) (phone); and Julie Sande (Public Member).

Others present: Ladonna Lindley (phone) (Accu-Type Depositions); Amy Adler, Kevin Buckland (phone), Mark Davis, Robert Hawkins, Jesse Peterson, Alan Weitzner, Alyssa Wilson (AIDEA); Allison Capps (phone), Bill Lierman (phone), Blake Phillips (phone) (Alaska Permanent Capital Management); Eddie Guerra (phone), Mark Luchsinger (phone) (Barrow, Hanley, Mewhinney & Strauss, LLC); Alexander Ford (phone) (Callan); Stefan Saldanha (Department of Law); and an Unidentified Speaker.

**3. AGENDA APPROVAL**

Chair Pruhs noted that the Executive Director has asked that AK CARES be added to the topics discussed while in Executive Session.

**MOTION: A motion was made by Mr. Kendig to approve the agenda with the addition of AK CARES included in the Executive Session. Motion seconded by Mr. Fogle.**

**The motion to approve the agenda with the addition of AK CARES included in the Executive Session passed without objection.**

**4. PRIOR MINUTES – September 16, 2020**

**MOTION: A motion was made by Mr. Kendig to approve the Minutes of September 16, 2020. Motion seconded by Ms. Sande.**

**The motion to approve the Minutes of September 16, 2020 passed without objection.**

**5. PUBLIC COMMENTS**

Chair Pruhs requested that public comments are limited to two minutes per person and pertain to the topics on today's agenda. There were no public comments.

**MOTION: A motion was made by Mr. Fogle to enter into Executive Session to discuss confidential matters related to determination of external legal counsel, review of FY 2020 audit, Budget and Audit Subcommittee, Loan Modification, Mustang Development Loan, and AK CARES. Motion seconded by Mr. Kendig.**

The motion was approved without objection.

## **6. NEW BUSINESS**

### **EXECUTIVE SESSION: 11:42 am**

**Confidential matters related to determination of external legal counsel, review of FY 2020 audit, Budget and Audit Subcommittee, Loan Modification, Mustang Development Loan and AK CARES**

The Board reconvened its regular meeting at 3:21 pm.

Chair Pruhs advised the Board did not take any formal actions on matters discussed while in executive session.

Chair Pruhs requested to go back to Item 3. Agenda Approval. He asked Alan Weitzner, Executive Director, to discuss the addition of a resolution under New Business. Mr. Weitzner informed that staff would like to add Resolution G20-29, approving intervention into litigation related to the Ambler Project and appointing litigation counsel.

Chair Pruhs suggested Resolution G20-29 is placed as Item 6B., and the current Item 6B., Permanent Capital Management, would become Item 6C. There was no objection to modifying the agenda as presented by Chair Pruhs.

### **6A. Loan Resolution No. G20-28 Alaska Ship & Drydock Operating Agreement Amendment**

Mr. Weitzner discussed Resolution G20-28 which approves the increase in maintenance obligation spending and related amendments to the operating agreement for the Ketchikan Shipyard. He requested Jesse Peterson, Senior Project Manager, to provide additional information. Mr. Peterson explained the amendment will increase the obligation amount by \$50,000 per year from the time period of 2018 through 2022. The resolution also approves a commitment to review the historical maintenance level of spending Q1 of 2023, to determine the appropriate obligation amount to reflect accurate maintenance levels at the Shipyard.

Chair Pruhs requested Mr. Peterson define maintenance. Mr. Peterson explained maintenance is any task undertaken at the Shipyard that is required to effectively maintain the Shipyard in a safe operating condition. The Shipyard conducts quarterly meetings to review maintenance tasks performed during the quarter. The information is compared to the maintenance plan submitted at the end of each year. The data is tracked to show preventative maintenance and unplanned maintenance events. The operator provides the maintenance plan and it is reviewed by AIDEA.

Chair Pruhs asked if Mr. Peterson believes that \$450,000 a year is enough for maintenance expenditures. Mr. Peterson believes \$450,000 is the bare minimum to keep the Shipyard functioning and it is possible more maintenance could be performed during a year. He believes this is the best negotiation at this time. Chair Pruhs asked if there is any deferred capital. Mr. Weitzner explained there is \$1 million worth of deferred maintenance work expected to be completed over the next five years. Mr. Weitzner reported that there is close to a total of \$5 million in identified deferred maintenance at the Shipyard. This is in addition to the normal maintenance expenditures. Mr. Weitzner explained how the Repair and Replacement (R&R) Fund is utilized for deferred maintenance.

Chair Pruhs asked if Mr. Peterson believes the operator is in full compliance with their agreement. Mr. Peterson affirmed the operator is meeting the requirements of the contract.

Ms. Sande expressed appreciation to Mr. Peterson and Mr. Weitzner for their efforts. She asked if this resolution would improve the functionality of the operating agreement. Mr. Peterson agreed. Ms. Sande inquired if this resolution would address and resolve the disputed years of 2018 and 2019. Mr. Peterson agreed, and explained the new obligation amount would be applied retroactively to 2018 and 2019. The new number would be used to calculate the reimbursement from the R&R Account.

Mr. Fogle asked if members were provided the deferred maintenance list in the packet. Mr. Peterson indicated that he has a copy with him, but that the list was not included in the members' documents. Mr. Fogle asked if there will be an annual or a semi-annual Board update regarding the progress of the deferred maintenance. Mr. Peterson agreed updates can be provided to the Board. Mr. Fogle requested that progress updates be provided to the Board.

Chair Pruhs inquired as to the Vigor asset value on the balance sheet. Mr. Weitzner informed that the book value is \$67.8 million, as of the most recent FY19 audit. Chair Pruhs asked for the annual depreciation amount. Mr. Weitzner noted the depreciation level is a little over \$3 million a year. Chair Pruhs asked for the all-in cost for the facility on an annual basis. Mr. Weitzner informed that information has been provided under the confidentiality statute 44.88.215.

Chair Pruhs asked for an explanation of the benefits to the public by having the Vigor asset on AIDEA's books. Mr. Weitzner explained the asset is managed through maintenance. AIDEA does not receive a return at this point in time. The depreciation is recorded on the books each year, but it is not a cash loss. The last independent analysis of the facility occurred in 2015. Chair Pruhs requested that an independent analysis be made of the condition of the shipyard in 2021, and then compare and confirm the analysis to Vigor's assessment. Mr. Weitzner agreed. He noted that it is possible AIDEA will pay for the analysis or the payment may be taken from the R&R Account. Chair Pruhs believes it is prudent to conduct the analysis.

Vice-Chair Karl asked if it would be advantageous for AIDEA to give the asset to the city. Mr. Weitzner stated that he was not able to answer that question. The response would have to come from the city and the borough directly. Vice-Chair Karl inquired as to the actual amount of funds AIDEA has invested in the shipyard. Mr. Weitzner explained when AIDEA acquired the facility, the initial funding for the R&R Account was split between AIDEA and the city and borough funds. AIDEA has invested approximately \$2.6 million into the shipyard. Vice-Chair Karl inquired as to the reasoning for AIDEA's ownership involvement. Mr. Weitzner explained

the history of ownership, shipyard management, and AIDEA's oversight. He informed that up to \$18,000 of AIDEA's internal costs for oversight is recovered through the R&R Account annually. He reported that the internal costs exceed the \$18,000 recovered amount.

Chair Pruhs expressed appreciation to Mr. Peterson for his work on this asset.

**MOTION: A motion was made by Ms. Sande to approve Resolution G20-28. Motion seconded by Mr. Kendig.**

**A roll call was taken, and the motion to approve Resolution G20-28 passed unanimously.**

**6B. Resolution No G20-29 Approving Intervention into Litigation Related to the Ambler Project and Appointing Litigation Counsel**

Mr. Weitzner explained Resolution G20-29 approves intervention into litigation related to the Ambler Project and appointing Holland and Hart as litigation counsel. AIDEA staff is requesting to intervene as the project proponent in the litigation brought by parties challenging the Joint Record of Decision signed by the Bureau of Land Management and other federal agencies for the Ambler Access Project. Mr. Weitzner explained there are significant benefits to the State of Alaska to be gained from the responsible development of the Ambler Access Project. Extensive work and funding has been undertaken by the State and AIDEA in the predevelopment permitting of the Ambler Access Project, as represented in the Environmental Impact Statement, as well as AIDEA's ongoing commitment to the predevelopment of the Ambler Access Project in its agreement with Ambler Metals. Staff recommends retaining legal counsel to intervene as the project proponent in the litigation to protect the interests of all Alaskans and directly participate with the federal agencies in defending Ambler Access Project's permitting.

**MOTION: A motion was made by Mr. Kendig to approve Resolution G20-29. Motion seconded by Mr. Fogle.**

**A roll call was taken, and the motion to approve Resolution G20-29 passed unanimously.**

**6C. Permanent Capital Management (APCM Part 2)**

Mr. Weitzner introduced Alex Ford of Callan and requested he review the presentation. Mr. Ford explained he is a member of AIDEA's investment consulting team. The report contains information as of the end of the fiscal year, June 30, 2020. Mr. Ford stated his comments will be high level and focused on broad themes. He gave a market overview showing Q2 quarterly real GDP at negative growth. Mr. Ford noted that the estimates anticipate a big surge in economic activity for the three months ending September 30<sup>th</sup>.

Mr. Ford showed that one of the implications of the disruption to the economy was the Federal Reserve cutting interest rates. He stated that the low interest rates are expected to remain for a period of years and will dictate the types of returns AIDEA can expect to generate from fixed income going forward. Mr. Ford discussed the AIDEA investment portfolio is 100% in fixed income. He gave an overview of the S&P 500 Index capital markets' reaction to the COVID-19 pandemic compared with previous corrections of the Tech Bubble and the Global Financial Crisis. Mr. Ford discussed investment returns of the broad asset classes, including U.S. Fixed

Income core bonds. He noted that AIDEA's investments are following the investment policy of protecting capital. The performance is above other asset classes for year-to-date 2020. Mr. Ford discussed the one-year total rates of return by bond sector as of June 30, 2020.

Mr. Ford reviewed the actual results of the AIDEA portfolio as of June 30, 2020. The internally managed Enterprise Development Fund manages approximately 15% of the assets. The two external managers are Alaska Permanent Capital Management and Barrow, Haley, Mewhinney & Strauss, who split-manage approximately 85% of the assets. The market value is just below \$500 million. The investment return was positive. For the last year, the total fund returned 8.18%. The AIDEA total fund has outperformed its benchmark and outpaced inflation over all measured time periods over the last 20 years. The investment portfolio is following its design to protect capital, perform well, and outpace its benchmark and measures of inflation.

Mr. Ford showed a comparison that favorably illustrates the successful investment policy. He reviewed that only three of the fiscal years since 2003 have generated negative returns or lost money. Mr. Ford discussed the peer group comparison for the two external managers. Both managers are performing in line with their investment guidelines and portfolio positioning. Mr. Ford showed a graphic illustrating how the AIDEA portfolio is well-diversified and allocated across the different investment grade fixed income sectors. Mr. Ford indicated that the AIDEA portfolio was incredibly successful at preserving capital during the 2020 violent market sell-off.

Mr. Fogle requested information regarding the composition of the Bloomberg Aggregate Index standard benchmark. Mr. Ford explained the slide showing the sector investment composition of the portfolio, the benchmark, and peers. Mr. Fogle asked if the AIDEA investment portfolio contains any businesses that do not want to lend to oil and gas development in the Arctic. Mr. Ford indicated that he does not know of any guidelines in the portfolio that would stipulate either excluding or specifically including those types of businesses. Mr. Fogle requested Mr. Ford provide to the Executive Director the names of any investments that have decided not to do business in the Arctic. Mr. Ford agreed. Mr. Fogle requested Mr. Ford provide to the Executive Director the names of any oversea investments, especially in China. Mr. Ford agreed. He informed that the funds are U.S. focused investment funds, so they should not hold many investments outside of the U.S. or in China.

Mr. Fogle asked Mr. Ford to explain to the Board Mr. Ford's interaction and role with the investment managers and Callan's role with the AIDEA holdings. Mr. Ford discussed Callan's role as the investment consultant to the Board includes the responsibility to provide a quarterly update of performance and independently verify the report to identify any potential discrepancies. Mr. Fogle asked for the name of AIDEA's portfolio custodial bank. Mr. Ford noted he does not have the name in front of him, but he will provide the name to the Executive Director. Mr. Fogle requested Mr. Ford disclose the amount of money AIDEA has paid to Callan and the money managers for 2019. Mr. Ford indicated that information is available, but he does not have it in front of him. He will follow-up with the Board on that information. Mr. Fogle requested a detail of the commissions and fees AIDEA is paying on a per year basis, and which services are being provided for those fees. Mr. Ford agreed. He explained Callan's fee is a fixed fee. The investment managers' fees are typically based on asset size and are captured in an all-in investment management fee. Mr. Fogle requested to see the true investment return

before all fees. Mr. Weitzner noted an investment program schedule of fees and costs has been previously provided to Board members and will be given again.

Ms. MacKinnon noted that she does not need an answer today to her question and asked Callan if there was opportunity lost by being conservative in the investments. She commented the investments have fared well in retaining assets and holding onto capital in these uncertain times. Ms. MacKinnon asked if it is a correct understanding that the portfolio did not partake in the last three years' run of the stock market due to its conservative allocation. Mr. Ford responded that the question is an interesting topic and he will address it now at a high level. He explained that yes, there has been an opportunity cost by not investing in other sectors of the market, such as U.S. stocks, which have been on an incredible run. That being said, those investments obviously do incur much greater levels of risk. AIDEA's written investment policy currently limits the portfolio to investments in investment grade or core fixed income, such as the portfolios of the two external managers. Mr. Ford informed that this is part of a larger discussion and Callan can provide much analysis. Venturing outside the current allocation would require amending the investment policy and entertaining alternatives, which, while possibly generating higher returns, could bring a level of risk, potential impairment and loss of capital.

Mr. Fogle requested Callan make recommendations to amend AIDEA's investment policy and send those to the Executive Director. Mr. Ford commented that is typically a significant project undertaking and stated Callan will develop some early ideas and proposals to provide to the Board. Chair Pruhs informed that any anticipated changes to policy will require a full work session.

Ms. MacKinnon discussed that she was looking for a high level comment from Callan at this time. She expressed that Callan would have to undertake a significant amount of work and that the Board would have to talk about whether additional risk could be taken on. Ms. MacKinnon stated the portfolio has been very conservative and could have made money, in retrospect, but that is not to say that is what will happen going forward. She expressed being a proponent for looking at changes to the policy and agrees those decisions need to be in the form of a Board work session specifically identified for that issue. Chair Pruhs agreed that a full historical policy review would be necessary.

Chair Pruhs expressed appreciation for the presentation.

Mr. Weitzner introduced Eddie Guerra and Mark Luchsinger of Barrow, Hanley, Mewhinney & Strauss (Barrow Hanley). Mr. Guerra discussed both his and Mr. Luchsinger's professional background. He noted Barrow Hanley manages AIDEA's Core Fixed Income account. Mr. Guerra provided the history of Barrow Hanley, which began 41 years ago, and currently has \$45 billion in institutional assets under management, with approximately \$11 billion in four strategies of fixed income.

Mr. Guerra described the firm is located in Dallas, Texas, and adds value through credit selection and attention to research. Mr. Guerra informed that Barrow Hanley operates globally and has been operating as a holding company structure since 1986. In July, the global partner Perpetual, based in Australia, announced that they will acquire Barrow Hanley, as an anchor manager to

grow the North American presence. There are no anticipated changes to the autonomous operations in the Dallas location.

Mr. Luchsinger highlighted that Barrow Hanley uses an innovative research process, which is complemented by the management access to the equity counterparts. The benefits of meeting with equity management include understanding operators and financial engineers, and availability for assistance with new allocations. The demand for credit this year has been substantial. Mr. Luchsinger discussed the composition of the 23-member fixed income team.

Mr. Weitzner requested, in the interest of time, that Mr. Luchsinger address page 17, which focuses on AIDEA's portfolio summary. Mr. Luchsinger discussed the ending value of the portfolio as of September 30, 2020, was \$210 million. The portfolio has a yield advantage to the Bloomberg Barclays Aggregate Index at 1.4% versus 1.2%. The portfolio's duration is equal to the benchmark. The portfolio is high quality, with an average of AA- rating. Mr. Luchsinger described the maturity distribution of the portfolio, and believes the best opportunity is within the intermediate market of five to 10-year maturities.

Mr. Weitzner asked Mr. Luchsinger to comment on additional information that Barrow Hanley would like the Board to be aware of. Mr. Luchsinger commented the portfolio is overweight in credit at about 44%, compared to the index at 32%. This area was able to generate excess return for the portfolio. The portfolio is overweight in mortgages, banking, electric utilities, consumer cyclicals, and energy. The portfolio is underweight in non-corporate credit, such as foreign agency paper. The portfolio does not have any China holdings.

Mr. Guerra discussed the strong portfolio outperformance is directly from the corporate bond holdings. The portfolio performance shown in the presentation is on a gross-of-fee basis. The net-of-fee performance will be provided. Mr. Guerra commented on the Board's previous discussion regarding investment policy decisions. He noted that as the Board considers the market going forward, one challenge will be maintaining similar returns in the future. Mr. Guerra discussed the Board could consider the potential of adding yield or income to the portfolio through investments in below investment grade bonds. Mr. Guerra reiterated the portfolio's strong performance, which has beaten the index and has met AIDEA's mandate.

Mr. Fogle inquired if any of the fixed income portfolio assets are invested in any investment firms of banks that are no longer doing business in the Arctic with oil and gas. Mr. Luchsinger informed that he is not aware of which banks have made that policy and he would have to research to provide an answer. Mr. Fogle advised that at least Goldman Sachs, Citi, and Wells Fargo have made such policies. He commented that Barrow Hanley may want to read up on the topic since they have a client in Alaska.

Mr. Weitzner acknowledged the question Mr. Fogle raises is very good and will be addressed with both Callan and the individual money managers. A list of investments that are no longer doing business in the Arctic with oil and gas will be provided. Mr. Weitzner noted a follow-up would be to define the item within the investment policy. Mr. Luchsinger advised that the bank sector comprises a very large portion of the credit index and the large money-center banks are very heavily weighted in the index.

Chair Pruhs commented on the probability that the portfolio will need to reallocate its positions.

Mr. Weitzner expressed appreciation to Mr. Guerra and Mr. Luchsinger for their presentation. Mr. Weitzner introduced Allison Capps, Blake Phillips, and Bill Lierman of Alaska Permanent Capital Management (APCM). Mr. Lierman began the presentation by providing his professional background. The firm began in 1992, and currently manages approximately \$4.5 billion in assets. APCM is located in Anchorage. The AIDEA portfolio was inceptioned in 1994, and as of September 30, 2020, was approximately \$204 million. The annualized account return since 1994 has tracked the 5.67% return of the benchmark closely at a 5.66% return.

Mr. Lierman expressed the importance of looking back to review the two main drivers of returns for fixed income; interest rates and credit spread. The portfolio is managed to a set of factors of these drivers. Mr. Lierman discussed the market review and economic outlook. Diminished trade tensions have a positive effect and the upbeat ability of the consumer in the U.S. provides supportive financial conditions. Mr. Lierman explained the supportive financial conditions and the demand for fixed income assets are at an all-time high and have driven interest rates lower. Valuations are very rich in the corporate market and corporate health is stretched.

Mr. Lierman discussed AIDEA's portfolio overweight in Treasuries funded from Corporates and Mortgages was the primary driver of outperformance, especially in the first quarter. The quality comparison of the portfolio is overweight AA compared to the index and underweight BBB compared to the index. Mr. Lierman explained the concern is downgrade risk, which could cause a forced sale in this market. Caution is warranted moving forward and managers will remain credit conscious until the risk profile improves, either by an improving economy or a widening spread. Through these uncertain times, the managers have maintained their discipline to the outlined process. Mr. Lierman commented managers will continue to follow a prudent risk management approach and understand where we are in the credit cycle.

Mr. Fogle commented that the since-inception return on page 8 shows AIDEA at 5.66% and the Bloomberg Barclay's Aggregate Index at 5.67%, which is essentially flat. Mr. Fogle asked Mr. Lierman to advise the Executive Director on recommendations to start to beat the market. Mr. Lierman discussed the portfolio seeks to be high quality and work through the credit cycles. He highlighted on page 20 the gross-of-fee portfolio return, index return, and S&P 500 return for two cycles from November 2015 to February 2016, and February 2020 to April 2020. The portfolio outperformed during these times and illustrates its preservation and prudent profile.

Mr. Weitzner expressed appreciation to Mr. Lierman.

## **7. DIRECTORS COMMENTS**

Mr. Weitzner informed that all reports are included in Board members' packets.

**7A. Board Resolution Report** - No questions.

**7B. Resolution No. G19-21 Report** - No questions.

**7C. Resolution No. G11-18 Report, Finance Dashboard and Commercial Loan Reports** - No questions.



**7D. Infrastructure Development (IFD)/Project Finance & Asset Management (PFAM)  
Updated Project Matrices - No questions.**

**Next regularly scheduled AIDEA Board Meeting, Wednesday December 2, 2020**

Mr. Fogle asked Mr. Weitzner for an update on the building maintenance. Mr. Weitzner explained the Chief Procurement Officer is currently reviewing the building maintenance plan. The building assessment has been completed. Bids are being obtained for specific items that need to be upgraded. After the bids are evaluated, a recommendation will be made to the Board for utilization of any additional fund to the G17-15 allocation. The current undertakings remain within the G17-15 allocation. Mr. Fogle asked for a timeframe as to when a recommendation will be made to the Board. Mr. Weitzner anticipates a recommendation could be part of the next Board meeting, however, the timing is based upon the completeness of the information.

**8. BOARD COMMENTS**

Ms. MacKinnon publically disclosed that on Monday, September 14, she was made aware that a family member has applied for an Alaska CARES grant. She does not know the status of the application. Ms. MacKinnon informed that she will recuse herself from any matters that may come before the Board on this issue. She contacted the ethics supervisor and filed the necessary disclosures under the Ethics Act and has received conditional approval from the Administration.

Ms. Sande disclosed that she filed an ethics disclosure form for a company that she is part owner of that submitted an application for the AK CARES grant funding. Ms. Sande does not know the status of the application. Ms. Sande expressed appreciation to Mr. Weitzner and staff for their work, particularly on the shipyard's progress.

Vice-Chair Karl disclosed one of his companies has applied for a CARES grant. He has filed the proper ethics disclosure form. Vice-Chair Karl expressed appreciation to Mr. Weitzner and staff for the high quality work that is being presented before the Board.

Mr. Fogle applauded Mr. Weitzner for his diligent efforts in leading the organization in the right direction. He thanked staff and thanked Amy Adler for stepping up in her new role.

Mr. Kendig echoed the comments of appreciation and has noticed an increased improvement in the quality of work presented.

Chair Pruhs disclosed that he has applied for an AK CARES grant. He does not know the status of the application and has filed the appropriate ethics disclosure form. He asked Mr. Weitzner how many businesses have applied for the grant. Mr. Weitzner reported that out of approximately 48,000 eligible businesses, over 6,500 businesses have applied. Chair Pruhs expressed appreciation to staff and welcomed Ms. Adler. He thanked Board members for their patience and efforts.

**9. ADJOURNMENT**

There being no further business of the Board, the AIDEA meeting adjourned at 4:51 pm.



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Alan Weitzner, AIDEA Executive Director  
Secretary