

November 21, 2018

Senator Bert Stedman
Chair, Legislative Budget and Audit Committee
State Capitol 30
Juneau, AK 99801-1182

Dear Senator Stedman,

Thank you for your November 8th letter requesting an update on Trust activities for the Legislative Budget and Audit Committee. I am writing on behalf of the Alaska Mental Health Trust Authority as well as the Trust Land Office and I appreciate the opportunity to provide a status report on our efforts.

The recent legislative audit has been an opportunity to not only review our operations, but to continue to seek excellence in our business practices. It has also provided us an opportunity to strengthen our relationships with our statutory advisors and key stakeholders. These dialogues have been very beneficial and helped the Trust design and implement improvements in governance and better engage with the Alaskans we serve.

The Trust recognizes the value of the report's recommendations and has taken steps to address all of them. For most of the recommendations, we have already completed corrective actions or are in the process of developing information necessary to complete corrective actions. In the matter of the use of Trust principal we have indefinitely suspended the activity of concern and are determining the best approach to either develop alternative approaches to meet critical Trust obligations or gain clear authorization for historic Trust practices.

Please read further for specific responses to your questions:

Use of Principal:

Since receipt of the audit, the Trust has followed the four commitments it made in its May 1, 2018 response regarding concerns about Trust investments.

- There have been no further commercial real estate investments; and none are anticipated at this time.
- We are working with the Alaska Permanent Fund Corporation (APFC) on the treatment of existing Trust real estate investments. The Trustees will receive an update of the status of this process at the end of this year.
- Earlier this month, all previously un-committed principal funds were directed to be deposited in the Mental Health Trust Fund to be managed by the APFC. \$21.8M of principal will have been deposited in 2018.

- As we promised earlier, the Trust is meeting with historic and current stakeholders regarding the optimal approach to the use of principal going forward. We expect this guidance to influence the Trust's ultimate recommendation for future legislation and/or judicial review. We believe the outcome of this effort will better inform any subsequent discussions regarding clarifications of the Trust's authority. The Trustees will be briefed on the results of stakeholder consultations regarding the use of principal within the next 75 days.

Asset Management Policies: The Trust has engaged Callan, an independent investment advisory firm, to review the Trust's existing asset management policies and provide recommendations about industry best practices for consideration by the trustees. This work is expected to be completed in 90 days.

Potential Conflicts of Interest: With support from the Department of Law, the Trust has conducted training on several ethics related topics including disclosures of potential conflicts of interest and Open Meetings Act requirements in 2018. Supplemental training for new staff and trustees in these areas will be conducted as necessary. Refresher training for staff and trustees will be available annually. The Trust has also adopted revised charters that provide clear authorities and boundaries for trustees and staff to ensure that Trust business is conducted in a transparent manner. In addition, the trustees have augmented these governance efforts by establishing an Audit & Risk Committee to monitor internal controls, promote best management practices, and respond to any concerns or questions that may be arise. This work is expected to be an ongoing commitment to continuously improve the Trust.

We are committed to building a stronger Trust that is well positioned to meet the needs of beneficiaries today and into the future. This experience has helped the organization develop better processes and improve our transparency and communications. Thank you for your interest in the Trust and the opportunity to provide this update on our efforts.

Sincerely,

A handwritten signature in black ink, appearing to read "Michael K. Abbott", written in a cursive, flowing style.

Michael K. Abbott
Chief Executive Officer