

Alaska Industrial Development and Export Authority
BOARD MEETING MINUTES
Wednesday, September 11, 2024
Anchorage, Alaska

1. CALL TO ORDER

Chair Pruhs called the meeting of the Alaska Industrial Development and Export Authority to order on September 11, 2024, at 8:33 am.

2. ROLL CALL BOARD MEMBERS

Members present: Chair Dana Pruhs (Public Member); Vice-Chair Bill Kendig (Public Member); Julie Sande (Arrived Late) (Commissioner, DCCED); Adam Crum (Arrived Late) (Commissioner, DOR); Albert Fogle (Public Member); Randy Eledge (Public Member); and Bill Vivlamore (Public Member). A quorum was established.

3. AGENDA APPROVAL

MOTION: A motion was made by Mr. Fogle to adopt the agenda as presented. Motion seconded by Mr. Vivlamore.

The motion to adopt the agenda passed without objection.

4. PRIOR MINUTES – August 7, 2024

MOTION: A motion was made by Mr. Fogle to approve the Minutes of August 7, 2024. Motion seconded by Mr. Vivlamore.

The motion to approve the Minutes of August 7, 2024 passed without objection.

5. PUBLIC COMMENTS – None

There were no members of the public online or in-person who requested to comment.

6. NEW BUSINESS

MOTION: A motion was made by Mr. Fogle to enter into executive session for the purpose of discussing the following: AIDEA finances, ANWR, HEX Cook Inlet Gas, and the Ketchikan Shipyard, and other matters related to AIDEA, and matters that are subject to specific legal advice which is subject to attorney-client privilege. These matters, which if discussed publicly, could have an adverse effect on the finances of AIDEA, are matters that are attorney-client privileged, and matters involving consideration of issues that by law are not subject to public disclosure due to the executive or deliberative process, privilege or

law. The executive session and matters discussed therein are proper subjects for an executive session under the Alaska Open Meetings Act, reference Alaska Statute 44.62.310 (C)(1), (3), and (4), and the Alaska Public Records Act. Motion seconded by Mr. Vivlamore.

A roll call was taken, and the motion to enter into Executive Session passed, with Commissioner Sande absent and Commissioner Crum absent.

6A. EXECUTIVE SESSION: 8:40 am. Confidential and deliberative matters related to: AIDEA Finances, ANWR, HEX Cook Inlet Gas, and the Ketchikan Shipyard, which are subject to the deliberative process privilege, and other matters related to AIDEA, and matters that are subject to specific legal advice which is subject to the attorney-client privilege. The Executive Session and matters discussed therein, are proper subjects for an executive session under the Alaska Open Meetings Act. Reference: Alaska Statute 44.62.310(c)(1), (3), and (4) and the Alaska Public Records Act.

The Board reconvened its regular meeting at 11:54 am. Chair Pruhs advised that the Board did not take any action on matters discussed while in Executive Session. The session was limited to discussion of matters directly protected from public disclosure by the Open Meetings Act.

6B. Callan Presentation

Geoff Johns, AIDEA Chief Investment Officer, introduced Callan representatives Alexander Ford and Perry Hopper to present the consolidated financial returns for Alaska Permanent Capital Management and Barrow Hanley for fiscal year 2024. Mr. Hopper began the presentation with the summary of the U.S. economic conditions. He noted that the economic conditions over the year were good. Inflation is moderating; down to 3% from 3.4% during the reporting period, and is currently down to 2.9%. The gross domestic product (GDP) growth has been fairly strong and healthy. Another favorable data point for the Federal Reserve approaching its change in interest rate policy is the favorable unemployment rate trend. The market is expecting an interest rate cut in September.

Mr. Hopper discussed that the interest rate cut should be a tailwind for the fixed income portfolio. He highlighted the U.S. Treasury yield curves shown in the presentation. Mr. Hopper reviewed that the market environment for equities has been favorable with a 25% return for the S&P 500 in the fiscal year. The fixed income returns for the Bloomberg Aggregate were not as favorable with a 2.6% return for the fiscal year. Mr. Hopper stated that looking forward, Callan's capital markets team expects an over 5% annualized return for fixed income. He highlighted the fixed income trends that shorter dated bonds are performing better, including cash returns, and longer dated fixed income are performing poorly.

Mr. Ford continued the high-level overview of AIDEA's investment funds for FY24, including the overall asset allocation and the movement of dollars over the last year. The total asset value at the beginning of last year was approximately \$570 million, of which 60% was allocated to two external investment managers, Alaska Permanent Capital Management and Barrow Hanley. The

remaining assets were allocated to the internally managed Enterprise Development Fund program. Over the course of the fiscal year, the positive investment returns added approximately \$25 million and the net new investment contributions totaled approximately \$66 million. The year-end market value was approximately \$661 million in total assets. Mr. Ford noted that the current allocation is approximately 53% external asset managers and approximately 46% internal program managers. That allocation will vary, as AIDEA's Investment Policy does not specify a target external/internal allocation of assets.

Mr. Ford discussed the historical fiscal year net returns for AIDEA's assets compared to the Bloomberg Aggregate benchmark over the last 20 fiscal years, as shown in the chart on page 14 in the presentation. During the 20-year period, AIDEA's investment program after fees is ahead of the benchmark about 65% of that time. In the years that AIDEA's investment program after fees has fallen behind the benchmark, the underperformance is only marginal. Over the long-term, the managers have met the primary Investment Policy objective.

Mr. Ford highlighted the glaring outlier and historical anomaly of FY22, whereby both the Bloomberg Aggregate and AIDEA's assets went deeply into negative territory. This was driven by the interest rate environment and the Federal Reserve's effort to combat inflation. Mr. Ford noted that the negative returns do not reflect any faults of AIDEA's asset allocation or AIDEA's managers, but rather it was predicated by the backdrop of the market environment. Additionally, those FY22 negative returns are driving down the longer-term three-year and five-year performance results. Mr. Ford discussed that the internal manager's short-duration strategy has benefitted the portfolio during this interest rate environment, as the current yields are highest on the short-end.

Chair Pruhs asked why the comparison benchmark is the Bloomberg Aggregate. Mr. Ford explained the Bloomberg U.S. Aggregate is the industry standard for benchmarking fixed income portfolios constructed by AIDEA's external managers. Chair Pruhs asked if there is a different benchmark that could be used and requested that a different index provider is utilized. Mr. Ford discussed there are other index providers. He explained that the Bloomberg company that has oversight of the index does not have discretion regarding the contents of the index. It is an all-encompassing measure and the opportunity set of the broad bond market. AIDEA's active managers hold a smaller subset of the index. Mr. Ford commented that another index provider is not going to look materially different. He commented that Callan can look for another index provider as directed by the Chair.

Mr. Johns explained that AIDEA's Investment Policy Statement (IPS) contains the option, as outlined in Resolution G21-25, to utilize the Barclays Capital Aggregate Bond Index or the Citigroup World Bond Index. Either of these could be used in combination with the Bloomberg Aggregate. Mr. Johns indicated that he would follow up with the representatives at Callan.

Mr. Hopper commented that the Barclays Aggregate is now the Bloomberg Aggregate. Mr. Ford stated that as part of the fiduciary oversight, AIDEA's IPS needs to be updated because the reference to the Barclays Aggregate is out-of-date, as the Barclays Aggregate and the Bloomberg Aggregate are now one in the same index.

Commissioner Crum asked if the Callan representatives could speak with Steve Center of Callan and determine what benchmark index is used for the Alaska Retirement Management Board and the Alaska Permanent Fund Corporation. Mr. Ford agreed.

Mr. Ford continued the presentation and acknowledged that the returns of the broad bond market have been very challenging for investors such as AIDEA during the Federal Reserve's intervention and the dramatically increasing interest rates. The Bloomberg Index numbers reflect the market environment and do not reflect the index provider. The Bloomberg Index reports the market numbers. The Bloomberg Index is not a manager. Mr. Ford reiterated that a different index provider is expected to have very similar reporting results.

Mr. Ford highlighted that while the market has been challenging, AIDEA's investment managers have delivered returns after fees that are higher than the market index. The primary objective of the investment managers is to protect capital and to exceed the index returns.

Vice-Chair Kendig asked Commissioner Crum if the Permanent Fund has similar historical returns. Commissioner Crum noted that he does not have the aggregate return numbers in front of him. He commented that Callan is the investment consultant for both the Permanent Fund and the Alaska Retirement Management Board.

Mr. Ford suggested that Vice-Chair Kendig's request is not an apples-to-apples comparison. AIDEA's numbers reflect only fixed income, and the other portfolios are much more diversified and include risk assets. Mr. Ford explained that AIDEA's external managers fulfill AIDEA's conservative investment strategy that is specifically designed for capital preservation.

Mr. Ford discussed that AIDEA's total investment fund, including internal and external managers, returned 4.08% after fees for the last fiscal year and beat the target of 3.93%. The total investment fund also beat its target for returns in the last three years and the last five years. However, in the last three years and five years, the total investment fund did not keep pace with the CPI All Urban measure of inflation. Mr. Ford explained the contributing market conditions of lowered fixed income returns, sell-offs in equity markets in 2022, and surging inflation. He believes that the total portfolio is constructed to do a better job going forward.

Mr. Hopper reported that he contacted Mr. Center during the presentation and the market indices used are Bloomberg. Mr. Hopper noted that additional offline conversations could occur with Mr. Johns regarding other index providers.

Chair Pruhs suggested to Randy Ruaro, Executive Director, that a work session on AIDEA's investment strategy and risk analysis is conducted within the next few months. He requested that Callan representatives or other experts attend, and that a comparison of AIDEA's investment strategy is compared to other State entities. Mr. Ruaro reported that preparations are currently underway for that work session, and that it would be scheduled in a few months.

Commissioner Crum asked if AIDEA should hold its current investment strategy. Mr. Ford agreed, and explained that the coupon rate and interest payment of the bonds today are much higher than in previous years. This benefit translates into higher total returns, which are

anticipated to be reflected over the next several quarters and years.

Chair Pruhs asked if AIDEA's portfolio should purchase additional bonds. Mr. Ruaro noted that those conversations are occurring with external managers, and decisions should be made during September. He explained that the portfolio can be rebalanced within the confines of the Investment Policy Statement so that the expected returns are closer to equity-like excess returns. Additionally, Callan will provide staff with information regarding the effect of the anticipated federal interest rate cuts. Further updates on this topic can be discussed at a work session in November or at the December or January meeting. There were no other questions.

6C. Resolution No. G24-10 AIDEA Navision IT Upgrades and Funding

Mr. Ruaro explained that Resolution No. G24-10 authorizes the Executive Director to procure \$360,000 worth of software upgrades and a server. The equipment is necessary for both AIDEA and AEA. The resolution also authorizes Mr. Ruaro to recover the cost of the purchase that is allocated to AEA. The current system is old and soon, it will no longer be supported. There were no questions.

MOTION: A motion was made by Mr. Fogle to approve Resolution G24-10 AIDEA Navision IT Upgrades and Funding. Motion seconded by Mr. Vivlamore.

A roll call was taken, and the motion to approve Resolution G24-10 passed unanimously.

6D. FY2025 Draft AIDEA Board Meeting Dates

The January 2025 meeting will either be scheduled for January 15 or January 29. Mr. Ruaro will email the new date.

The June 2025 meeting in Ketchikan was changed to June 17, 2025.

Chair Pruhs reiterated that meetings will begin at 9:00 a.m.

Mr. Fogle informed that he will be absent during next month's Board meeting.

7. DIRECTORS COMMENTS

7A. Project Updates

Mr. Ruaro discussed that project litigation is occurring on several fronts. Work with local communities and project sponsors continues. Tribal entities are indicating strong support for jobs and economic development. The next meeting with the Ambler tribal groups and Subsistence Committee is in October at the Alaska Federation of Natives convention. Eight different communities near the road support the project and participate in the meetings.

Mr. Ruaro discussed that the West Susitna Project field work is underway. AIDEA anticipates filing for a Corps permit within 60 to 90 days. Other potential AIDEA projects are moving slowly. There were no questions.

7B. Loan Dashboard Report - Included

7C. Statistics Summary: Small Business Economic Development and Rural Development Initiative Fund Loan Programs - Included

7D. Next regularly scheduled AIDEA Board Meeting Wednesday, October 23, 2024

8. BOARD COMMENTS

Commissioner Crum expressed appreciation to staff for the information in the Board packet and the linked agenda.

Vice-Chair Kendig expressed appreciation to staff.

Chair Pruhs echoed the comments of appreciation to staff.

9. ADJOURNMENT

There being no further business of the Board, the AIDEA meeting adjourned at 12:39 pm.



Randy Ruaro, AIDEA Executive Director

Secretary