

# Annual Asset Class Structure Review

Defensive



School and Institutional  
Trust Funds Office

## Introduction

### Mission and Purpose

- Our mission is to responsibly maximize the return on the invested principal of the School and Institutional Trusts for the current and future benefit of Utah's education programs.
- We are an independent team of outcome-oriented investors. We aim to carry our fiduciary responsibility forward to assist in the creation of a brighter future for Utah's public education programs. We consider education to be an invaluable public resource and believe the School and Institutional Trusts are an enduring investment in our community as a whole.
- We aim to ground our decision-making in objective research and sound portfolio theory. We value long-term growth over short-term gains, impartial analysis over conventional wisdom, and will always conduct investment decisions outside the reach of political influence and act with undivided loyalty to the schools, universities and state institutions for which we serve.
- We invest School and Institutional Trust Lands Administration revenues in a manner that supports the distribution policy in perpetuity while providing for intergenerational equity between current and future beneficiaries. In addition to the School Trust Fund, there are 10 smaller institutional trusts:
  - Miners Hospital
  - Institute for the Blind
  - Reservoirs Fund
  - Normal School
  - University of Utah
  - School of Mines
  - Utah State University
  - Utah State Hospital
  - Deaf School Fund
  - State Industrial School

## Governance

### Board of Trustees

#### MARLO OAKS, CFA CAIA - *Chair, Board of Trustees*

Marlo was appointed Utah State Treasurer after a 25 year career in investment banking and investment management. He oversaw institutional portfolios at Farmers Insurance Group (\$24 billion) and Intermountain Healthcare (\$7.5 billion). Marlo holds the CFA and CAIA credentials.

#### KENT A. MISENER, CFA - *Vice Chair, Board of Trustees*

Kent Misener, CFA serves on several Boards and Investment Committees representing multiple billions of dollars. He managed \$9 billion in benefits-related assets as the Chief Investment Officer of Desert Mutual Benefit Administrators (DMBA). Kent has an MBA in Business Administration and operates Verapath Global Investing LLC.

#### DAVID R. NIXON – *Board of Trustees*

David worked at Coopers & Lybrand and as Assistant Treasurer and Director of Global Investments at EDS, responsible for assets totaling \$15 billion. David has an accounting MBA. His extensive international experience includes work in both developed and emerging markets and living in Colombia, Belgium, and England.

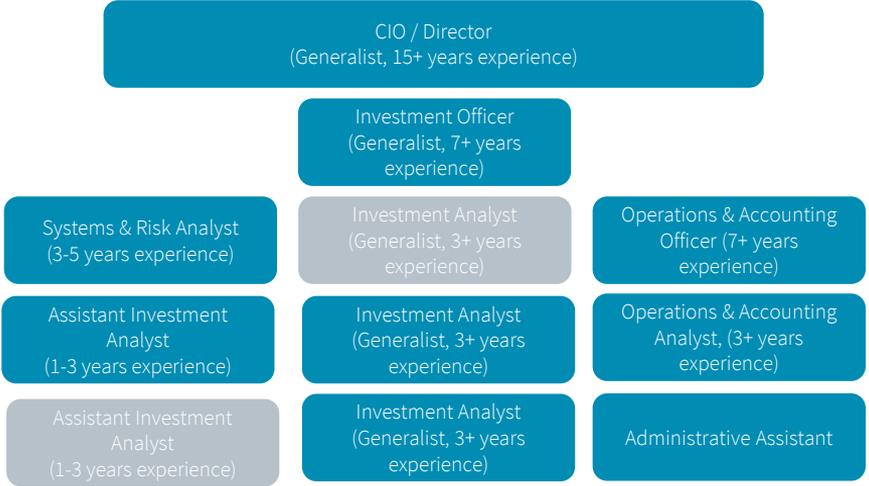
#### JOHN LUNT, CFA – *Board of Trustees*

John serves on the investment committee for the \$8 billion Utah Educational Savings Plan (UESP) and was board president of Utah Retirement Systems (URS), a \$20 billion pension fund. He has an MBA in Finance and International Business and is the Founder and President of Lunt Capital Management, Inc.

#### JASON GULL – *Board of Trustees*

Jason worked as head of secondary investments at Adams Street Partners with \$30 billion of assets under management. He serves as a member of the BYU Cougar Capital Advisory Board and the BYU Marriott School National Advisory Board. Jason has an MBA from Yale.

# Team Organization



\$3.1B AUM  
- *Total of 12bps* incl. operating and trust expenses

\$5B AUM  
- *Total of 9bps* incl. operating and trust expenses

## Resources

### SITFO Staff

#### **PETER MADSEN** – *Executive Director, Chief Investment Officer*

Peter was brought on by SITFO in 2015 and has been critical in establishing the direction of the organization. Working in the investment management industry since 1999, his most recent experience includes Managing Director of Cube Capital, an investment group in London. His career includes a range of experience in global investing for large institutional clients such as pension funds and endowments, as well as permanent school fund experience from another state. Peter holds a Bachelor of Arts degree from the University of Utah in International Political Economy and Russian. He also holds an MBA focused in International Finance from the Middlebury Institute of International Studies.

#### **SCOTT DAY** – *Investment Officer*

Scott joined SITFO in 2020 to support asset allocation decisions, provide capital market and portfolio research, and perform manager due diligence. With over 25 years investment experience, his most recent experience includes serving as Managing Director at Goldman Sachs and Verus Investments where he was the OCIO for a \$15 billion pension fund. Over the course of his career, he has led capital market investment strategy, developed and implemented asset allocation and capital market assumption studies, led public and private market manager due diligence, and internally managed \$25 billion in global fixed income assets for Microsoft and \$8 billion for the Employees Retirement System of Texas. Scott holds a Bachelor of Science in Accounting from George Mason University and received the Chartered Financial Analyst (CFA) designation in 2001.

#### **RYAN KULIG** – *Finance and Operations Officer*

Ryan joined SITFO in 2016 to manage office operations, portfolio administration, and investment analysis. Before joining SITFO, he worked for Sax Angle Partners, specializing in fundamental and technical analysis of equity investment opportunities. Prior to that, he performed financial analysis of federal grant activity at MRK Advisors. Ryan holds a Bachelor of Business Administration in Global Business with an Emphasis in Finance and a Minor in Economics from the University of Portland and an MBA from the University of Southern California.

#### **JOHNNY LODDER** – *Investment Analyst*

Johnny joined SITFO in 2019 to support in the evaluation, due diligence and ongoing monitoring of investments. He previously performed manager research across a variety of alternative investment strategies for Aksia, an international alternatives consultant. Prior to that, Johnny spent time with Sorenson Impact where he collaborated with venture funds and foundations to identify and fund socially impactful businesses. Johnny earned a Bachelor of Science in Finance from the University of Utah.

## Resources

### SITFO Staff (*continued*)

#### **CARSON MONSON** – *Investment Analyst*

Carson joined SITFO in 2020 to support in the evaluation, due diligence, and ongoing monitoring of investments. He previously worked for Greenspring Associates, a venture capital-focused fund of funds, where he performed both manager and direct investment research and due diligence across a variety of sectors and geographies. Prior to that, Carson spent time with IDEA Fund Partners, a seed stage venture capital firm, and Fisher Investments, a public equities investment advisory firm. Carson holds a Bachelor of Arts Degree in European Studies with an emphasis in European Economics from Brigham Young University and an MBA focused on Venture Capital from the University of North Carolina.

#### **HAYDEN BERGESON** – *Assistant Investment Analyst*

Hayden joined SITFO in 2021 to assist in establishing risk and reporting frameworks in support of the ongoing evaluation, due diligence, and monitoring of investments. He was previously an Intern for SITFO from 2020-2021 where he supported the team in a variety of functions. Hayden earned a Bachelor of Science in Financial Economics from Brigham Young University Idaho and a MSF from the University of Utah.

#### **TATIANA MAKRANSKY** – *Finance and Operations Analyst*

Tatiana joined SITFO in 2021 to assist in portfolio finance and operations. She previously worked in finance operations at Goldman Sachs in support of client on-boarding, KYC (know your customer), and anti-money laundering initiatives. Prior to that, Tatiana worked in non-profit fundraising for the University of Utah and People Helping People. Tatiana holds a Bachelor of Arts in Political Science and a Minor in Public Policy from Georgia State University.

## Resources

### Advisors and Vendors

#### **INVESTMENT & RISK CONSULTANTS** - *RVK and Albourne*

RVK and Albourne were hired in 2020 to assist with all aspects of SITFO's activities. RVK is a generalist consultant providing support and services in areas ranging from governance, asset allocation, and manager research. Albourne is a specialist consultant providing support in areas such as strategy research and manager selection in alternative asset classes. Each firm is a top-rated consultant with global resources and capabilities.

#### **INDEPENDENT RESEARCH AND DATA** - *Bloomberg, eVestment, Capital Economics, Preqin, MPI Stylus, Top Down*

These partners and advisors facilitate the provision of raw data as well as its objective interpretation.

#### **FUND MANAGERS** - *Strategy Specific Investment Advisory Relationships*

The buying and selling of individual securities is carried out by best in class, specialized, investment managers. These investment managers are highly scrutinized before and after selection.

#### **CUSTODIAN BANK** - *Northern Trust*

Northern Trust is one of the largest global custodian banks. They were hired in 2016 to institutionalize custody of assets and to provide an independent accounting of the trusts.

#### **RISK MANAGEMENT** - *Software and Services*

SITFO avails itself of software services to provide quantitative risk management analysis. In addition, SITFO utilizes RVK and Albourne as an independent party with proprietary tools and dedicated risk management staff to provide performance analysis and risk reporting.

## Operations Organization Structure



### OST (Office of State Treasurer)

- The elected state treasurer acts as ex officio chairperson of the SITFO board
- Provides accounting support for the SITFO office



### SCT (School Children's Trust)

- Oversees the work of SITLA and SITFO on behalf of School Fund
- Administers the distribution for the School Fund, 95% of the trust



### Land Trusts Protection and Advocacy Office

- New office in the works to oversee the distribution of earnings to the 11 trusts

### SITLA (School & Institutional Trust Lands Administration)

- SITLA manages Utah's 3.5 million acres of trust land generating revenue through oil, gas, and mineral leases, real estate sales, etc.
- All proceeds are deposited into permanent endowments for each beneficiary (the 11 trust funds)



### SITFO (School & Institutional Trust Funds Office)

- SITFO invests the endowments from SITLA, and annual interest and dividends are distributed to each beneficiary
- The (11) trusts are managed based on an asset allocation formula with similar asset allocations because return and risk objectives are the same



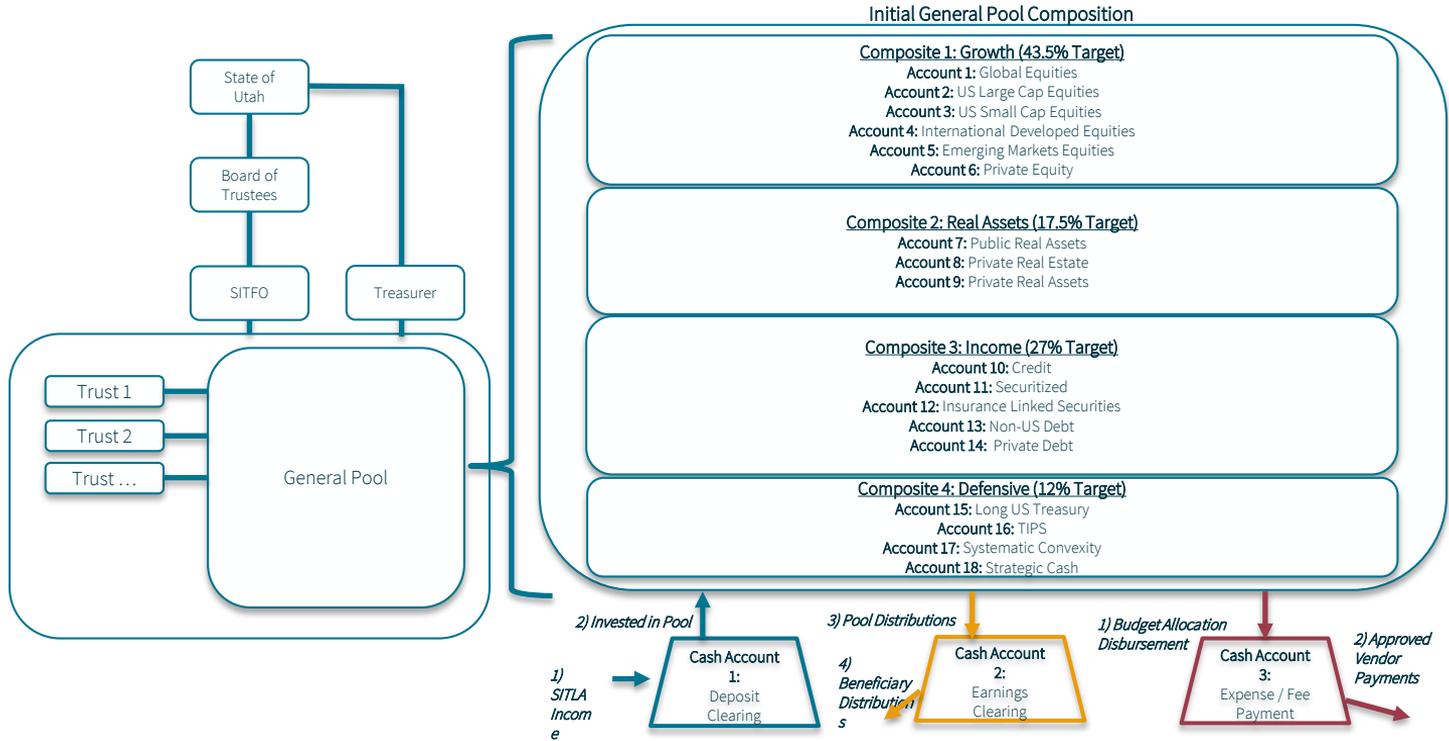
### Beneficiaries

11 Trust Funds: School Trust, Miners Hospital, Institute for the Blind, Reservoirs Fund, Normal School, University of Utah, School of Mines, Utah State University, Utah State Hospital, Deaf School Fund, State Industrial School



# Operations

## Custodial Structure



## Operations

### Distribution Policy

- Distribution for School Trust based on policy
  - 50% (1 + CPI + Enrollment Growth) x Previous Year Distribution
    - 50% (1 + 2.1% CPI + 1.1% enrollment) x \$82.66MM prior year distribution = \$42.7MM
  - 50% (4% x 12Q average)
    - 50% (4% x \$2.3B) = \$46.2MM
    - Subject to a cap of 4% against 12Q average (\$92.3MM)
  - \$88,829,088.17 to be distributed FY21 (3.62% of the trust's market value)
- Distribution for other trusts based on the following:
  - Quarterly distributions (based on 4% x 12Q average at previous fiscal year end)
    - 4% x 12Q average as of June 30, 2019



Note: 1/4 of total distribution amount paid quarterly every year

## Investment Process

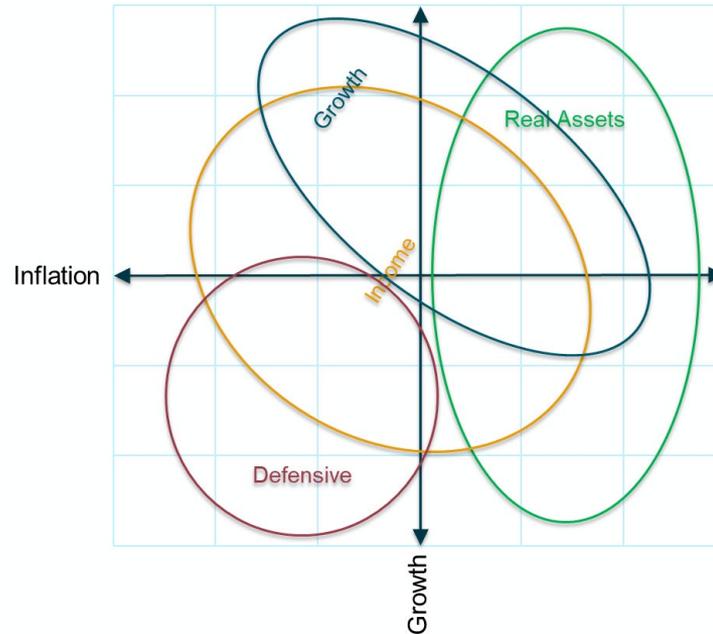
### Objectives and Governance

- Investment objective: CPI +5%
  - 10-year inflation estimate at ~2.2% (long term average ~3.3%) = 7% - 8%
  
- Risk objective:
  - IPS statement of volatility similar to stock/bond mix that reflects the allocation (70/30)
  - Drawdown of -25%, -45% in extreme scenario
  - 40% max illiquidity in drawdown structures
  
- Trustees' primary investment responsibility is setting the asset allocation target.
  - Staff is responsible for implementation and manager selection, including establishing guidelines for implementing each asset class.
  
- Trustees' other responsibilities include:
  - Establishing and reviewing agency policies (IPS, distribution, etc.)
  - Reviewing the budget
  - Performance monitoring
  - Maintaining an understanding of the investment process including asset allocation, manager selection, and risk management
  - Reviewing the annual audit
  - Hiring or termination of consultants and custodian

## Investment Process

### Asset Allocation

- Framing the portfolio in order to diversify across fundamental, long-term factors
- Simplify thinking for clarity and communication
- Heuristic for answering the question “how much risk are we taking and where are we taking it?”



## Investment Process

### Asset Allocation

- Target returns by category:
  - **Growth:** CPI + 6%  
Expected to provide the strongest positive returns during periods of sustained economic growth, as well as presenting the highest expected risk (e.g., stocks, private equity).
  - **Real Assets:** CPI + 5.5%  
Inflation oriented and typically backed by hard assets (e.g., real estate, infrastructure, commodities, etc.). Real assets may present characteristics of income and growth, and thus have a moderate risk profile (e.g., commercial real estate, natural resources).
  - **Income:** CPI + 4.5%  
Income is expected to generate positive returns during a range of economic growth scenarios via an income stream. Although this category is not expected to contribute as much risk as growth, it is still considered a risk-taking investment (e.g., corporate bonds, asset backed securities).
  - **Defensive:** CPI +2.5%  
The investments in this grouping are intended to do well in negative economic scenarios or periods of market stress. We do not categorize corporate bonds, or other assets that rely on economic growth, as defensive (e.g., cash, government bonds, hedging strategies).

# Investment Process

## Elements and Application

