

STATE SCHOOL FUND REPORT

Fiscal Year 2012

Prepared by:

Richard K. Ellis

State Treasurer

MEMORANDUM

TO: Honorable Howard A. Stephenson, Senate Chair

Honorable Francis D. Gibson, House Chair

FROM: Richard K. Ellis, State Treasurer

DATE: September 4, 2012

SUBJECT: State School Fund Report

Provided herewith is the annual report for the State School Fund created in Utah Constitution Article X, Section 5. The market value of the investment portfolio as of June 30, 2012 was \$1,281,659,500, an increase of \$79,071,100 or 6.58% from the portfolio's June 30, 2011 market value of \$1,202,588,400. The growth in the portfolio's value resulted from contributions to the fund of \$84,266,000, or 7.01%, reinvested capital gains of \$295,800, or 0.03%, offset by a decline in market value of \$5,490,700, or (0.46)%.

The interest and dividends earned on the investments held by the fund are used to fund the School LAND Trust Program (Utah Code 53A-16-101.5) which provides incremental funding directly to schools. The total interest and dividends earned for Fiscal Year 2012 was \$29,419,400, an increase of \$3,162,700, or 12.05%, over Fiscal Year 2011 interest and dividend earnings of \$26,256,700.

STATE SCHOOL FUND
Balance Sheet (1)

	6/30/2012 (2)	6/30/2011
Assets		
Cash	\$ 3,301,930	\$ 1,810,843
Investment with State Treasurer	1,095,206,694	1,010,644,828
Market Value Adjustment	186,452,809	191,943,550
Interest Receivable	117,004	253,977
Mortgage Loan Receivable	14,122,922	14,304,470
Certificate of Sale Receivable	4,079,724	8,831,082
Due From Other Funds	7,552,644	8,763,172
Enabling Act Land	14,392,736	9,790,810
Land	49,875,607	48,338,594
Purchased Land at Cost	1,063,796	1,063,796
Investment Long Term	2,035,755	2,035,755
Donated Land	171	171
Water Rights	8,190,998	8,190,998
Total Assets	\$ 1,386,392,789	\$ 1,305,972,046
Liabilities and Fund Balances		
Liabilities:		
Due to Other Funds	\$ 56,385	\$ 162,065
Deferred Revenue	24,710,901	26,567,521
Total Liabilities	24,767,287	26,729,586
Fund Balances:		
Reserved for Public Education	1,361,625,502	1,279,242,460
Total Fund Balances	1,361,625,502	1,279,242,460
Total Liabilities and Fund Balances	\$ 1,386,392,789	\$ 1,305,972,046

- (1) The information for the balance sheet comes from AM31 reports generated by the State's accounting system.
- (2) Figures for the fiscal year ending June 30, 2012 are unaudited.

STATE SCHOOL FUND
List of Assets
As of June 30, 2012

	<u>Cost</u>	<u>Market Gain/(Loss)</u>	<u>Market Value</u>
Fixed Income			
Vanguard Total Bond Market Index.....	\$ 299,482,954.35	\$ 28,862,675.96	\$ 328,345,630.31
Public Treasurers' Investment Fund	9,640,611.03	-	9,640,611.03
Total	<u>\$ 309,123,565.38</u>	<u>\$ 28,862,675.96</u>	<u>\$ 337,986,241.34</u>
Domestic Equities			
Vanguard Structured Large Cap Equity	\$ 217,727,236.11	\$ 74,499,479.72	\$ 292,226,715.83
Vanguard Structured Broad Market	179,086,653.04	51,461,510.08	230,548,163.12
Vanguard Strategic Equity	61,412,568.12	12,628,909.91	74,041,478.03
Total	<u>\$ 458,226,457.27</u>	<u>\$ 138,589,899.71</u>	<u>\$ 596,816,356.98</u>
International Equities			
Vanguard Total International	\$ 220,404,249.19	\$ 20,972,480.71	\$ 241,376,729.90
Total	<u>\$ 220,404,249.19</u>	<u>\$ 20,972,480.71</u>	<u>\$ 241,376,729.90</u>
Real Estate			
UBS Trumbull Property Fund	\$ 47,079,266.79	\$ (7,424,435.87)	\$ 39,654,830.92
UBS Trumbull Property Income Fund	22,913,071.94	2,463,172.49	\$ 25,376,244.43
Fidelity Real Estate Growth Fund III	10,239,531.65	(1,187,849.31)	9,051,682.34
Colony Capital Partners III	12,117,724.03	1,543,599.07	13,661,323.10
LaSalle Income & Growth V	15,102,827.86	2,633,265.82	17,736,093.68
Total	<u>\$ 107,452,422.27</u>	<u>\$ (1,972,247.80)</u>	<u>\$ 105,480,174.47</u>
Totals	<u>\$ 1,095,206,694.11</u>	<u>\$ 186,452,808.58</u>	<u>\$ 1,281,659,502.69</u>

STATE SCHOOL FUND
Net Contributions
Fiscal Year 2012

<u>Year</u>	<u>Month Received</u>	<u>Amount</u>
2011	July	\$ 3,117,520
	August	(2,622,426)
	September	7,282,720
	October	21,561,956
	November	6,524,241
	December	8,685,960
2012	January	8,853,897
	February	6,523,952
	March	4,495,792
	April	7,939,951
	May	5,636,059
	June	6,266,439
Total Contributions		<u>\$ 84,266,059</u>

STATE SCHOOL FUND
Changes in Market Value
As of June 30, 2012

Market Value 6/30/11	\$	1,202,588,378
Contributions		84,266,059
Reinvested Capital Gains		295,807
Change in Market Value		<u>(5,490,741)</u>
Market Value 6/30/12	\$	1,281,659,503

STATE SCHOOL FUND
Fund Income and Distributions
As of June 30, 2012

<u>Income Source</u>	<u>Received</u>	<u>Distributed</u>	<u>Retained</u>
Interest	\$ 9,492,333.15	\$ 9,492,333.15	0.00
Dividends	<u>19,927,084.59</u>	<u>19,927,084.59</u>	0.00
	\$ 29,419,417.74	\$ 29,419,417.74	

STATE SCHOOL FUND
Internal Rate of Return
As of June 30, 2012

1 year	2.07%
3 year	12.13%
5 year	2.55%

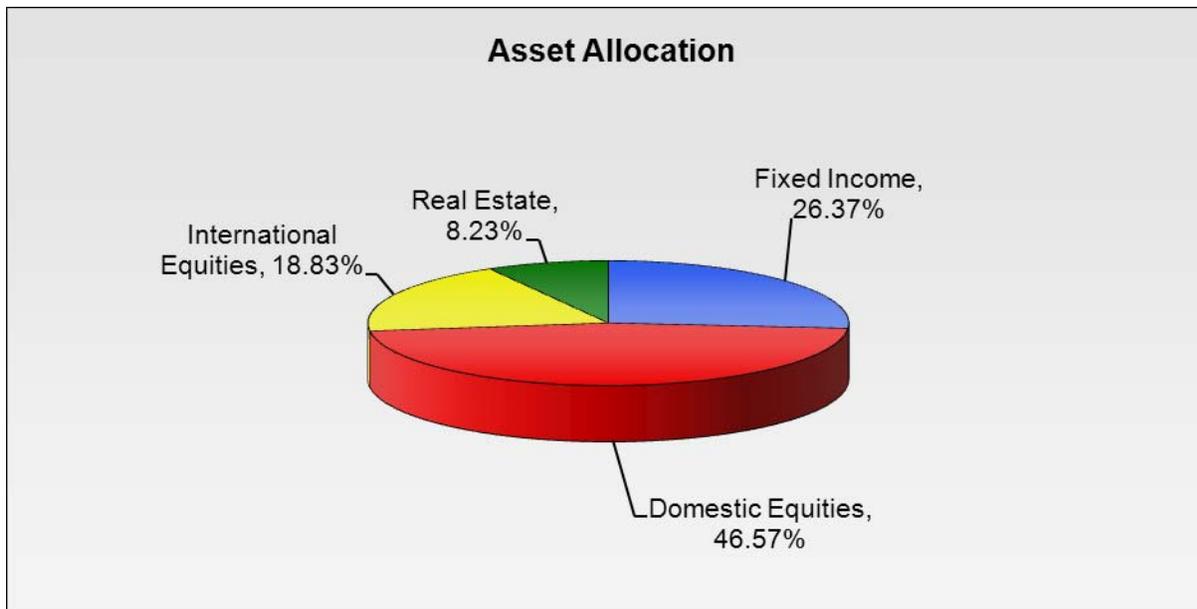
STATE SCHOOL FUND

Asset Allocation

As of June 30, 2012

	<u>Target</u>	<u>Actual</u>	<u>Target Range</u>
Equity:			
Domestic Equity	47.00 %	46.57 %	42-52%
International Equity	20.00	18.83	15-25%
Total Equity	67.00 %	65.40 %	
Fixed Income-Domestic			
Fixed Income-Domestic (1)	23.00 %	26.37 %	18-28%
Real Estate:			
Real Estate- Domestic	10.00 %	8.23 %	5-15%
Total Fund	100.00 %	100.00	

(1) Includes 0.75% invested in the Public Treasurers' Investment Fund.



STATE SCHOOL FUND
Investment Management Expenses
As of June 30, 2012

	<u>Estimated Expenses (1)</u>	<u>Expense Ratio</u>
Public Treasurers' Investment Fund	\$ 450	0.005%
Vanguard Total Bond Market Index Fund	164,173	0.050%
Vanguard Structured Large Cap	496,785	0.170%
Vanguard Structured Broad Market	391,932	0.170%
Vanguard Strategic Equity	222,124	0.300%
Vanguard Total International Stock Index	289,652	0.120%
UBS Trumbull Property Fund	392,979	0.991% ⁽²⁾
UBS Trumbull Property Income Fund	216,967	0.855% ⁽³⁾
Fidelity Real Estate Growth Fund III	144,827	1.600% ⁽⁴⁾
LaSalle Income & Growth Fund V	251,853	1.420% ⁽⁵⁾
Colony Capital Partners III	<u>177,597</u>	1.300% ⁽⁶⁾
Total Management Expenses	\$ 2,749,340	0.215%

(1) These are estimated annual expenses calculated by applying the fund's expense ratio times the quarter-end asset value.

(2) The expense ratio shown is the fee based on \$50M in assets at UBS and a 5% real return. The fee can range from a minimum of .841% to a maximum of 1.091% of assets, based upon performance.

(3) The expense ratio shown is based upon \$50M of assets under management at UBS.

(4) Expense ratio based upon a return of up to 12%.

(5) Expense ratio based upon a return of 10%.

(6) Expense ratio based upon a return of up to 10%.