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January 2017

# Legislative Budget Hearing



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# Agenda

- Introduction
- 2016 in Review
- 2017 Look Ahead
- Budget Review & Request

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# Introduction

- Formed in 2015 to institutionalize the investment management of the profits generated by SITLA
  - \$2.25 billion in assets
  - 10 trust funds, not just the “School Fund”
- Self-funding
  - Operations are funded through the trust, not tax revenues

*“The director shall deposit into the account an amount of money from the earnings from trust fund assets equal to the annual appropriation that the Legislature makes to the office, to pay for the office’s operating costs.” 53D-1-203*

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## Introduction

- The Board of Trustees consists of the State Treasurer (Chairperson) and four additional members with expertise in institutional investment management
- The staff consists of three (FTE) persons and intern(s):
  - Director, Chief Investment Officer
  - Senior Investment Analyst
  - Administrative Analyst
  - Intern(s)
- Important advisory relationships:
  - Primary investment advisor
  - Best in class fund managers
  - Custodian bank
  - Research and risk management tools

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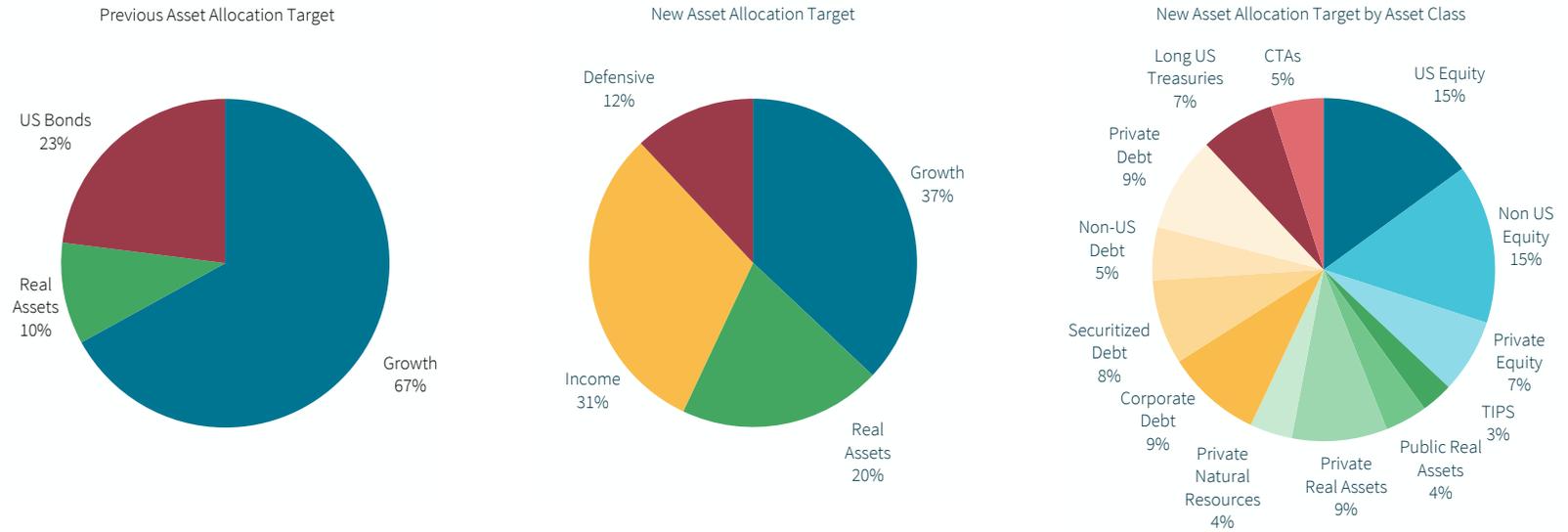
## 2016 Year in Review

A number of objectives achieved:

- New **distribution policy** (*Yes on Amendment B*)
- Codifying our **investment beliefs** (*Documenting principles to avoid behavioral pitfalls*)
- Hiring of a primary **investment advisor** (*Support for asset allocation, risk management, performance reporting, and research*)
- New **investment policy** (*governance, portfolio, and risk specifics that go beyond statutes*)
- Developing a long-term **asset allocation** (*the primary function of the Board and governing aspect of portfolio management*)
- Implementation of a **custodian** (*institutional bank as independent record keeper, portfolio accounting*)
- Administrative (office buildout, staffing, IT & software, branding & website, accounting and budgeting transition, HR & compliance policies, etc.)

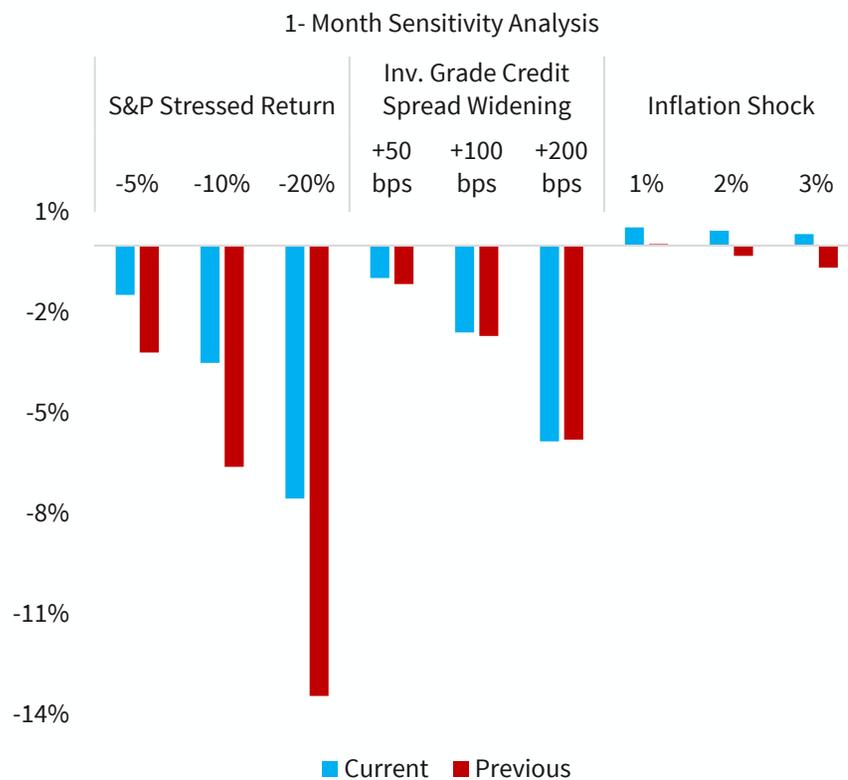
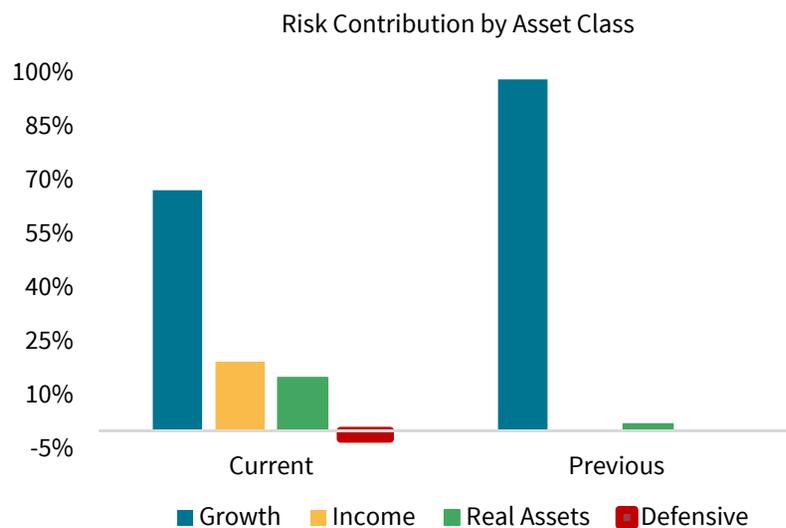
# Asset Allocation

- Re-framing the asset allocation, diversifying sources of risk & return



# Asset Allocation

	Current	Previous
Objective (Return), %	8.1	7.1
Risk (StdDev Rtn), %	13.9	15.0
Correlation to S&P 500 Index	0.71	0.93
Beta to S&P 500 Index	0.50	0.70
Annual Sharpe Ratio (Rf= 0.25%)	0.75	0.58



# Implementation 2016 – 2017

- A focus on filling the gaps
  - Private assets, public equity, defensive
- GRID level target alignment by 2Q17
- Next steps include
  - Defensive build out
  - Active equity satellites
  - Transition cap weighted equities to strategic beta
- Longer-term
  - Continue to build out private assets
  - Vintage year and strategy/sector diversification
- Full alignment to asset allocation delayed by private assets over several years

	Managers (Hired in 2016)	Target # Managers (e.)
<b>Growth</b>	<b>4</b>	<b>18</b>
US Equity		4
International Equity	1	5
Private Equity	3	9
<b>Income</b>	<b>7</b>	<b>17</b>
Credit	2	4
Securitized	3	4
Non-US		2
Private Debt	2	7
<b>Real Assets</b>	<b>3</b>	<b>10</b>
TIPS	1	1
Public Real Assets	1	2
Private Real Estate		4
Private Natural Resources	1	3
<b>Defensive</b>	<b>2</b>	<b>5</b>
Long US Treasury	1	1
CTA	1	4
Cash		
<b>Total</b>	<b>15</b>	<b>50</b>

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## 2017 Year Ahead

A number of ongoing objectives:

- Finalizing operational protocols
  - Accounting/reporting
  - Furthering policies and protocols
  - Custody implementation continues
- Implement new distribution policy
- Further diversification and enhancement of processes, monitoring, and risk management
  - Private equity, real assets, debt: Private assets will need 1-2 managers per year across strategies for vintage year diversification
  - Public equity: Research is ongoing to shift the core holdings to a diversified “smart beta” approach
  - Defensive: Building out the CTA / systematic strategies
  - Income: Non-US debt strategies

# Budget

	Fiscal Year 2017	FYTD	Budget	FY 18 Projections
AA Personnel Services		\$ 263,340.85	\$ 646,470.31	\$ 658,923.48
BB Travel/In State		\$ 39.36	\$ 500.00	\$ 500.00
CC Travel/Out of State		\$ 9,675.73	\$ 59,600.00	\$ 64,600.00
DD Current Expense		\$ 53,174.43	\$ 140,400.00	\$ 144,150.00
EE Data Processing Current Expense		\$ 7,784.34	\$ 27,000.00	\$ 27,000.00
GG Capital Expenditure		\$ -	\$ 5,000.00	\$ 5,000.00
<b>TOTAL INCOME</b>		<b>\$ 879,200.00</b>	<b>\$ 879,200.00</b>	<b>\$ 907,200.00</b>
<b>TOTAL EXPENSE</b>		<b>\$ 334,014.71</b>	<b>\$ 878,970.31</b>	<b>\$ 900,173.48</b>
<b>DIFFERENCE</b>		<b>\$ 545,185.29</b>	<b>\$ 229.69</b>	<b>\$ 7,026.52</b>

# Budget - Request

<b>SCHOOL AND INST. TRUST FUND OFFICE</b>	<b>General Fund</b>	<b>Federal Funds</b>	<b>Dedicated Credits</b>	<b>Restricted Funds</b>	<b>Other Funds</b>	<b>Total Funds</b>
<b>FY 2016 ACTUAL OPERATING BUDGET</b>						
<b>Actual Budget</b>						
FY 2016 Actual	0	0	0	865,000	(140,636)	724,364
<b>Total FY 2016 Actual Operating Budget</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>865,000</b>	<b>(140,636)</b>	<b>724,364</b>
<b>FY 2017 REVISED AUTHORIZED OPERATING BUDGET</b>						
<b>Authorized Budget</b>						
FY 2017 Revised Authorized	0	0	0	879,200	(3,800)	875,400
<b>Total FY 2017 Revised Authorized Operating Budget</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>879,200</b>	<b>(3,800)</b>	<b>875,400</b>
<b>FY 2018 RECOMMENDED OPERATING BUDGET</b>						
<b>Base Budget</b>						
FY 2018 Base Budget	0	0	0	877,800	(600)	877,200
<b>Budget Changes</b>						
<b>One-time</b>						
<i>Compensation</i>						
State Employee 401k Match	0	0	0	700	0	700
<i>Subtotal One-time Adjustments</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>700</i>	<i>0</i>	<i>700</i>
<b>Ongoing</b>						
Office Staffing and Operating Costs	0	0	0	21,000	0	21,000
<i>Compensation</i>						
State Employee Health Insurance Increase	0	0	0	1,400	0	1,400
State Employee Wage and Wage-based Benefits Increase	0	0	0	5,500	0	5,500
<i>Internal Service Fund (ISF) Rate Impact</i>						
Fleet ISF Adjustments	0	0	0	100	0	100
Risk Mgmt. - Liability ISF Adjustments	0	0	0	600	0	600
Technology Services ISF Adjustments	0	0	0	100	0	100
<i>Subtotal Ongoing Adjustments</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>28,700</i>	<i>0</i>	<i>28,700</i>
<b>Total FY 2018 Recommended Operating Budget</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>907,200</b>	<b>(600)</b>	<b>906,600</b>

## Appendix – SITFO Staff

### **PETER MADSEN** - *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.

### **NATHAN BARNARD** - *Senior Investment Analyst*

Nathan joined SITFO in 2016, bringing valuable expertise in research and portfolio management. Prior to SITFO, he spent two years at Leader Capital as a fixed income portfolio analyst, where he conducted economic, fixed income market and individual credit research. While at RVK, Inc., he held analyst roles in portfolio analytics and later in manager research. Nathan has a Bachelor of Science in Business Administration from the University of Colorado - Boulder where he majored in finance. He is a CFA charterholder and a member of the CFA Society of Portland.

### **RYAN KULIG** - *Administrative Analyst*

Ryan joined SITFO in 2016 to help 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 earned his Bachelor of Business Administration in Global Business with an Emphasis in Finance and a Minor in Economics from the University of Portland.

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## Appendix – Board of Trustees

### **DAVID DAMSCHEN** - *Chair, Board of Trustees*

David became the Utah State Treasurer after serving seven years as the Chief Deputy State Treasurer. Previously, he lead treasury management efforts at AmericanWest Bank and U.S. Bank for almost 20 years. David is veteran of the U.S. Coast Guard, and holds a Certified Treasury Professional (CTP) credential.

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

Kent serves as VP of Finance for the Great Salt Lake Council of the BSA. 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** - *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.

### **DUANE MADSEN** - *Board of Trustees*

Duane serves on the UVU Foundation's Investment Committee and chairs the Center for Law and Religious Studies at BYU's J. Reuben Clark Law School. He has an MBA and worked as the Vice President and Executive Director of Goldman-Sachs Private Wealth Management.