

July 27, 2017

# Retirement and Independent Entities Interim Committee



**Nathan Barnard, CFA**  
Senior Investment Analyst

**David Damschen, CTP**  
Chairman, SITFO  
State Treasurer

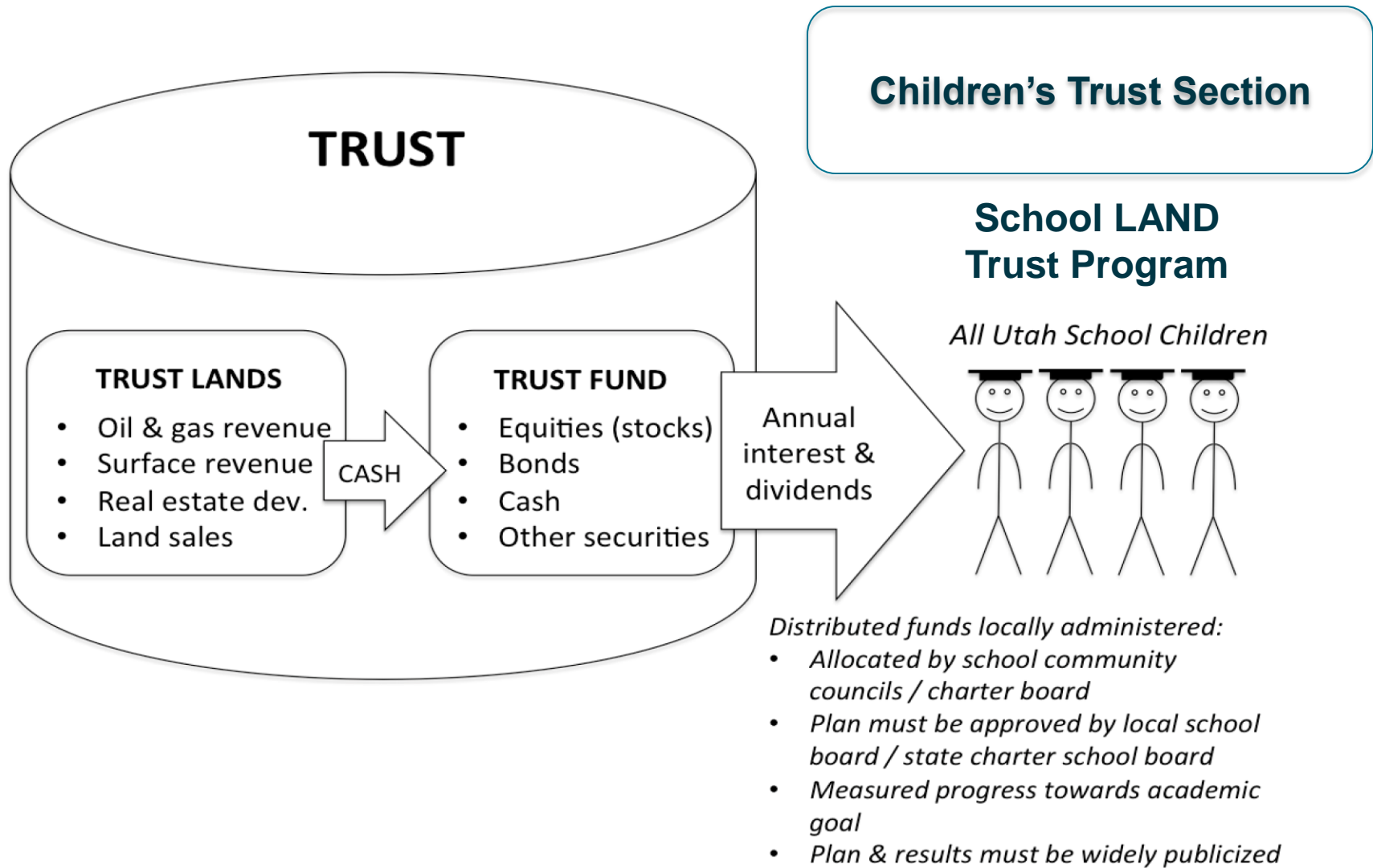
# A Brief History

- 1894 - Utah Enabling Act
  - Land was granted into 12 “trusts”
  - Approximately six million acres granted “for the support of common schools” in § 6 – by far the largest land grant trust
  - § 10, “...the interest of which only shall be expended...” – basis for *Permanent School Fund*
- 1994
  - The School and Institutional Trust Lands Administration (SITLA) was formed within statute to administer the lands granted into the Common Schools Trust
  - Investments (approx. \$100MM) taken into the OST, public equity asset class added
- 2002 – Utah Constitution was amended within Article X § 5, “only the interest **and dividends** shall be expended...”

## A Brief History

- 2014 – HB 168 (2014 GS) School and Institutional Trust Lands and Funds Management Provisions
  - Enacted the School and Institutional Trust Fund Management Act and created the School and Institutional Trust Fund Office and its board of trustees
- 2016 – Utah Constitution again amended (Amendment B) within Article X § 5, “Only **earnings** received...may be distributed...”
  - As the primary objective for the trust shifted from **growth** to **intergenerational equity**, this amendment allows for slight increases to near-term distributions

# SITFO, SITLA, Children's Trust Section



# SITFO Overview

- Total investments now approximately \$2.3 billion
- Budget appropriated from the trust fund(s), not general fund
- 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)

## Mandate & Objectives

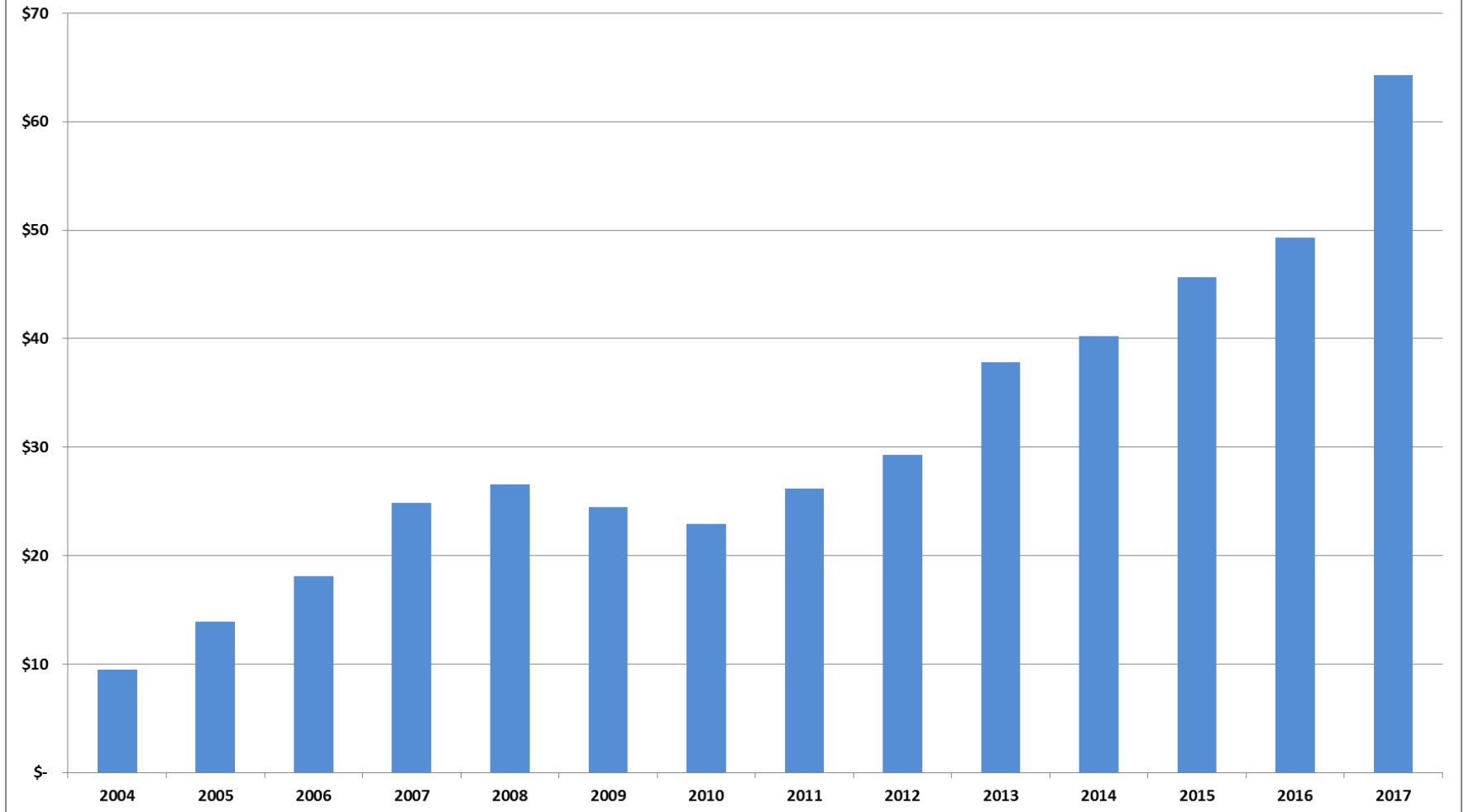
The focus of the Board and Staff is to manage the invested principal of the School Trust Fund and other institutional trusts in a manner that supports the distribution policy in perpetuity while providing for intergenerational equity between current and future beneficiaries. The growth rate attainable will be subject to market based factors, as well as the amount of risk the Board agrees as acceptable in setting the portfolio strategy.

# Mandate & Objectives

- To protect corpus – keep up with inflation and **prudent distributions**
  - Inflation erodes the corpus
  - Large distributions erode the corpus
  - Long-term investment objective of CPI + 5% (~7%) net
- To maintain intergenerational equity – balance return and distribution
  - Maintain purchasing power, while providing for current distributions (max 4%)
  - Too conservative = favors the present generation
  - Too aggressive = favors the future generation
- **Secondarily:**
  - Provide portfolio growth in excess of the distribution and inflation
  - Minimize volatility to be no greater than what is necessary to achieve the return objective
  - Maintain an asset allocation that is compatible with these objectives
- **In summary:**
  - Balance risk and return
  - Balance current and future benefits

# Distributions

State School Fund Distributions  
(in \$ millions)





# Investment Process – Foundational Elements

- Governance structure:
  - Board of Trustees oversight of investment portfolio, staff, consultant
  - Established Investment Beliefs and Investment Policy documents
- Investment beliefs – established-in-advance, agreed-upon principles for guidance and direction (related to the art and science of investing)
- Investment policy statement – outline specifics of governance, responsibility, authority, asset allocation, distribution policy, etc.

## INVESTMENT BELIEFS

This document contains our guiding principles, which inform our decision-making and governance. While not a policy or procedural manual, it gives an overview of who we are, what our mission is, and how we aim to achieve it.

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## INVESTMENT POLICY

This policy outlines the governing framework within which SITFO operates. It was created in conjunction with the SITFO Board to assist in effectively supervising, monitoring and evaluating the investment of assets.

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# Investment Process

## Foundational Elements:

- Investment beliefs ✓
- Investment policies ✓
- Asset allocation ✓
- Investment process ✓

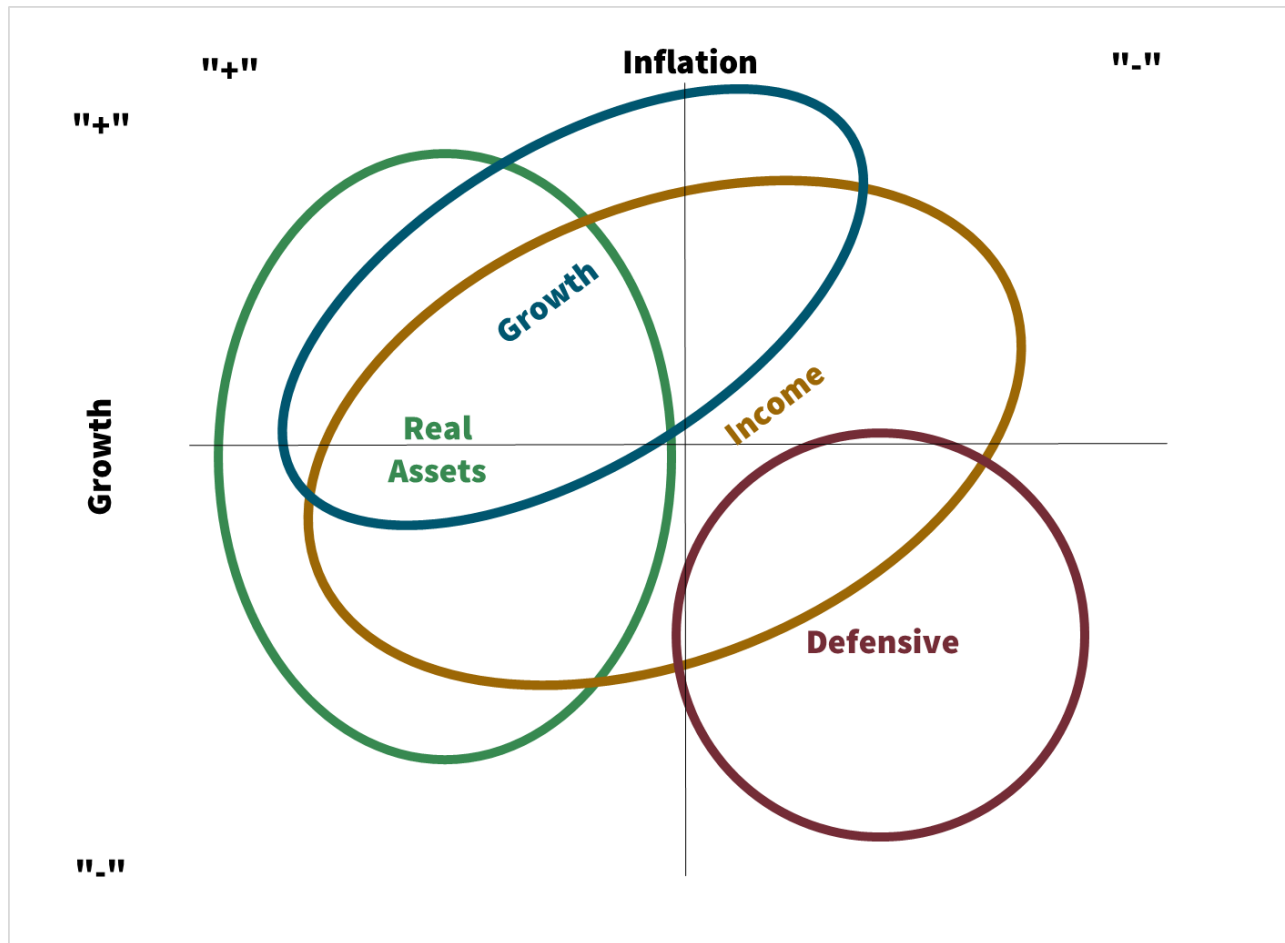
## Balance and alignment:

- Balance needs of beneficiary and sustainability of returns
- Align resources/capabilities, understanding, and tolerance for risk



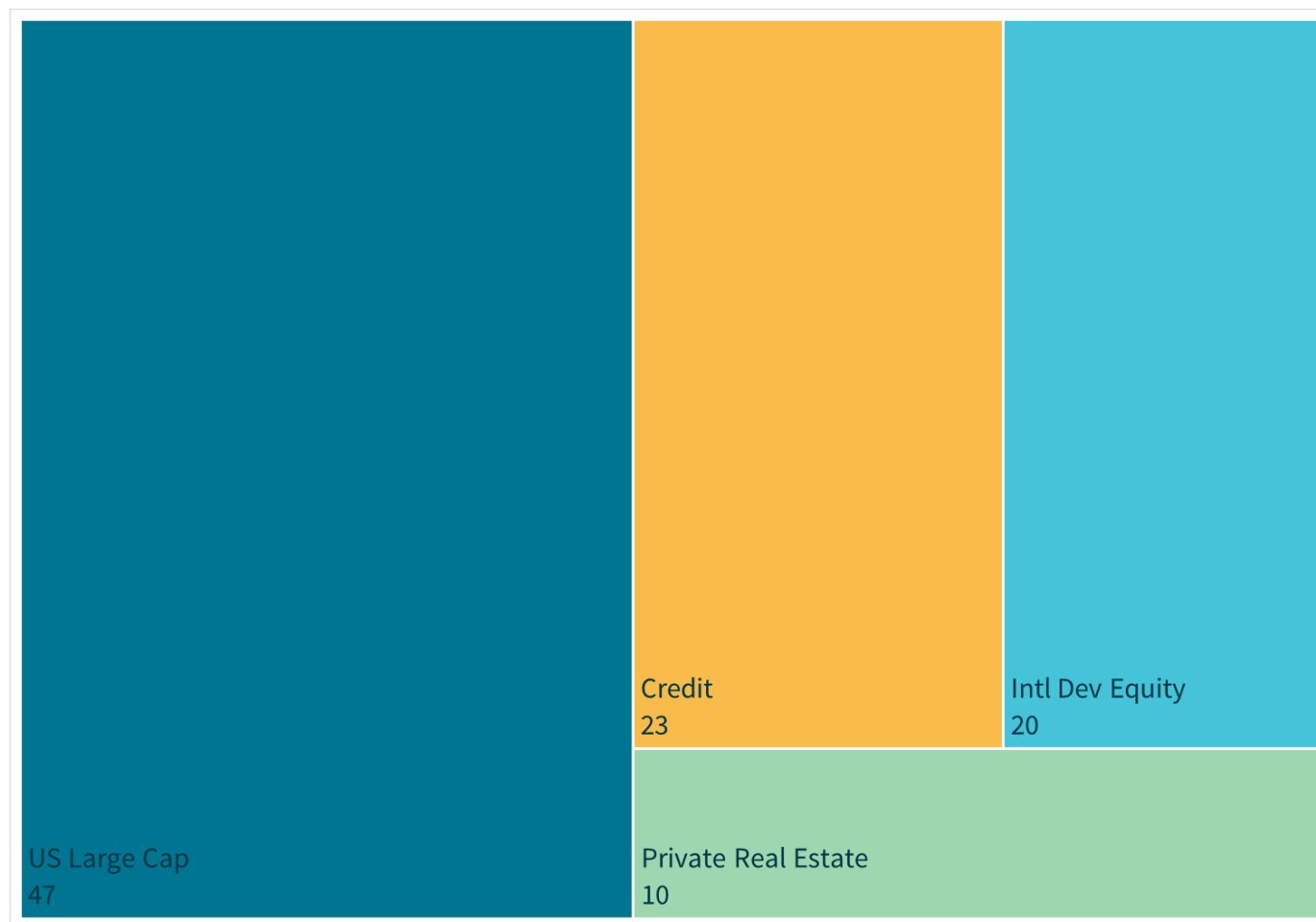
# Investment Portfolio – Asset Allocation

- Framing the portfolio in order to diversify across fundamental, long-term factors



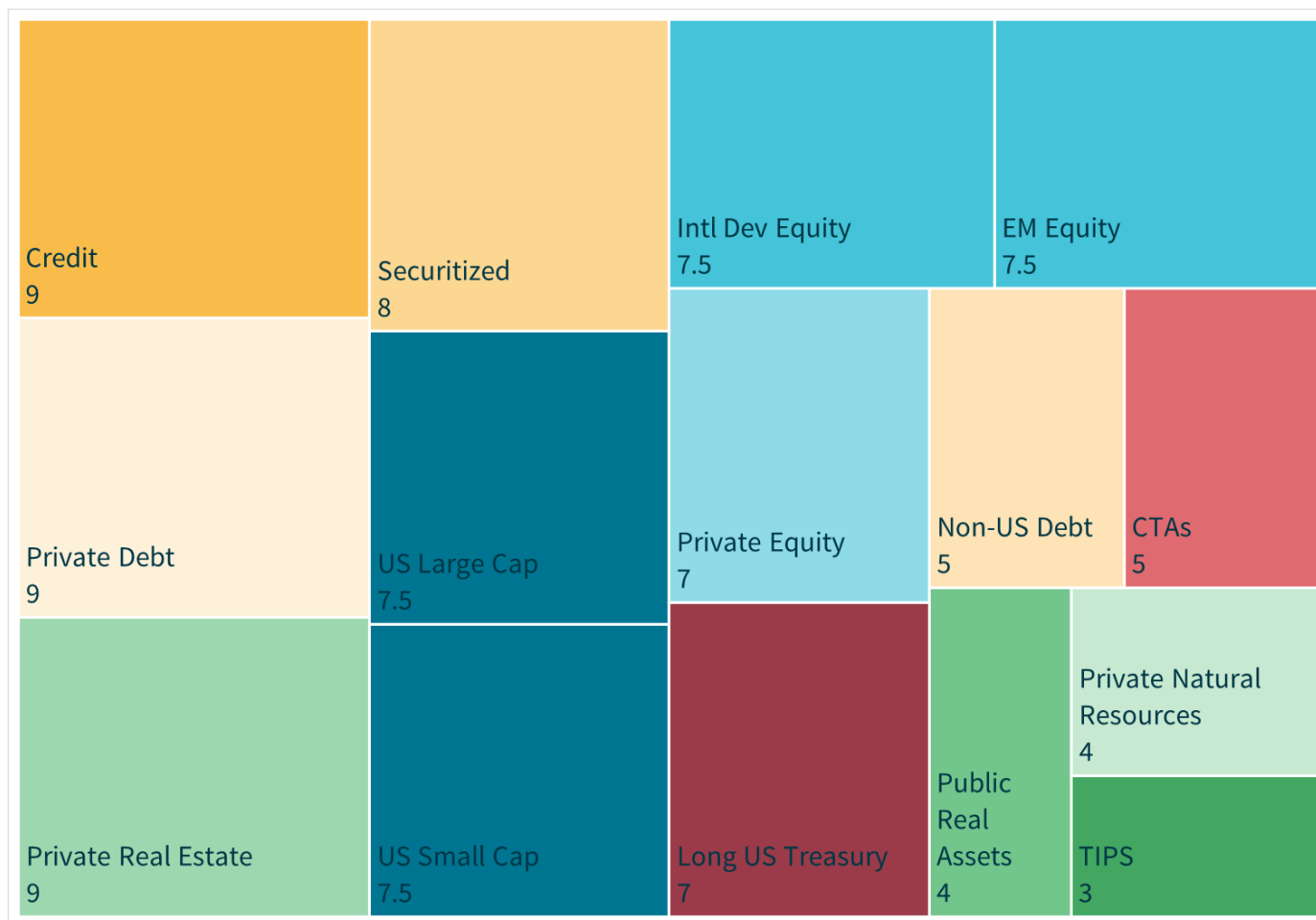
# Investment Portfolio – Asset Allocation

- Previous asset allocation



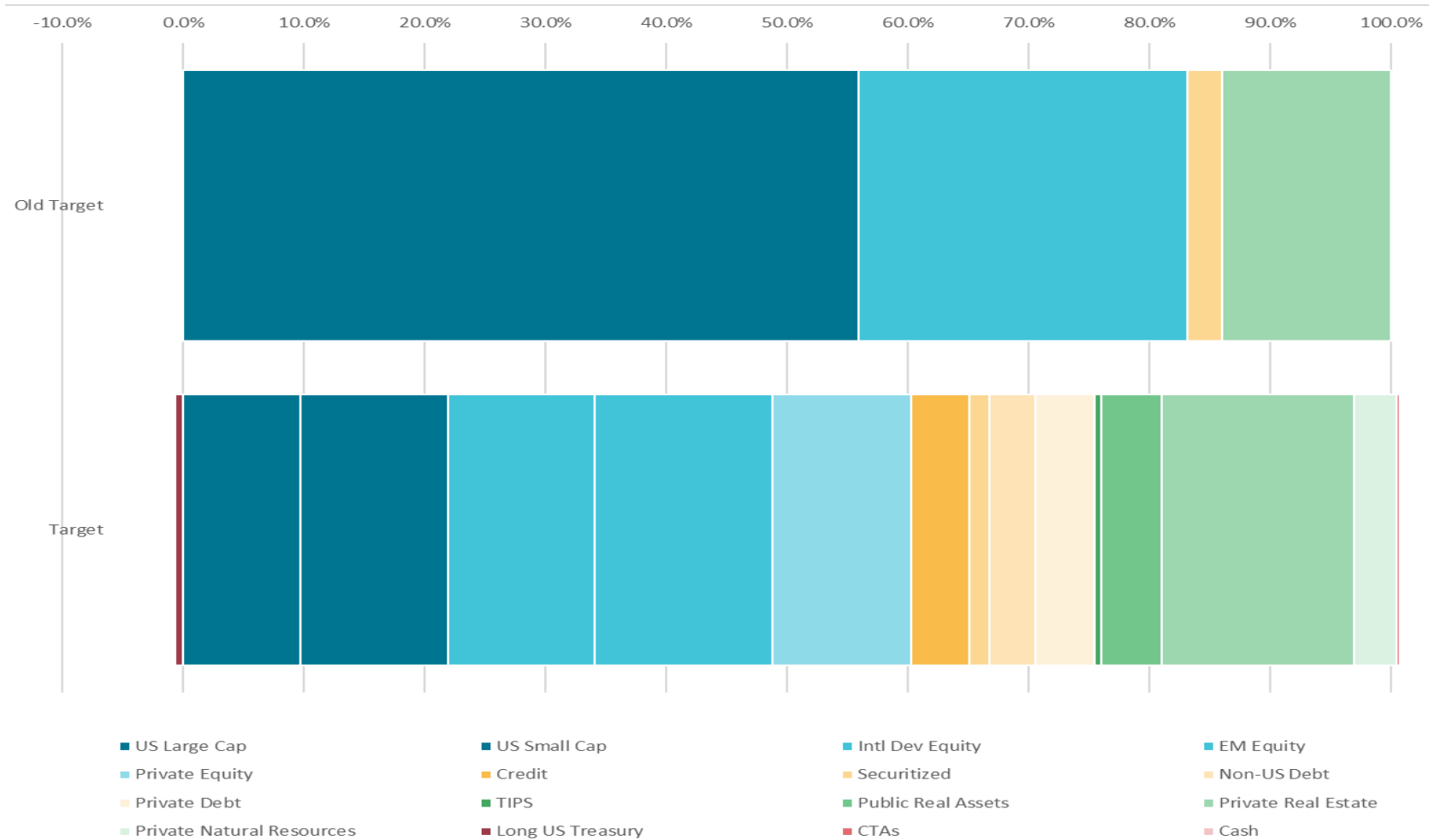
# Investment Portfolio – Asset Allocation

- New asset allocation



# Investment Portfolio – Risk Allocation

- Measuring risk



# Summary

- Investment objectives balance risk and return, balance current and future beneficiaries
- Governance structure in place
- Investment process in place
- Key elements for overseers
  - Conformity with investment beliefs and IPS
  - Transparent fees and administrative expense
  - Portfolio performance relative to comparable peers
- Open door policy: we encourage you to dig deeper with us!
- Questions?

# Appendix



# Appendix: Board of Trustees

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

David is Utah's 25th state treasurer, responsible for the state's banking, cash and debt management, investment of public funds (including the \$12 billion Public Treasurers' Investment Fund), and administration of the state's Unclaimed Property Division. He serves on eighteen boards and commissions of the State. David worked for twenty years in the banking industry, and is a veteran of the U.S. Coast Guard.

## **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.

# 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 Salt Lake City.

## **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.

# Appendix: Resources & Advisors

## **FUND EVALUATION GROUP - *Investment and Risk Consultant***

Fund Evaluation Group (FEG) was hired in 2016 to assist with all aspects of policy, asset allocation, investment selection and risk management. FEG advises on \$58 billion of institutional investments, has 140 employees, 97 of which are investment professionals and 22 dedicated to investment selection efforts.

## **INDEPENDENT RESEARCH AND DATA - *Bloomberg, eVestment, Capital Economics, Preqin***

Raw data and the objective interpretation of it are facilitated by this category of partners and advisors. The list above is not exhaustive, but includes the primary source of information to assist with analyzing the economic environment and individual investments.

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

Most institutional investors' efforts are focused on establishing policy, setting investment objectives, and optimizing risk. The "day to day" buying and selling of individual "stocks and bonds" are carried out by best in class, specialized, investment managers. These investment managers are highly scrutinized before and after selection and carry a fiduciary duty to the trusts.

## **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***

Staff analytic resources include software services to provide quantitative risk management analysis for decision-making. AltSoft and Bloomberg are the primary tools for risk management. In addition, SITFO utilizes FEG as an independent party with their proprietary tools and dedicated risk management staff to provide performance analysis and risk reporting.