

February 2019

Legislative Budget Hearing



State of Utah
School & Institutional Trust
Funds Office

Introduction

Resources

- Formed in 2015 to institutionalize the investment management of the earnings generated by SITLA
 - \$2.5 billion in assets
 - 11 trust funds, not just the “School Fund”
- Self-funding
 - Operations are funded through the earnings of 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

Introduction

Resources

- The Board of Trustees consists of the State Treasurer (Chairperson) and four additional members with expertise in institutional investment management
- The staff consists of 3.5 (FTE) persons and intern(s):
 - Director, Chief Investment Officer
 - Senior Investment Analyst
 - Administrative Analyst
 - Assistant Administrative Analyst (part-time)
 - Intern(s)
- Important advisory relationships:
 - Primary investment advisor
 - Best in class fund managers
 - Custodian bank
 - Research and risk management

Budget Request

- Requesting \$260,000 increase to \$1,210,000 total (~25% increase)
 - 15% for additional investment professional
 - 5% increase in costs due to additional personnel
 - 5% for inflation and potential salary increases for existing staff

- Additional staff required to improve the quality of our investment processes including:
 - Improving risk management
 - Enhancing due diligence resources
 - Broadening research coverage
 - Increasing organizational resiliency

- FY20 requested budget represents 0.05% of the total assets managed

	FY 19 Budget	FY 20 Budget
AA Personnel Services	\$ 707,000	\$ 909,000
BB Travel/In State	\$ 500	\$ 500
CC Travel/Out of State	\$ 61,000	\$ 76,000
DD Current Expense	\$ 167,500	\$ 185,000
EE Data Processing Current Expense	\$ 26,000	\$ 35,000
GG Capital Expenditure	\$ 2,000	\$ 2,000
TOTAL INCOME	\$ 965,200	\$ 965,200
TOTAL EXPENSE	\$ 964,000	\$ 1,207,500
DIFFERENCE	\$ 1,200	\$ (242,300)

Budget Request

- As portfolios increase in size, they tend to increase in complexity and to be driven more by staff than committee or consultant. With the increase in complexity and greater reliance on staff, larger portfolios rely on larger staff
- Figure 4 reflects a portfolio with \$1-\$3B in assets warrants a total of 6 FTE (4 investment and 2 operations FTE)
- SITFO currently employs 3.5 FTE (2 investment and 1.5 operations)

FIGURE 2. MEAN ASSET ALLOCATION BY ASSET SIZE
As of June 30, 2017 • n = 113

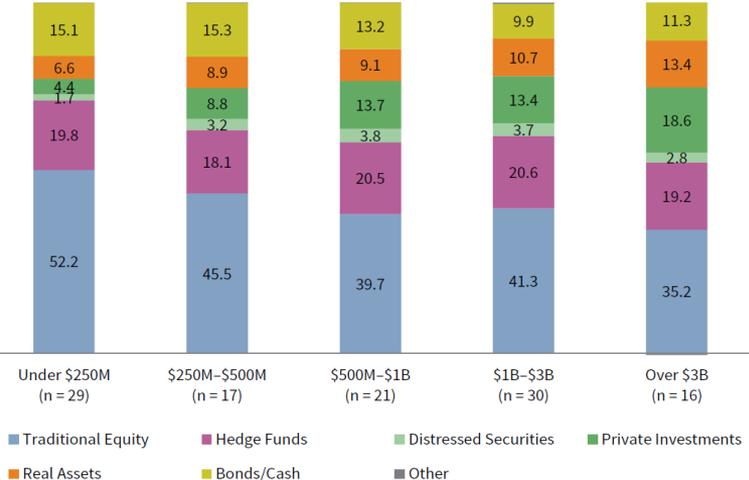


FIGURE 4. INVESTMENT OFFICE STAFF SIZE
As of June 30, 2017 • n = 120

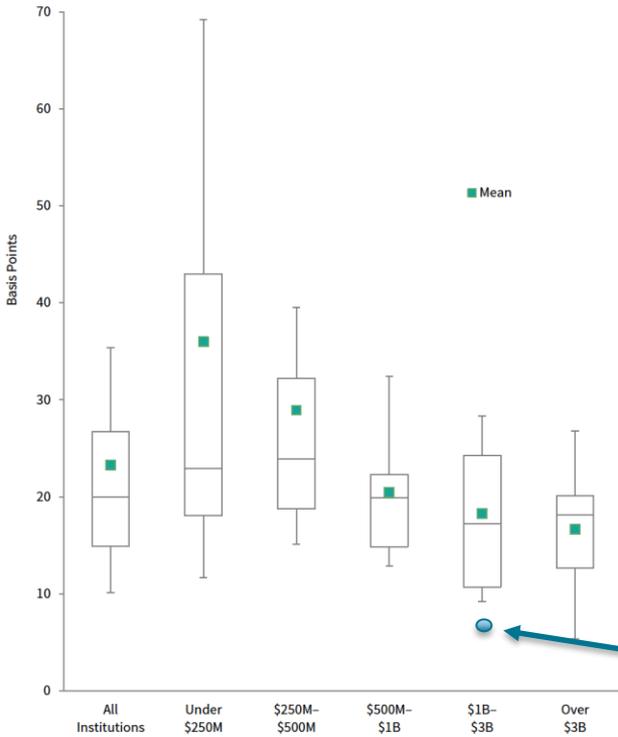


Sources: Cambridge Associates LLC Investment Office Organization and Governance Survey and Investment Pools Database.

Source: Cambridge Associates LLC Investment Office Organization and Governance Survey.

Budget Request

FIGURE 8. TOTAL OVERSIGHT COSTS
As of June 30, 2017 • n = 96



Total Oversight Costs (bps)

Mean	23.3	36.0	28.9	20.5	18.3	16.6
90th Percentile	35.4	69.2	39.5	32.4	28.3	26.8
75th Percentile	26.7	43.0	32.2	22.3	24.3	20.1
Median	20.0	22.9	23.9	19.9	17.3	18.1
25th Percentile	14.9	18.1	18.8	14.8	10.7	12.6
10th Percentile	10.2	11.7	15.1	12.9	9.2	5.4
<i>n</i>	96	20	11	19	28	18

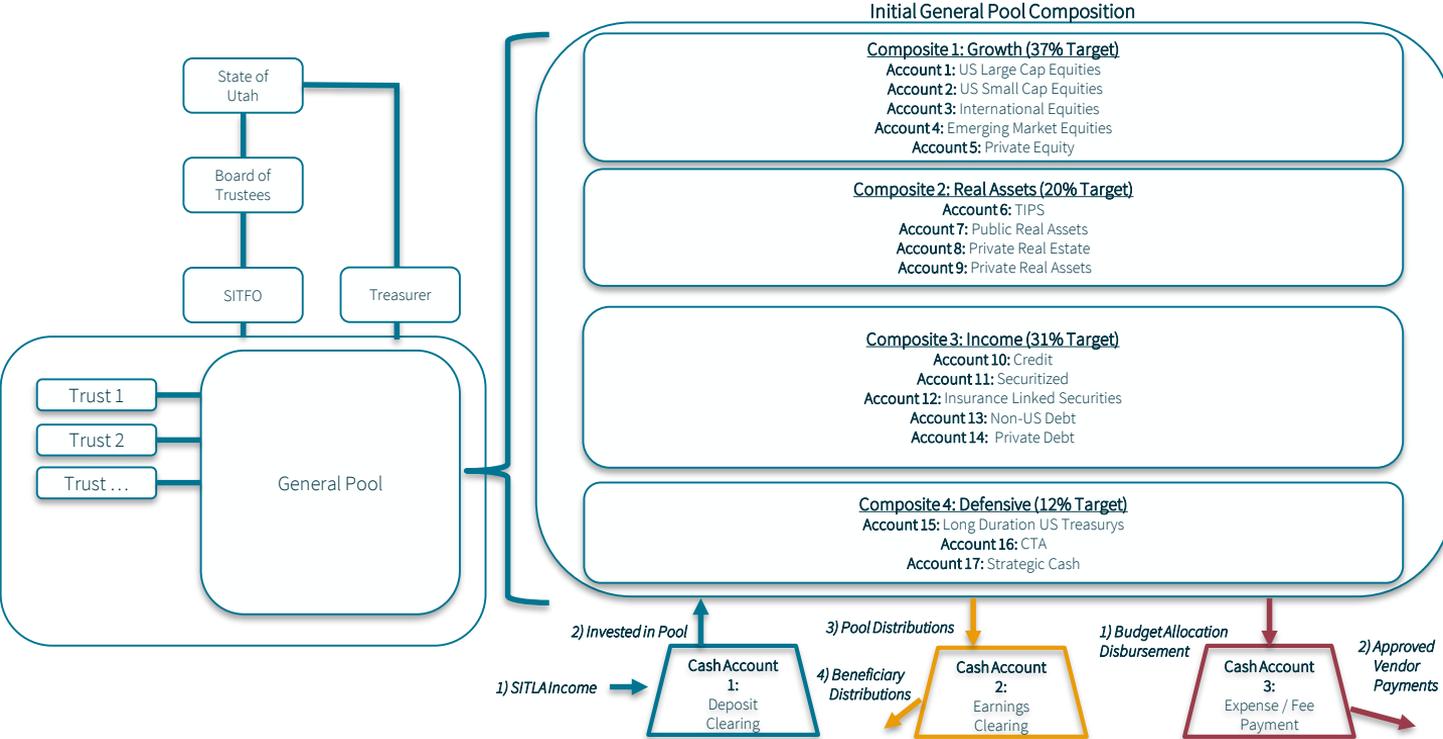
Source: Cambridge Associates LLC Investment Office Organization and Governance Survey.

SITFO = 8 bps

Appendix

Appendix

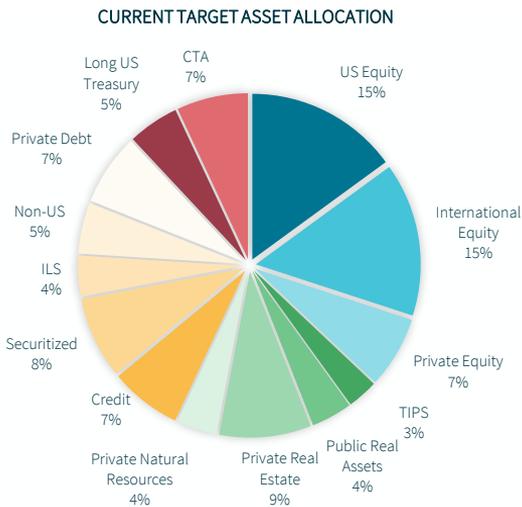
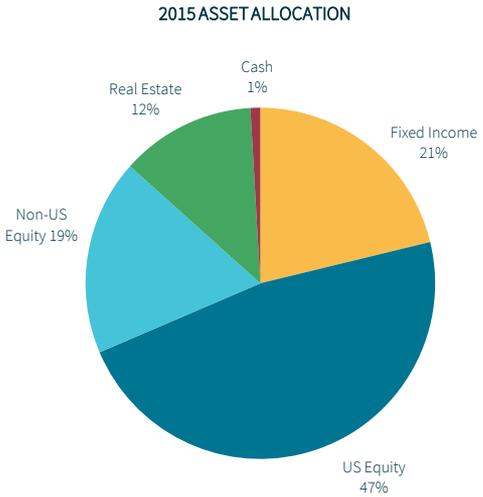
Portfolio Operations



Appendix

Asset Allocation

- To date, SITFO utilizes 42 managers
- In FY18 SITFO hired 9 new managers
- Projected total number of managers is 55



Appendix

Asset Allocation

	Min	Target	Max	Market Value	Weight (%)	Market Value	Weight (%)
Growth	25	37	50	\$ 901,586,881	37.1	\$ 903,086,881	37.1
US Equity	9	15	21	\$ 388,926,189	16.0	\$ 388,926,189	16.0
US Large Cap	4.5	7.5	10.5	\$ 223,057,512	9.2	\$ 223,057,512	9.2
Parametric US VMP Large Cap				\$ 223,057,512	9.2	\$ 223,057,512	9.2
US Small Cap	4.5	7.5	10.5	\$ 165,868,676	6.8	\$ 165,868,676	6.8
BMO US Micro Cap				\$ 25,094,094	1.0	\$ 25,094,094	1.0
Parametric US VMP Small Cap				\$ 140,774,582	5.8	\$ 140,774,582	5.8
International Equity	9	15	21	\$ 444,989,583	18.3	\$ 444,989,583	18.3
International Developed Equity	4.5	7.5	10.5	\$ 235,139,235	9.7	\$ 235,139,235	9.7
Parametric International				\$ 235,139,235	9.7	\$ 235,139,235	9.7
Emerging Markets Equity	4.5	7.5	10.5	\$ 209,850,348	8.6	\$ 209,850,348	8.6
Parametric Emerging Markets				\$ 143,536,008	5.9	\$ 143,536,008	5.9
SR Global Fund				\$ 32,847,425	1.4	\$ 32,847,425	1.4
Taiyo India				\$ 33,466,915	1.4	\$ 33,466,915	1.4
Private Equity	4	7	10	\$ 67,671,109	2.8	\$ 67,671,109	2.8
Douglas Bay Capital Fund III				\$ 3,417,170	0.1	\$ 3,417,170	0.1
Gladus Venator				\$ 13,981,956	0.6	\$ 13,981,956	0.6
Huron Fund V				\$ 2,444,482	0.1	\$ 2,444,482	0.1
Kickstart Seed IV				\$ 6,611,290	0.3	\$ 6,611,290	0.3
Summit Growth Equity IX				\$ 13,627,657	0.6	\$ 13,627,657	0.6
Unicom Capital Partners				\$ 5,387,992	0.2	\$ 5,387,992	0.2
Varsity Healthcare Partners II				\$ 6,724,082	0.3	\$ 6,724,082	0.3
WCP NewCold				\$ 15,476,481	0.6	\$ 15,476,481	0.6
Real Assets	15	20	25	\$ 471,245,029	19.4	\$ 471,245,029	19.4
TIPS	0	3	6	\$ 66,997,242	2.8	\$ 66,997,242	2.8
Vanguard ST Inflation-Protected Sec.				\$ 66,997,242	2.8	\$ 66,997,242	2.8
Public Real Assets	1	4	7	\$ 145,882,558	6.0	\$ 145,882,558	6.0
Salient MLP SMA				\$ 145,882,558	6.0	\$ 145,882,558	6.0
Private Real Estate	6	9	12	\$ 232,760,427	9.6	\$ 232,760,427	9.6
Colony Realty Partners III				\$ 9,927,705	0.4	\$ 9,927,705	0.4
Colony Realty Partners IV				\$ 45,096,650	1.9	\$ 45,096,650	1.9
Fundamental Partners III				\$ 13,983,161	0.6	\$ 13,983,161	0.6
LaSalle Asia Opportunity V				\$ 5,239,546	0.2	\$ 5,239,546	0.2
LaSalle Income & Growth Fund VI				\$ 13,541,434	0.6	\$ 13,541,434	0.6
Long Wharf Real Estate Partners IV				\$ 21,782,866	0.9	\$ 21,782,866	0.9
Long Wharf Real Estate Partners V				\$ 24,723,870	1.0	\$ 24,723,870	1.0
UBS Trumbull Property Income Fund				\$ 83,298,782	3.4	\$ 83,298,782	3.4
Varde Eur. RE				\$ 15,166,413	0.6	\$ 15,166,413	0.6
Private Real Assets	1	4	7	\$ 25,604,802	1.1	\$ 25,604,802	1.1
Cordillera Investment Fund I				\$ 17,813,357	0.7	\$ 17,813,357	0.7
Cordillera Investment Fund II				\$ 394,753	0.0	\$ 394,753	0.0
Rockland Power Partners III				\$ 7,396,692	0.3	\$ 7,396,692	0.3

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Income	20	31	40	\$ 788,234,164	32.5	\$ 793,457,139	32.6
Credit	4	7	10	\$ 216,037,631	8.9	\$ 216,037,631	8.9
Loomis Full Spectrum SMA				\$ 86,710,183	3.6	\$ 86,710,183	3.6
Bramshill Income SMA				\$ 85,913,892	3.5	\$ 85,913,892	3.5
DW Value Fund				\$ 43,413,557	1.8	\$ 43,413,557	1.8
Securitized	5	8	11	\$ 243,572,127	10.0	\$ 243,572,127	10.0
Putnam Mortgage Opportunity				\$ 130,317,305	5.4	\$ 130,317,305	5.4
Waterfall Eden				\$ 63,404,149	2.6	\$ 63,404,149	2.6
East Lodge				\$ 49,850,674	2.1	\$ 49,850,674	2.0
Insurance Linked Securities	0	4	6	\$ 75,376,403	3.1	\$ 75,376,403	3.1
Securis Event Fund				\$ 11,941,228	0.5	\$ 11,941,228	0.5
Credit Suisse ILS				\$ 23,435,175	1.0	\$ 23,435,175	1.0
Hudson ILS				\$ 40,000,000	1.6	\$ 40,000,000	1.6
Non-US	2	5	8	\$ 141,181,027	5.8	\$ 141,181,027	5.8
PIMCO EM Local				\$ 89,512,754	3.7	\$ 89,512,754	3.7
Franklin Templeton Global Macro				\$ 51,668,273	2.1	\$ 51,668,273	2.1
Private Debt	4	7	10	\$ 112,066,976	4.6	\$ 117,289,951	4.8
Ares ICOF III				\$ 23,160,591	1.0	\$ 23,160,591	1.0
BPC Opportunities III				\$ 15,985,473	0.7	\$ 18,362,734	0.8
Clearwater Capital Partners Fund V				\$ 24,481,499	1.0	\$ 24,481,499	1.0
Crestline Credit Opp III				\$ 12,849,965	0.5	\$ 15,695,679	0.6
LibreMax Value Fund				\$ 31,148,558	1.3	\$ 31,148,558	1.3
SVP Special Situations Fund IV				\$ 4,440,890	0.2	\$ 4,440,890	0.2
Defensive	10	12	20	\$ 266,233,582	11.0	\$ 264,573,263	10.9
Long US Treasury	3	5	15	\$ 75,058,295	3.1	\$ 75,058,295	3.1
Vanguard Ext. Duration Treasury Index				\$ 75,058,295	3.1	\$ 75,058,295	3.1
CTA	3	7	15	\$ 168,730,319	7.0	\$ 168,730,319	6.9
Man FRM				\$ 168,730,319	7.0	\$ 168,730,319	6.9
Cash	0	0	5	\$ 22,444,967	0.9	\$ 20,784,648	0.9
Total Fund				\$ 2,427,299,656		\$ 2,432,362,311	

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.

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.

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.

BRIAN SCOTT - *Senior Investment Analyst*

Brian joined SITFO in 2017, bringing valuable expertise in research, portfolio management, and computer science. Preceding SITFO, Brian was a quantitative analyst and software developer at Aspen Partners, an alternative investment manager and index provider. Prior to Aspen, Brian was credit analyst with Wells Fargo Energy Group, where he covered E&P reserve based lending. Brian has a Master's of Science in Financial Engineering from Claremont Graduate University, a Bachelor's from Colorado State University, and is currently a CFA Level II candidate.

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.

ANNA DAVENPORT - *Assistant Administrative Analyst*

Anna joined SITFO in 2017 to assist in managing office operations. Before joining SITFO, she worked as the marketing and content strategist for Simply Peanut Allergenic Solutions. Prior to that, Anna worked at Goldman Sachs for five and a half years as a Compliance officer developing risk and control self-assessments, establishing a regulatory updates and policy framework and monitoring employee conduct. Anna earned her Bachelors of Arts in International Politics and Russian from the Pennsylvania State University.

Appendix

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 \$66 billion of institutional investments, has 135 employees, 86 of which are investment professionals and 22 dedicated to investment selection efforts.

INDEPENDENT RESEARCH AND DATA - *Bloomberg, eVestment, Capital Economics, Pitchbook*

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

FUND MANAGERS - *Strategy Specific Investment Advisory Relationships*

The “day-to-day” buying and selling of individual securities 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*

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