

February 2020

Legislative Budget Hearing



State of Utah, School &
Institutional Trust
Funds Office

Introduction

Resources

- Legislated in 2014 to institutionalize the investment management of earnings generated by SITLA
- Trustees selected in 2014, first staff member in 2015, first investment made in June 2016
- \$2.6 billion assets
- 11 trusts, 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 (Chair) and four additional members with expertise in institutional investment management

- The staff consists of 4.5 (FTE) persons and intern(s):
 - Director, Chief Investment Officer
 - Senior Investment Analyst
 - 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 vendors

Governance

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 led 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, 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.

Resources

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.

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.

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.

Resources

Advisors and Vendors

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 \$67 billion of institutional investments, has 126 employees, 69 of which are investment professionals and 21 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 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 FEG as an independent party with proprietary tools and dedicated risk management staff to provide performance analysis and risk reporting.

Budget Request

- Requesting an increase of \$174,104 to a total of \$1,417,704 (~14% increase)
 - The industry standard for reflecting on these amounts is to consider them as a proportional expense in relation to the total assets managed (operating expense ratio)
 - The FY21 requested budget represents a 0.007% increase to an 0.055% operating expense (from 0.048%) of the total assets managed

	FY 20 Budget	FY 21 Budget
AA Personnel Services	\$ 936,622	\$ 1,074,359
BB Travel/In State	\$ 1,000	\$ 1,000
CC Travel/Out of State	\$ 64,750	\$ 64,750
DD Current Expense	\$ 194,450	\$ 233,450
EE Data Processing Current Expense	\$ 40,000	\$ 40,000
GG Capital Expenditure	\$ 2,000	\$ 2,000
TOTAL INCOME	\$ 1,243,600	\$ 1,417,704
TOTAL EXPENSE	\$ 1,238,822	\$ 1,415,559
DIFFERENCE	\$ 4,778	\$ 2,145

Difference: \$174,104 = 14%

Budget Request

Rationale

- SITFO's office lease is expiring in June 2020
 - Rents have increased since the original lease was agreed in 2015. The average asking rate per square foot in the Salt Lake City office market is 16% higher (\$23.19*) relative to our current rate (\$20.02).
 - SITFO may need to consider moving to a larger office space as well which could add to the expected increase in lease payments

- Competitive compensation
 - Attracting and retaining talent is a key issue
 - Bring staff compensation from below peers closer to market standard
 - 3rd party consulting analysis to be provided during FY20

*Per the 2018, Salt Lake City Commercial Real Estate Benchmark

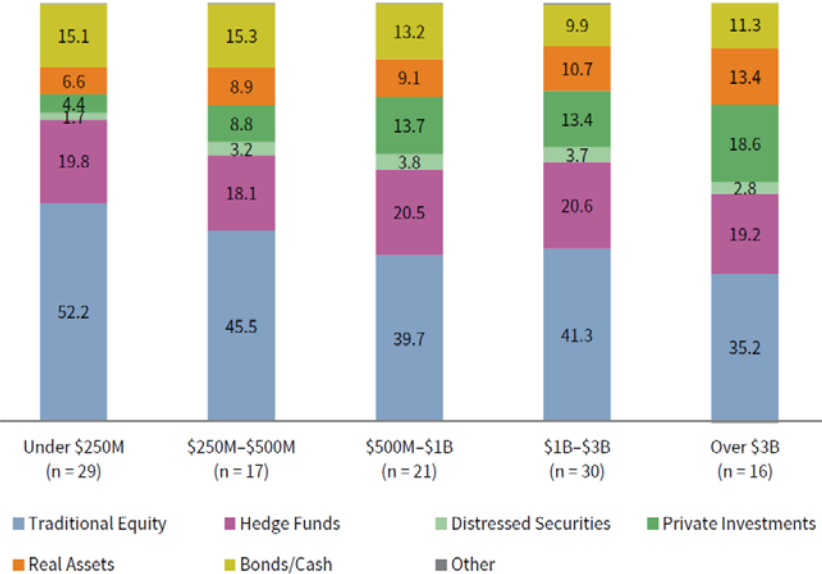
Budget Request

Rationale

- 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, attracting and retaining talent is paramount
- Figure 2 shows the increased diversification and complexity as portfolios increase in size
- Figure 4 shows that portfolios with \$1-\$3B in assets warrant a total staff of 6 FTE (4 investment and 2 operations FTE)
- SITFO currently employs 4.5 FTE (3 investment and 1.5 operations)

FIGURE 2. MEAN ASSET ALLOCATION BY ASSET SIZE

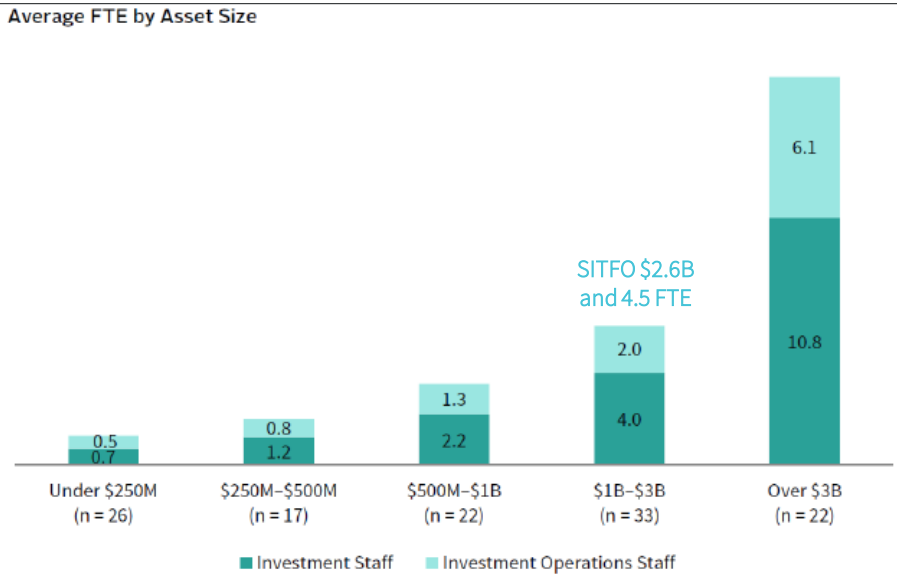
As of June 30, 2017 • n = 113



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

FIGURE 4. INVESTMENT OFFICE STAFF SIZE

As of June 30, 2017 • n = 120



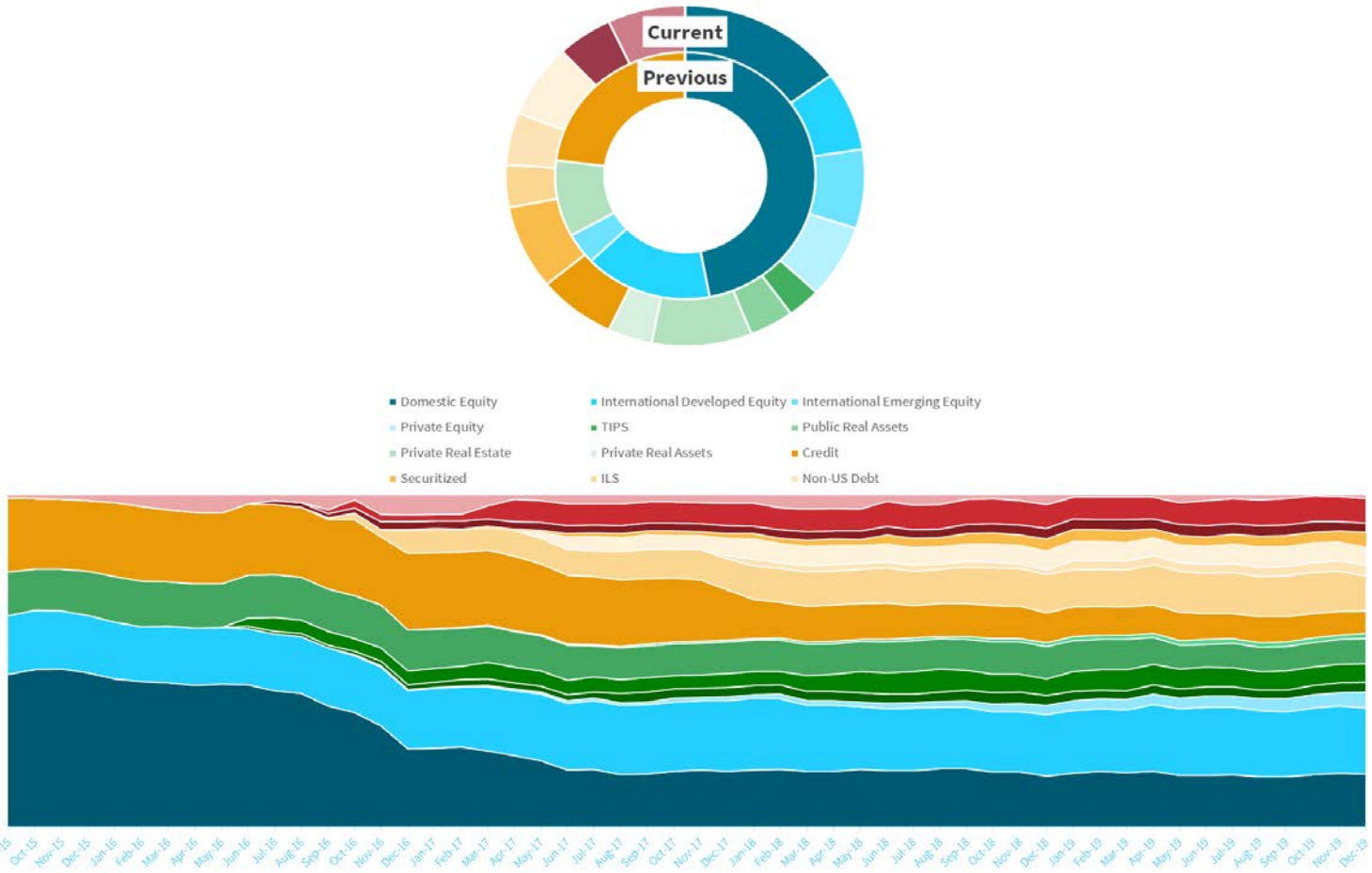
Source: Cambridge Associates LLC Investment Office Organization and Governance Survey.

Budget Request

Agency Analysis

- SITFO is building a portfolio based on institutional frameworks and relying less on traditional assets
- To date, SITFO utilizes 50 investment managers/funds
- In FY19 SITFO hired 8 investment managers with a projected total number of ~75-100 across the portfolio

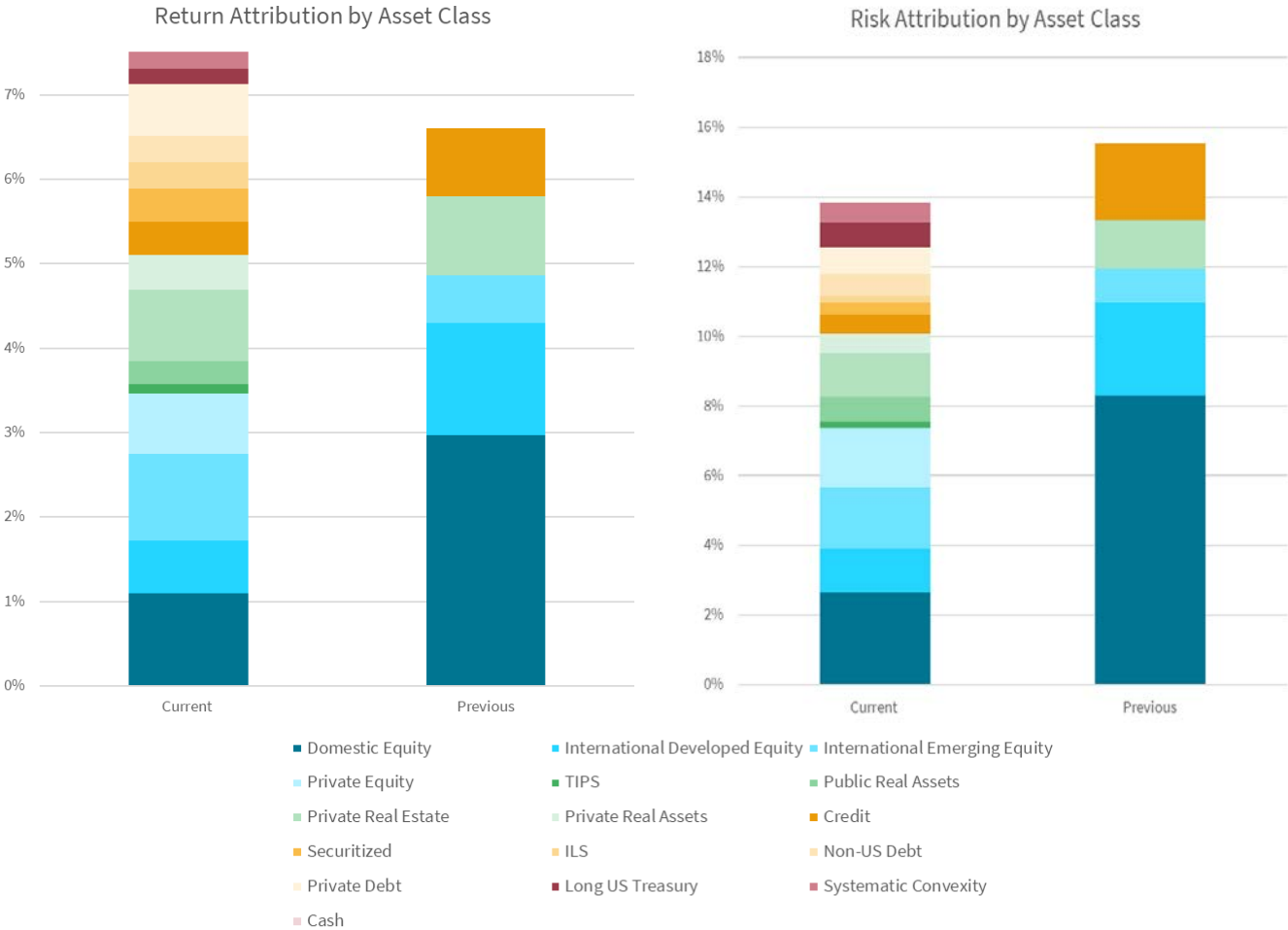
Asset Allocation Target by Asset Class



Budget Request

Agency Analysis

- Portfolios are built using a forward-looking framework of return and risk
- Current portfolio is projected to return above 7% annualized over a 10-year horizon
- The current asset allocation is expected to meet our CPI + 5% objective with less risk than the previous portfolio



Budget Request

Agency Analysis

- Recently trending lower than our objectives
- Portfolio is in transition to prudent level of risk and return
- Long horizon portfolios focused on intergenerational equity should be invested with a long horizon perspective
- Investment performance is cyclical and should be judged on long time horizons within the context of risk and diversification

Rolling 5-Year Performance



Performance

