

Asset Management Session

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Presenters:

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Agenda

1. Intergenerational Equity Concepts & Challenges

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Investment Consultant

RVK, Inc.

2. Macroeconomic Overview

Bill Costigan

Managing Director

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3. Challenges and Opportunities in the Energy Sector

Mark Buntz

Director of Alternative Investments

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School Land Trusts are a Critical and Permanent Component of America's Infrastructure

Excerpt from the Morrill Act of 1862

*“And be it further enacted, That all moneys derived from the sale of the lands...shall be invested in stocks of the United States, or of the States, or some other safe stocks...and that the moneys so invested shall constitute a **perpetual fund, the capital of which shall remain forever undiminished**...and the interest of which shall be inviolably appropriated...to the endowment, support, and maintenance of at least one college ...to teach such branches of learning as are related to agriculture and the mechanic arts, in such manner as the legislatures of the States may respectively prescribe, in order to promote the liberal and practical education of the industrial classes in the several pursuits and professions in life.”*

Figure 1: Land Grant Colleges and Universities in the United States



Figure 2: Total Permanent Fund Assets of NASTL Members (12/31/2020)

State	Market Value (\$ Millions)
Alaska	\$700
Arizona	\$6,054
Colorado	\$1,261
Idaho	\$2,396
Minnesota	\$1,699
Montana	\$727
New Mexico	\$18,982
Nevada	\$383
North Dakota	\$4,892
Oklahoma	\$2,427
Oregon	\$1,821
South Dakota	\$328
Texas	\$44,900
Utah	\$2,533
Washington	\$1,179
Total	\$90,282

Introduction to Intergenerational Equity

Key Intergenerational Equity Principles

1. **Preservation of Real Purchasing Power of Distributions** – The most fundamental objective of intergenerational equity is to set a distribution policy that ensures that current and future distributions have equivalent purchasing power. In other words, the goal is to manage the portfolio and spending rate such that distributions increase at the rate of inflation.
2. **Treatment of New Inflows as Additions to the Corpus** – New inflows should be treated as additions to the corpus, rather than a funding source for current distributions.
3. **Acknowledgement of Estimation Error** – It is impossible to predict future returns and rates of inflation; therefore, there must be acknowledgment that precise intergenerational equity is optimal in theory, but impossible in practice.

Simple Spending Rule (5-Year Average Market Value)

$$S_T = \text{Average}(MV_1 + MV_2 + MV_3 + MV_4 + MV_5) \times R_s$$

R_s = Spending Rate

S_T = Current Spending

MV_T = Market Value of Assets

Unique Challenges for School Land Trusts

1. Asset Allocation Challenges
2. Distribution Policy Challenges
3. Uncertainty of Expected Return on Assets

Asset Allocation Challenges

Key Challenges

Challenge #1: Limited Control over Strategic Asset Allocation

- ❑ Most land offices are not the final decision-maker with respect to the target asset allocation of the investment portfolio.

Challenge #2: Valuation Uncertainty of Land and Mineral Holdings

- ❑ Current land value estimates vary substantially based on uncertain demand and supply forecasts.
- ❑ Future land values can shift by several orders of magnitude, as there may be shifts in demand for minerals and the introduction of new technologies to extract them (e.g., shale extraction in the Bakken Formation).

Figure 3: Entity Charged with Strategic Asset Allocation

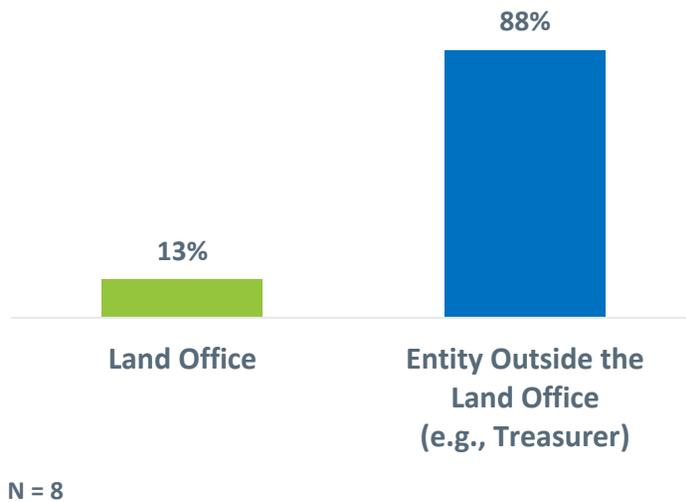
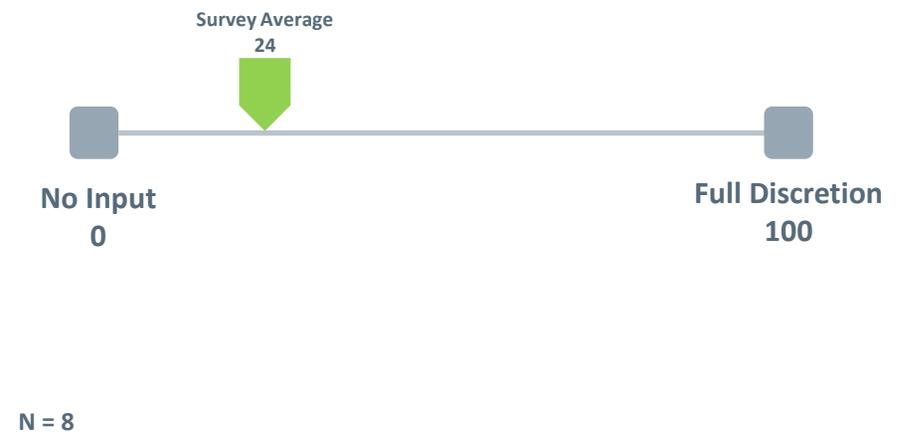


Figure 4: Degree of Land Office's Input into Strategic Asset Allocation



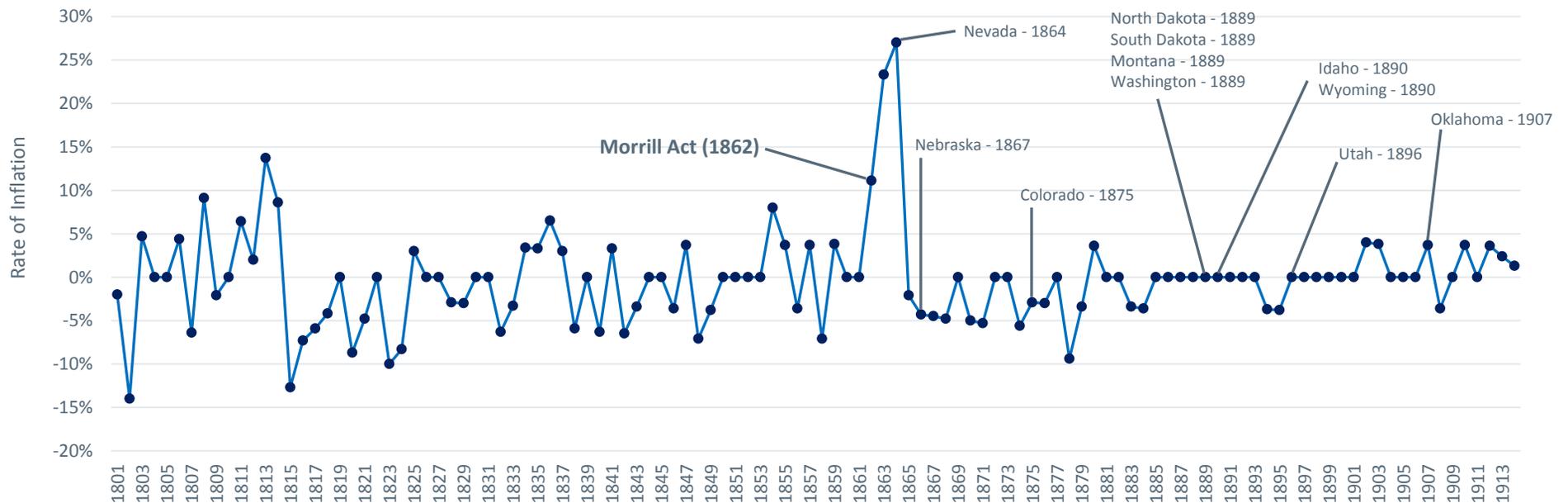
Distribution Policy Challenges

Challenge #1

Income Only Distribution Constraints

- ❑ Many school land trusts were established during the late 1800s, which was an era in which “income only” distribution methodologies naturally preserved intergenerational equity.
 - Securities markets were 75% bonds and 25% equities.
 - Inflation was of little concern because the entire 19th century was deflationary, with only a few rare periods of elevated inflation during major wars. (see Figure 3).
- ❑ The use of “income-only” distribution policies ensured that interest from bonds benefitted the current generation, while real value of corpus was preserved due to the absence of inflation. In fact the “real” value of the corpus tended to increase slightly throughout the 1800s due to deflation.

Figure 3: Annual Rate of Inflation and Year of Admission of Western States to the Union (1800 – 1914)



Sources: Federal Reserve Bank of Minneapolis (2021).

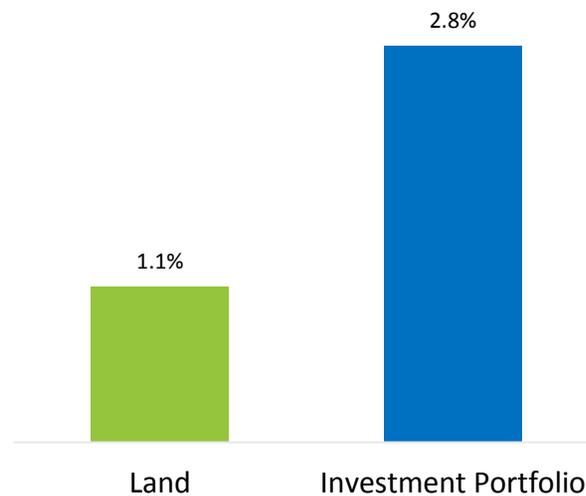
Distribution Policy Challenges (continued)

Challenge #2:

Limited Income Generation from Land Assets

- Land assets often generate less income relative to capital appreciation.
- This may force trusts with large land holdings to establish high distribution policies from investment assets.
- Trusts that lack control over asset allocation may be forced to sacrifice long term return to generate sufficient income for current beneficiaries.

Figure 4: Portfolio Yield of Land and Investment Portfolio
Current NASTL Member



Expected Return Uncertainty

“It ain’t what you don’t know that gets you into trouble. It’s what you know for sure that just ain’t so.”

- Mark Twain¹

1. Uncertainty of Current Land and Known Mineral Resource Values
2. Uncertainty of Future Land Values and Unknown Mineral Discoveries
3. Uncertainty of Expected Returns from Financial Assets

¹ This quote is often attributed to Mark Twain, but it remains undetermined whether he was, in fact, the original source.

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