

July 13, 2022

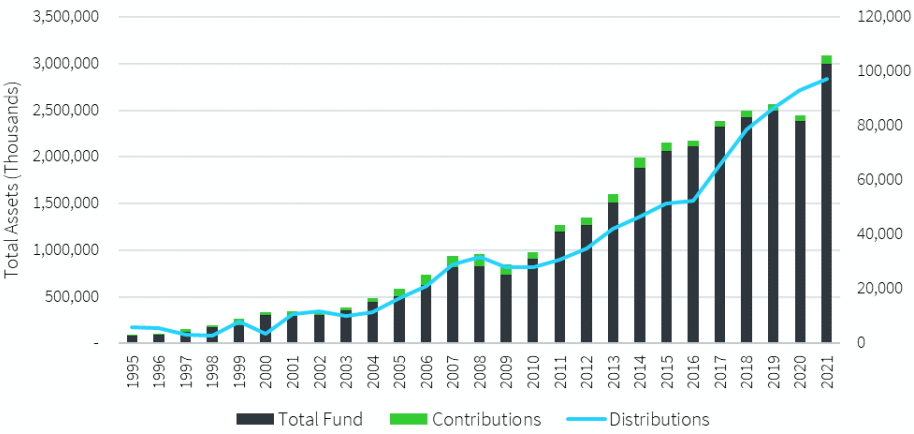


State of Utah, School &
Institutional Trust
Funds Office

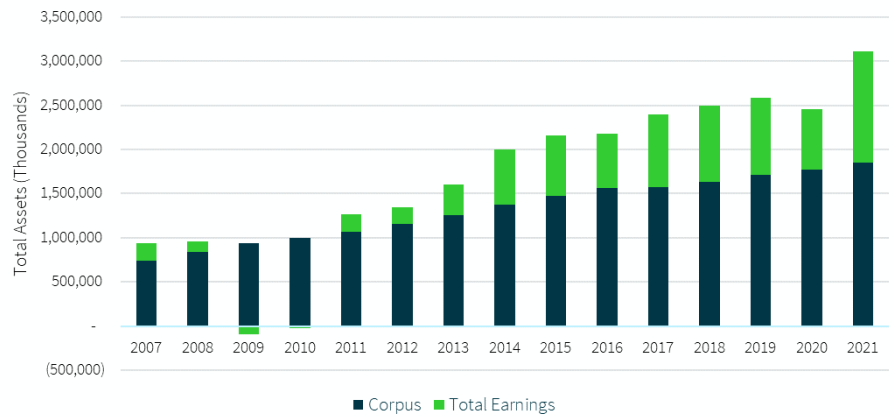
SITFO Mission

To responsibly maximize the return on the invested principal of the School and Institutional Trusts for the current and future benefit of Utah's education programs.

Fund Value, Contributions, and Distributions (FY)



Corpus & Earnings (FY)



Introduction

- Legislated in 2014 to institutionalize the investment management of earnings generated by SITLA
- \$3.1 Billion
- 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

Governance



Office of State Treasurer



School Children's Trust



Land Trusts Protection and
Advocacy Office



SITLA (School & Institutional Trust Lands Administration)

- SITLA manages Utah's 3.5 million acres of trust land generating revenue through oil, gas, and mineral leases, real estate sales, etc.
- All proceeds are deposited into permanent endowments for each beneficiary (the 11 trust funds)



SITFO (School & Institutional Trust Funds Office)

- SITFO invests the endowments from SITLA, and earnings are distributed to each beneficiary
- The (11) trusts are managed based on an asset allocation formula with similar asset allocations because return and risk objectives are the same



Beneficiaries

11 Trust Funds: School Trust, Miners Hospital, Institute for the Blind, Reservoirs Fund, Normal School, University of Utah, School of Mines, Utah State University, Utah State Hospital, Deaf School Fund, State Industrial School

INTRODUCTION



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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FY 2021 ANNUAL REPORT

The annual report is intended to provide a review of the previous fiscal year as well as a look into the ongoing projects and goals of the agency.

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SITFO Vision and Values

- We are an independent team of outcome-oriented investors. We aim to carry our fiduciary responsibility forward to assist in the creation of a brighter future for Utah's public education programs. We consider education to be an invaluable public resource and believe the School and Institutional Trusts are an enduring investment in our communities.
- We aim to ground our decision-making in objective research and sound portfolio theory. We value long-term growth over short-term gains, impartial analysis over conventional wisdom, and will always conduct investment decisions outside the reach of political influence and act with undivided loyalty to the schools, universities and state institutions for which we serve.
- We invest School and Institutional Trust Lands Administration revenues in a manner that supports the distribution policy in perpetuity while providing for intergenerational equity between current and future beneficiaries. In addition to the School Trust Fund, there are 10 additional trusts.

SITFO Vision and Values

- Our values include
 - **Steady** – We value dependable, long-term growth. As an institution with an infinite horizon, we will weather volatility and illiquidity in the short-term to better the interest of our long-term goals.
 - **Innovative** – We are vigilant of an industry and markets that are always in a state of flux; we are adaptive to changes and comfortable exploring both uncommon investment opportunities, and new ways to improve our processes, with whatever tools are at our disposal.
 - **Transparent** – We are working in service of the public good and strive to translate the detail and portfolio complexity into useful and digestible reports for general consumption.
 - **Principled** – We are fluent in the strengths and weaknesses of modern portfolio theory and actively avoid the pitfalls of behavioral finance through strategic checks and balances, rigorous analysis, and personal humility.
 - **Open-minded** – We consider all investment prospects on an objective basis, and therefore neither automatically forego unorthodox opportunities, or select commonplace opportunities, based on conventional wisdom, prevailing headlines, or emotional biases.

Investment Objectives & Governance

- Investment objective: CPI +5%
 - 10-year inflation estimate at ~2.5% (long term average ~3.5%) = 7.5% - 8.5%
 - SITFO's focus is on achieving the target return with the least risk necessary
- Risk objective:
 - In discussions with the trustees, SITFO considers the volatility of a 70% / 30% portfolio as a reference when determining asset allocation. This is not a benchmark for performance, it is a proxy for risk.
 - Given the above, SITFO estimates annualized volatility of as much as ~12% is acceptable. This leads to an expectation of a ~32% drawdown
 - There is a minimum of 15% required to be held in daily liquidity
- Trustees' primary investment responsibility is setting the asset allocation and risk tolerance. Trustees' other responsibilities center around monitoring staff's decision making.
- Distribution Policy
 - $50\% (1 + \text{CPI} + \text{Enrollment Growth}) \times \text{Previous Year Distribution}$
 - 50% (4% x 20Q average)
 - Capped at 4%

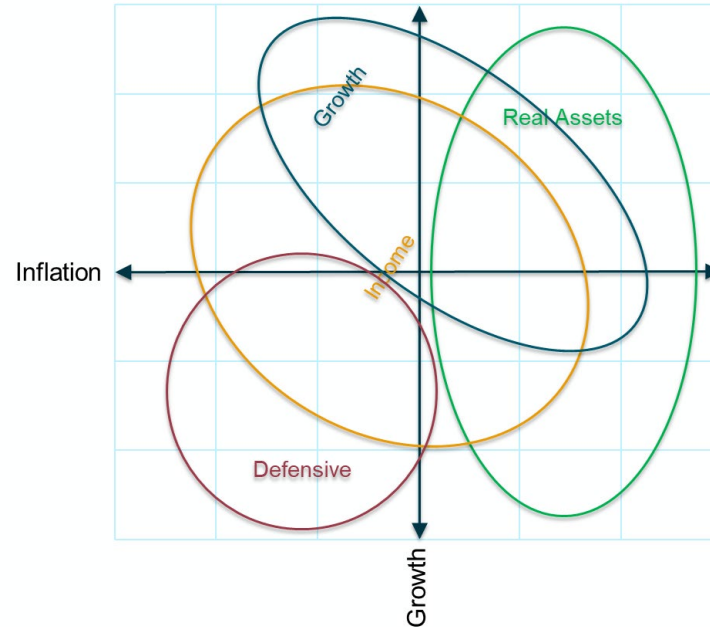
Implementation of the Long-term Asset Allocation

Asset allocation is expected to drive 90%+ of an institutional portfolio's risk and return



Asset Allocation

- Framing the portfolio in order to diversify across fundamental, long-term factors
- Simplify thinking for clarity and communication
- Heuristic for answering the question “how much risk are we taking and where are we taking it?”

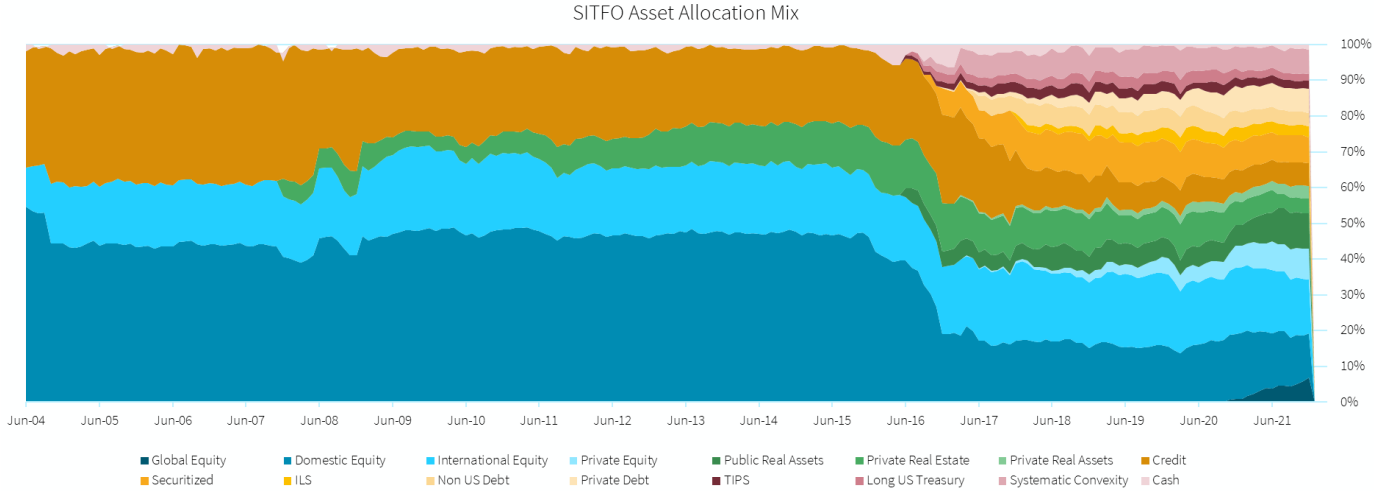


Asset Allocation

- Target returns by category:
 - **Growth:** CPI + 6%
Expected to provide the strongest positive returns during periods of sustained economic growth, as well as presenting the highest expected risk (e.g., stocks, private equity).
 - **Real Assets:** CPI + 5.5%
Inflation oriented and typically backed by hard assets (e.g., real estate, infrastructure, commodities, etc.). Real assets may present characteristics of income and growth, and thus have a moderate risk profile (e.g., commercial real estate, natural resources).
 - **Income:** CPI + 4.5%
Income is expected to generate positive returns during a range of economic growth scenarios via an income stream. Although this category is not expected to contribute as much risk as growth, it is still considered a risk-taking investment (e.g., corporate bonds, asset backed securities).
 - **Defensive:** CPI + 2.5%
The investments in this grouping are intended to do well in negative economic scenarios or periods of market stress (e.g., cash, government bonds, hedging strategies). We do not categorize corporate bonds, or other assets that rely on economic growth, as defensive.

Asset Allocation – Creating a Well Diversified Portfolio

Asset Classes	Target %	Interim %
Growth	43.5	43.5
Global Equity	10.0	6.5
US Equity	10.5	13.0
US Large Cap	8.0	8.0
US Small Cap	2.5	5.0
International Equity	10.0	15.5
International Developed Equ	5.5	7.5
Emerging Markets Equity	4.5	8.0
Private Equity	13.0	8.5
Real Assets	17.5	17.5
Public Real Assets	5.0	9.5
Private Real Estate	5.0	4.5
Private Real Assets	7.5	3.5
Income	27.0	27.0
Credit	5.0	6.0
Securitized	5.0	6.5
Insurance Linked Securities	3.5	3.5
Non-US	3.5	4.0
Private Debt	10.0	7.0
Defensive	12.0	12.0
TIPS	2.5	2.5
Long US Treasury	2.5	2.5
CTA	7.0	7.0
Cash	0.0	0.0



Real Assets - Overview

Natural Resources	Infrastructure	Real Estate
Commodities	Transportation	Industrial
Metals & Mining	Energy Infrastructure	Residential
Energy E&P	Telecommunications	Office
Timber	Social Infrastructure	Hospitality
Water	Renewables	Health Care
Agriculture		Retail
"Diversified Real Return"		

- Diversified strategies can be considered as a 4th sub-asset class or opportunity within public real assets.
- Product types span a diverse spectrum of investment approaches, including passive, rules based and actively managed accounts, as well as liquidity profiles, including daily products (e.g., mutual funds, ETFs), monthly products (e.g., hedge funds), and quarterly products (semi-liquid evergreen funds).

Real Assets - Overview

	Inflation Sensitivity	Interest Rate Sensitivity	Capital Appreciation Potential	Income Potential
Natural Resources				
<i>Diversified Natural Resource Equities</i>	High	Low	High	Medium
<i>Commodities</i>	High	Low	High	Low
Infrastructure				
<i>Infrastructure Equities (ex-energy)</i>	Medium	Medium	Medium	Medium
<i>Energy Infrastructure Equities</i>	Medium	Medium	Medium	High
<i>Semi-Liquid Core Infrastructure</i>	Medium	Low	Medium	Medium
Real Estate				
<i>REITs</i>	Medium	Medium	Medium	Medium
<i>Real Estate Debt</i>	Low	Medium	Low	High
Real-Return				
<i>Diversified Inflation-Oriented Products</i>	Medium	Medium	Medium	Medium

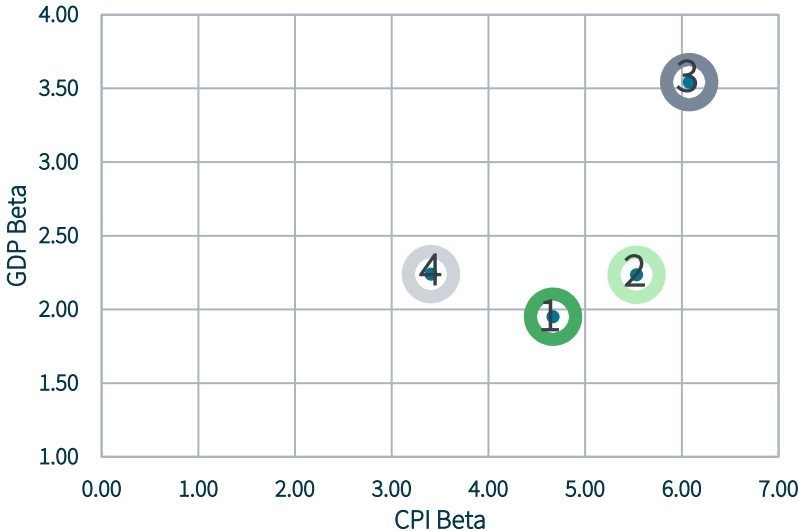
Asset Class Structure: Real Assets

Role & Objectives

- Target return of CPI + 5.5% with a policy weight of 17.5%.
- Real assets are the primary provider of inflation protection through investments backed by hard assets.
- Real assets investments carry a moderate risk profile with returns driven by a combination of equity beta, income, inflation and growth sensitivities.

Asset Class	Benchmark	Policy Weight	Asset Class Weight	Long-Term Hurdle Return	Target Tracking Error	# of Managers
Public Real Assets	S&P Real Assets Index	5.0%	28.6%	CPI + 4%	6%	2 – 6
Private Real Estate	Burgiss Real Estate	5.0%	28.6%	CPI + 6%	N/A	5 – 9
Private Real Asset	Burgiss Real Assets	7.5%	42.8%	CPI + 7%	N/A	5 – 11
Real Assets Total		17.5%	100%	CPI + 5.5%	6%	12 – 26

Real Assets Growth & Inflation Sensitivities (Since 2006)



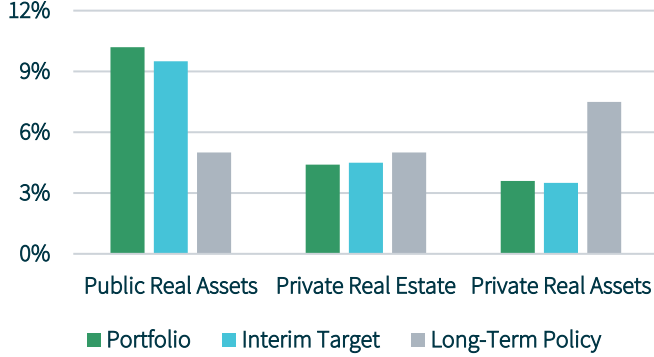
- 1 S&P Real Assets Index
- 2 Private Natural Resources & Infrastructure
- 3 Private Real Estate
- 4 S&P 500 Index

Real Assets Exposure Summary

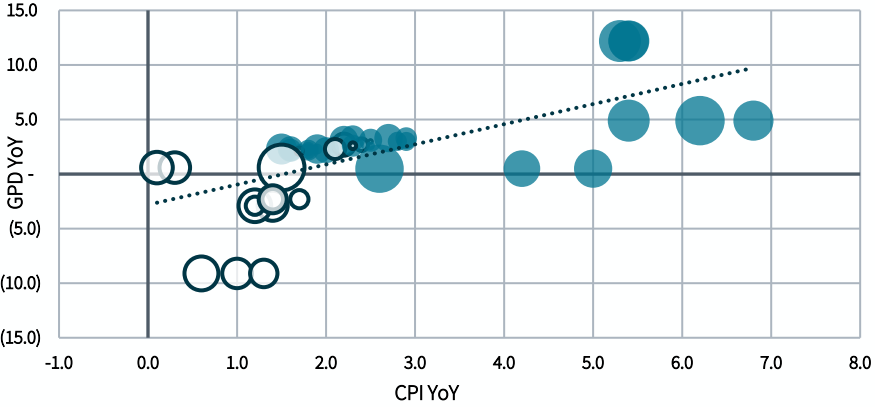
- Real assets are the second smallest allocation but are the second largest contributor to risk.
- The real assets portfolio has been in a state of transition:
 - Allocations continue to move toward the long-term targets.

Market Value	\$	550,098,994
Statistic	Portfolio	Target
Tracking Error	3.98	
VaR (95%)	3.50	3.78
Equity Beta	0.51	0.63

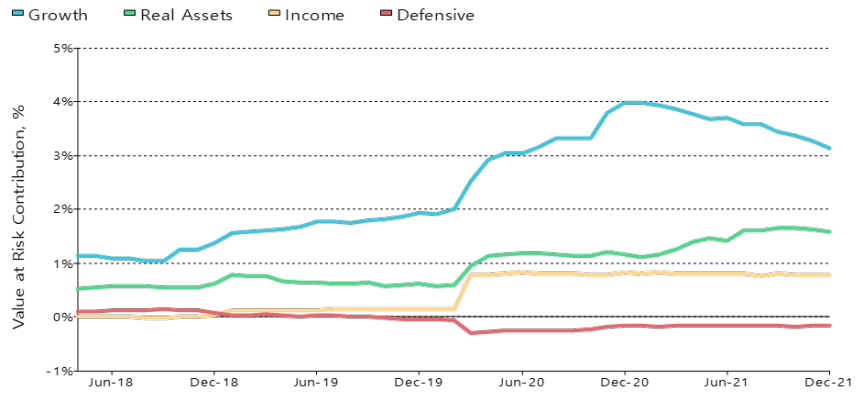
Asset Allocation



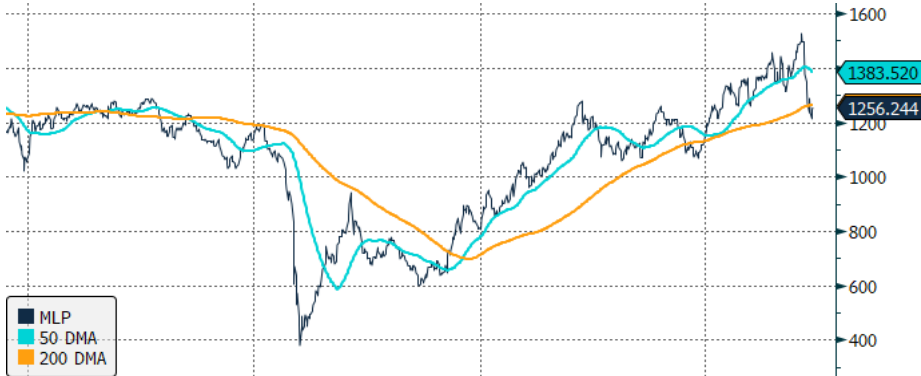
Real Assets Growth and Inflation Sensitivities



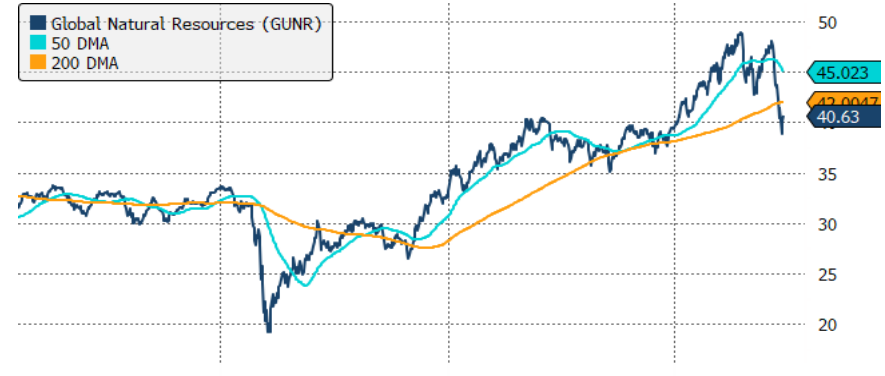
GRID Contribution to VaR (95%)



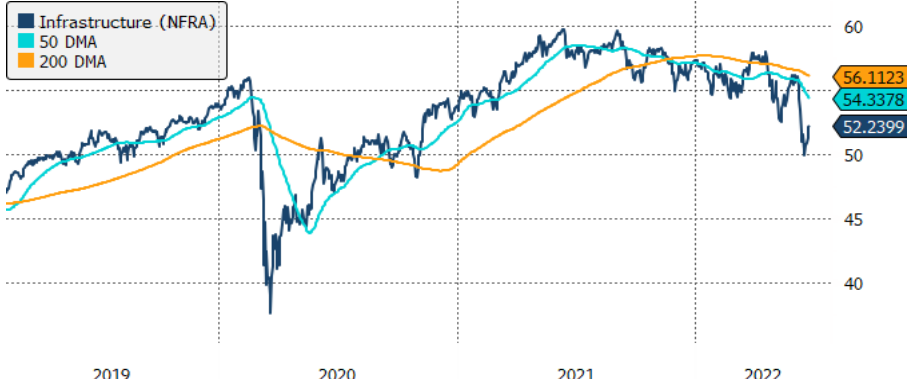
Market Trends



AMZX Index (Alerian MLP Total Return Index) MLP Trend ST Daily 23NOV2018-27JUN2022 Copyright© 2022 Bloomberg Finance L.P. 27-Jun-2022 10:32:41



GUNR US Equity (FlexShares Global Upstream Natural Resources Index Fund) GUNR Trend Daily 11FEB2019-27JUN2022 Copyright© 2022 Bloomberg Finance L.P. 27-Jun-2022 10:32:08



NFRA US Equity (FlexShares STOXX Global Broad Infrastructure Index Fund) Infra Trend Daily 11FEB2019-27JUN2022 Copyright© 2022 Bloomberg Finance L.P. 27-Jun-2022 10:32:00



FNCOTR Index (FTSE NAREIT Composite Total Return Index) Public RE Trend Daily 11FEB2019-27JUN2022 Copyright© 2022 Bloomberg Finance L.P. 27-Jun-2022 10:32:17