

School Fund Update 2015

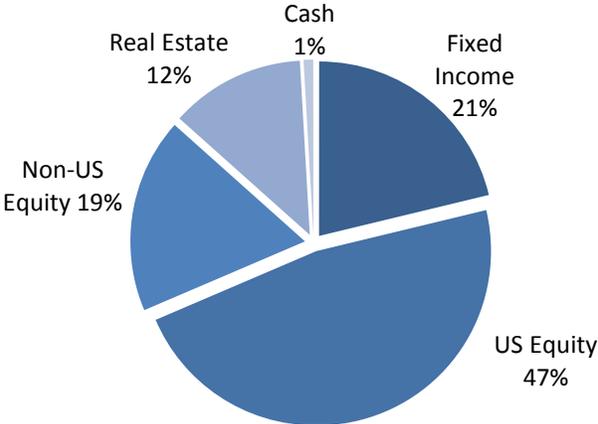
The Permanent State School Fund (the “School Fund”) was created by the State’s Enabling Act, which provided for the support of public schools from lands granted by the Federal Government at statehood, creating a public trust. Revenues derived from the sale of lands, managed by the School and Institutional Trust Lands Administration (SITLA), are deposited into the School Fund and constitute a permanent fund from which only the interest and dividends can be expended. The fund has grown to \$2 billion because of the revenues of SITLA as well as the involvement of the education community, the subsequent support of the legislature, and the investment program of the fund.

The School Fund’s investments are managed by the School and Institutional Trust Fund Office (SITFO). SITFO is a State agency that was established in 2015 to create an office dedicated to the institutional investment management of the School Fund and related Trust assets. The Board of Trustees hired the new Chief Investment Officer and Director of SITFO earlier this year.

The School Fund is currently invested in a diversified mix of stocks, bonds, and real estate. The investments are managed to promote intergenerational equity, the need to balance the short-term need for current income with the need for long-term growth for the benefit of all Utah school children.

Brief History in Numbers (1995 – 2015)	
<i>Average Annual Contributions:</i>	
Land Assets	\$70M
Investment Activities	\$31M
<i>Total Contributions:</i>	
Land Assets	\$1,401M
Investment Activities	\$653M
<i>School Fund:</i>	
Average Annual Distributions:	\$17M
Total Distributions:	\$367M
Current Total Assets:	\$2,059M

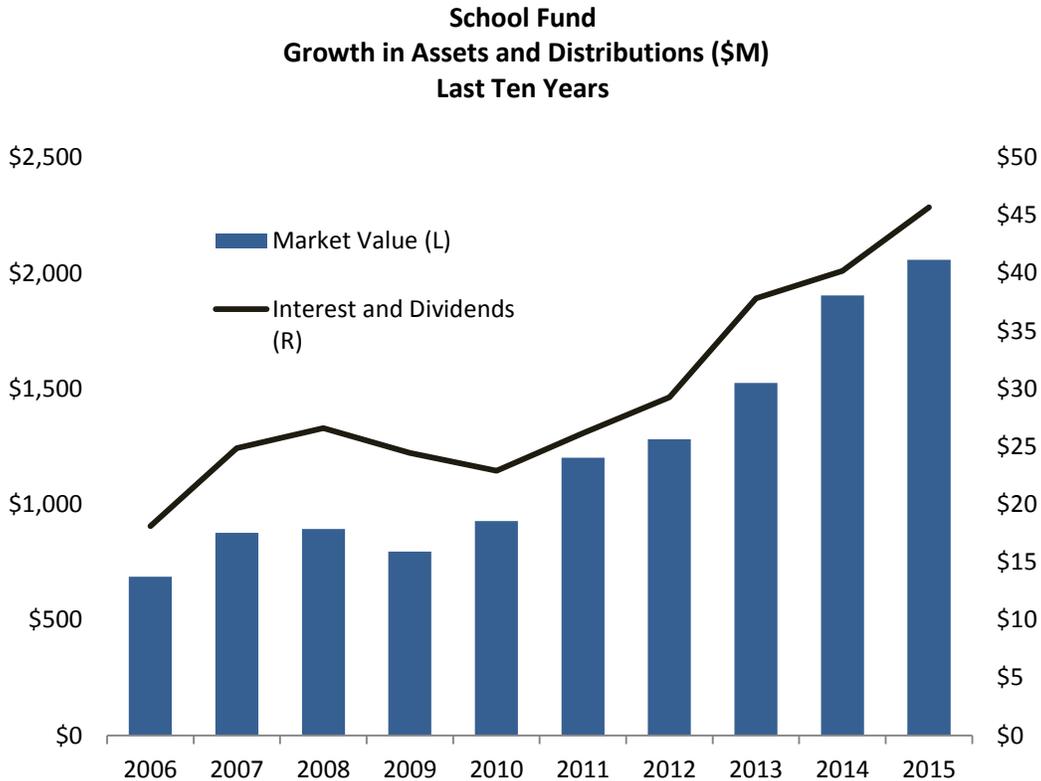
**School Fund
 Asset Allocation**



The School Fund increased in market value by \$154 million or 8.1% in fiscal year 2015, led by deposits of \$93 million by SITLA and an increase in investment value of \$61 million. The interest and dividends earned by the School Fund during fiscal year 2015 increased to \$45.7 million from \$40.2 million the previous fiscal year, an increase of \$5.5 million or 13.7%. The School Fund is expected to earn approximately \$45.8 million in fiscal year 2016, which will be distributed in fiscal year 2017.

School Fund Update, Fiscal Year 2015 (continued)

The School Fund’s growth in market value (left hand scale) and amount of dividends and interest earned (right hand scale) is shown below. The interest and dividends as plotted on the chart are equal to the amount distributed annually to schools.



The School Fund has posted strong investment returns across the portfolio over last five years driven by US stocks and real estate. The School Fund’s investment returns for one, three, five and ten-year periods ending June 30, 2015 are shown in the table below, along with the percentile ranking (4th percentile indicates the fund beat 96% of the peer group of public funds greater than \$1 billion in size).

Periods Ending 6/30/2015	Investment Return*	Percentile Ranking
One-Year	5.5%	4 th
Three-Year	13.0%	6 th
Five-Year	12.9%	4 th
Ten-Year	7.1%	27 th

**Net of fees.*

**Returns for periods greater than one-year are annualized.*

School Fund Update, Fiscal Year 2015 (continued)

Looking forward to fiscal year 2016, SITFO will be hiring 2 additional staff as well as investment consultants to review and update the investment policy and continue the institutionalization of the School Fund investment process. In addition to updating the investment policy and process, efforts are also under way to modify the language in State Constitution and State statutes regarding the distribution policy. The language governing the amount of money that can be distributed to schools dates back to 1894. The effort to modify the language will reflect the best practices and prudent investment management policies developed over the last century which allow for an increased amount and greater stability of distributions that provides for current as well as future needs.

Many thanks to all the school community and charter trust land councils' efforts to ensure that the distributions made from the School Fund are used effectively to further strengthen our schools.



Peter Madsen
Chief Investment Officer, Director
School & Institutional Trust Fund Office
State of Utah

Peter Madsen, Chief Investment Officer and Director of SITFO, joined in September 2015 as the new agency was just getting off the ground. Peter has been in the investment management industry since 1999. His career includes global investing on behalf of large institutional clients such pension funds, endowments, including 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 a Master of Business Administration degree, with an emphasis on International Finance, from the Middlebury Institute of International Studies.