

WSLCA

Principles of State Trust Portfolio Management



WSLCA Portfolio Presentation
July 13, 2016

Purpose of Discussion

- Priority Strategy #1
- Process
- Principles
- Colorado Case Study



Priority Strategy #1

Build strategic partnerships with large portfolio managers and develop portfolio management strategies appropriate to WSLCA member states assets



Asset Management Committee Process

1. July 2014 - North Dakota

- a) Speaker: WSLCA Panel Discussion
- b) Subject: Portfolio Management
- c) Action: Adopt Priority Strategy #1 - Portfolio Management Principles and Strategies

2. January 2015 - Arizona

- a) Speaker: Commonfund - Bill Jarvis
- b) Subject: State Trust Portfolio Model and Asset Allocation
- c) Action: Draft *Principles of State Trust Portfolio Management*



Asset Management Committee Process

3. July 2015 - Utah

- a) Speaker: BOK Financial - Laura Barlett and Jerry Sais
- b) Subject: Portfolio Governance and Risk Management
- c) Action: Review *Principles* and send to WSLCA executive committee

4. July 2016 - Idaho

- a) Speaker: RVK - Mark Higgins
- b) Subject: Intergenerational Equity, Total Return, and Asset Allocations
- c) Action: Present *Principles of State Trust Portfolio Management* to WSLCA membership



Principles of State Trust Portfolio Management

- Purpose
- Outcomes
 - Whole Trust View
 - Understand asset characteristics
 - Formulating portfolio goals
 - Establishing good governance
- Audience



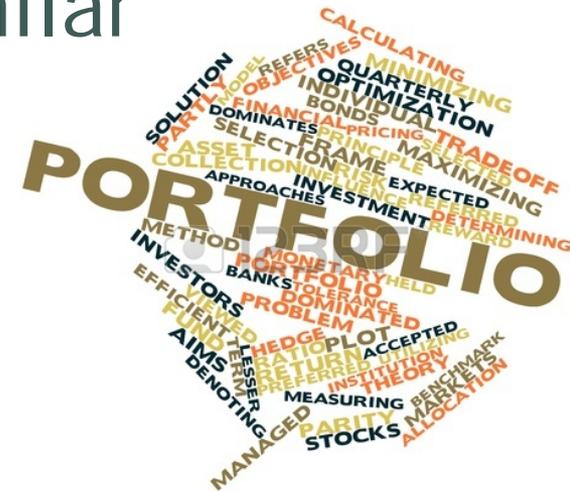
State Trust Endowments

- Accidents of History
- Not well diversified
- Asset rebalancing is challenging
- Intergenerational endowment
- Help meet fiduciary mandate



State Trust Asset Allocation

- Assets are linked to inflation or economic growth
- Volatility and Liquidity
- Real property assets are similar
- Bonds are not riskless



State Trust Portfolio Goals

- Endowment Mandate
- Intergenerational Equity
- Asset Resources and Allocation Targets
- Investment Tools
- Sustainability
- Beneficiary Expectations



State Trust Portfolio Governance

- Prudent Investor (UPMIFA)
- Transparency
- Consistency
- Intentionality
- Governance vs. Management
- Management Expertise



Summary and Questions



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Colorado School Trust Portfolio Management Case Study



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Colorado School Trust Case Study

- Governance
- Asset Allocation & Goals
- Portfolio Tools
- Public School Permanent Fund (Senate Bill 16-35)

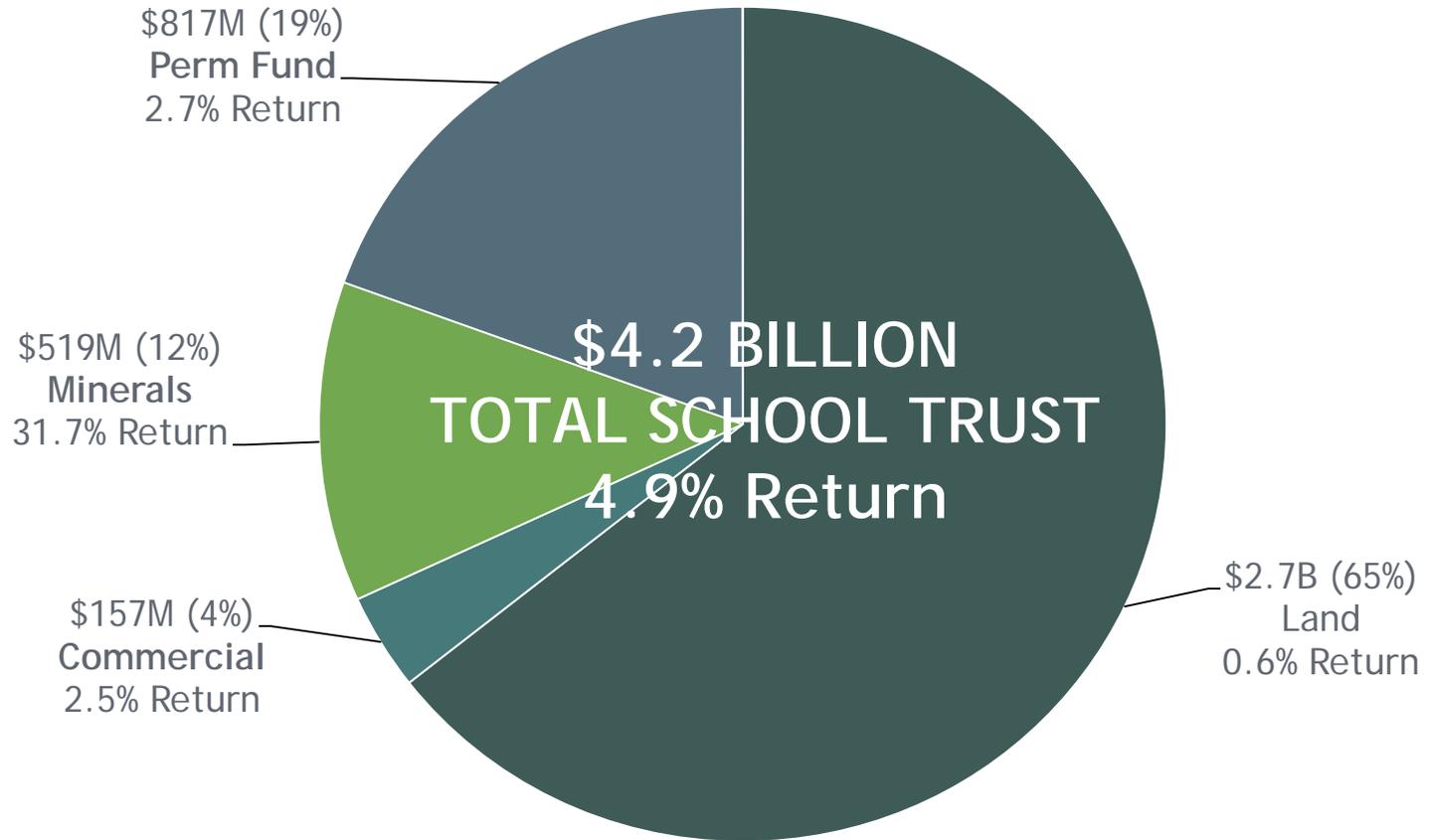


School Trust Portfolio Governance

- “Common” Schools - Public K-12
- Reasonable and Consistent Income
- Protect and Enhance Natural Value
- State Land Board - Land, Minerals, and Buildings
- State Treasurer - Public School
“Permanent” Fund (Financial Assets)



Portfolio Allocation and Goals



As of June 30, 2015

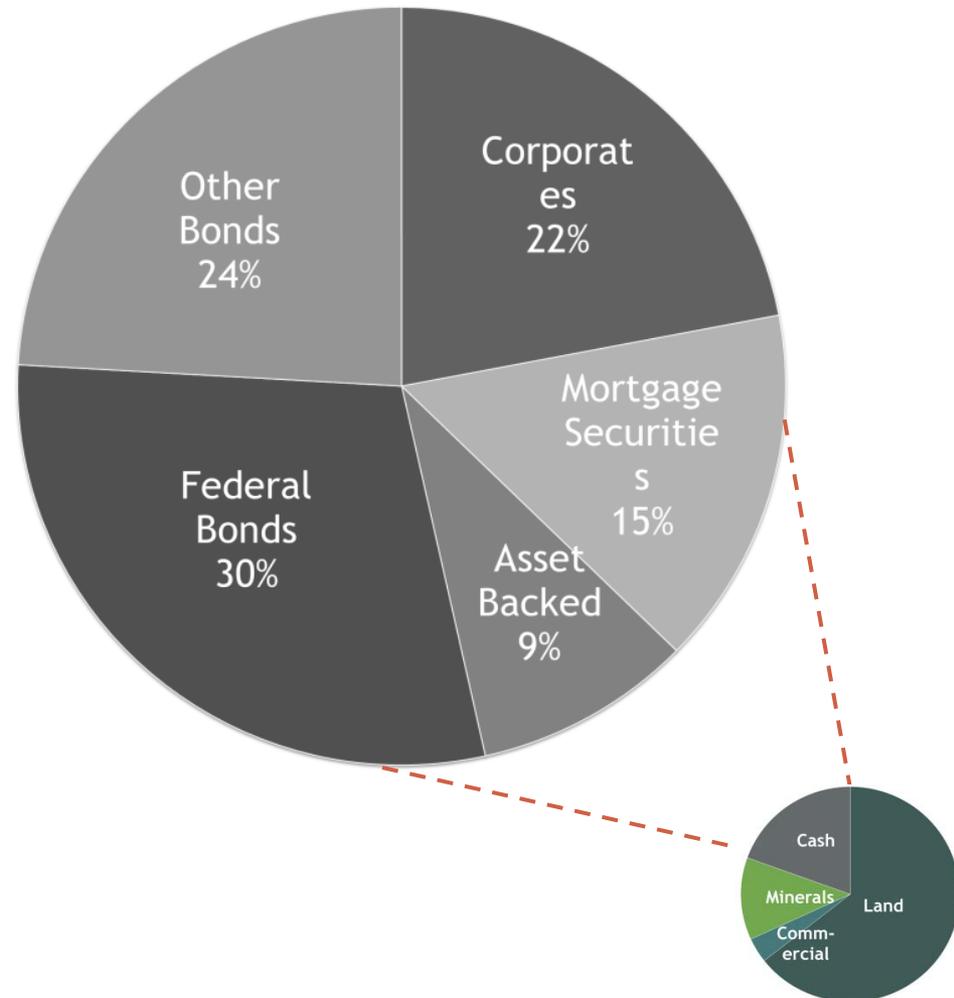
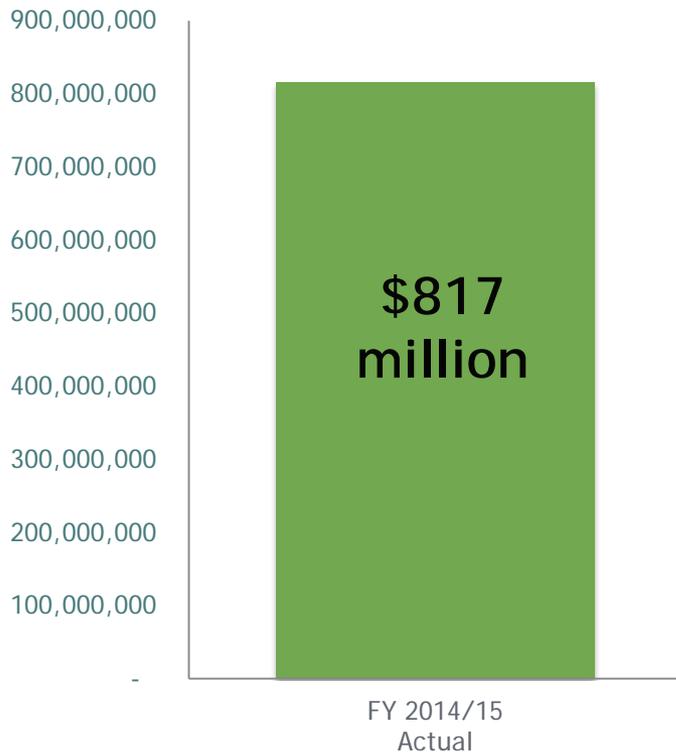


Portfolio Tools

- Land Transactions - within 2 years
- COPs (Bonds) to build and/or acquire commercial buildings - up to \$50 million
- Direct sales to local government - up to 2 annually
- Investment and Development Fund - \$5 million annually
- Operating Budget - \$6 million from trust
- Strategic Plan, Business Plans, Asset Plans



Public School Permanent Fund



Public School Permanent Fund

- 100% fixed income (bonds)
- Earns less than 3% and return declining
- Nearly all interest income is spent each year by the legislature
- Treasurer is the “custodian”
- A few Colorado funds have investment boards and invest in equities



Senate Bill 16-35 Outcome

- Investment Board (5)
- Invest in equities and fixed income
- Adopt an Investment Policy
- Hire third party financial advisors
- Income expected to grow from \$22 million to \$41 million over next four years



Senate Bill 16-35 Process

- Commissioner work sessions
- Engaged Governor's Office, Treasurer, Beneficiaries, and Legislators
- Developed support materials
- Addressed Constitutional Concerns
 - Investment "loss"
 - Ownership in a corporation
- Minimize future income withdrawals



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Portfolio Income Flow

