WSLCA

Principles of State Trust Portfolio Management
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
  o Whole Trust View
  o Understand asset characteristics
  o Formulating portfolio goals
  o 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
Colorado
School Trust Portfolio Management
Case Study
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 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

FY 2014/15 Actual

$817 million

Federal Bonds 30%

Corporates 22%

Mortgage Securities 15%

Asset Backed 9%

Other Bonds 24%

Cash, Minerals, Commercial
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
Summary and Questions
Portfolio Income Flow

State Land Board

Total Gross SLB Revenue
- $186 million
- $166 million minerals
- $20 million lease and other income

State Land Board Appropriation
$6 million
40 FTE

Investment Committee
& State Treasurer

B.E.S.T. Fund
$93 million

School Finance Act

Interest Income
$16 million
22-41-102 (3)(d), C.R.S.

Interest Income
$6 million

Public School Permanent Fund
$818 million
as of June 30, 2015

Investment Committee & State Treasurer

SLB Non-Reinvested Land Sales
$4 Million

Colorado Legislature

WSLCA Portfolio Presentation
July 13, 2016