SCHOOL & INSTITUTIONAL
TRUST FUNDS OFFICE

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Investment Policy Statement

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Governance

The Utah State Legislature created the School & Institutional Trust Funds Office (SITFO), an independent agency within state government. SITFO has a 5-person Board of Trustees with the State Treasurer as Chairperson. The trustees are experienced investment professionals nominated via a robust and independent process outlined in statute.

SITFO's purpose is to invest the profits from the School & Institutional Trust Lands Administration (SITLA) for the sole benefit of their respective beneficiaries. While the trusts represent different underlying beneficiaries, they are managed with a similar asset allocation, as the return and risk objectives are expected to be similar. In addition, there is a significant benefit of scale for the smaller trusts that are invested alongside the permanent State School Fund (the "School Trust Fund").

The source of financial assets to be invested is the same across all trusts. However, the cash flows differ between trusts. The proportional rate of growth of these contributions is likely to decrease over time for the following reasons:

I. The trusts are expected to grow through compounding of investment returns.
II. A conservative view of the land assets would be to consider them a diminishing revenue source.

The following trusts are governed by this investment policy statement:

- School Trust Fund
- 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

This investment policy is subject to all applicable state and national laws. Specific laws of the State of Utah for reference include:

- Utah Code Title 53D (contains the governing statutes, provisions, and authorities in full for SITFO and the Board)

- State of Utah Constitution Article VI, Section 29 and Article X, Sections 5 and 7 (refer to the formation and disposition)
- Utah Code 63G-6a-107 and Utah Code 63E-1-102 (pertain to the governance of SITFO)

Purpose and Fiduciary Duty

The purpose of this Investment Policy Statement ("IPS") is to assist SITFO and the Board in effectively supervising, monitoring, and evaluating the investment of the assets. It is also a mechanism for continuity of approach and institutional knowledge. The IPS has been formulated by SITFO and the Board of Trustees and the beneficiary representatives. It is based upon consideration of the financial implications of these policies, and describes the prudent investment process that they deem appropriate. SITFO and its Board have a fiduciary responsibility to make investment decisions and take actions that are in the best interest of the beneficiaries. For further guidance and reference, SITFO and the Board have established their investment beliefs in an accompanying document, titled "Statement of Investment Beliefs." The investment beliefs are principles, not policy. Therefore, they are not included in this policy specific document, but may be referenced.

In seeking to attain the investment objectives set forth in the policy, the Board, investment consultant, and investment managers shall exercise prudent and appropriate care. All investment actions and decisions must be based solely on the interest of the beneficiaries. Fiduciaries must provide full and fair disclosure to the Board/Committee of all material facts regarding any potential conflicts of interest.

Responsibilities

Duties and Responsibilities of the Board

The authority for setting investment policy is vested with the School and Institutional Trust Funds Board of Trustees (the "Board"). The Board will determine its own meeting schedule, but will meet no less than six times annually to:

I. Review the investment performance and market value of each Trust
II. Review the actual asset mix of the Trusts relative to the target allocation
III. Establish and adjust the target asset allocation, as necessary
IV. Review general compliance with the IPS
V. Review investment manager hiring and termination decisions
VI. Review and approve SITFO hiring or termination of consultants and custodian
VII. Review and approve the modification of the IPS
VIII. Review the auditor's annual report and consult with the auditor to address additional matters, as needed

IX. Review and approve changes to the budget, staffing, and operations of the SITFO office

X. Review the distribution policy, as needed

Duties and Responsibilities of SITFO

SITFO is charged with the day-to-day responsibility to:

I. Manage and monitor the investments of each Trust, including executing strategy and manager selection decisions to implement the asset allocation as set by the Board

II. Direct the implementation of rebalancing transactions

III. Prepare an agenda for Board meetings and submit the agenda to the chair for amendments

IV. Coordinate Board meetings, manager presentations and discussions, and consultant activities, presentations, and discussions

V. Identify issues to bring before the Board and prepare recommendations to the Board on those matters

VI. Ensure that plan administration complies with this document and applicable state regulations

Duties and Responsibilities of the Consultants

Consultants may be retained and will be responsible to:

I. Attend meetings, as needed

II. Advise on investment policy, implementation, and control issues as requested by the Board, after consulting with the Director of SITFO

III. Prepare comprehensive due diligence monitoring and investment performance reports with respect to the Trusts investments

IV. Recommend changes to the portfolio based on risks and opportunities

V. Assist in the implementation of investment decisions and support ongoing investment operations

VI. Provide appropriate education on investment and governance topics, as necessary

Duties and Responsibilities of the Investment Managers

The duties and responsibilities of the investment managers include the following:

I. Manage the underlying assets consistent with their stated approach and this policy, where appropriate

II. Report investment results and meet with the committee, staff, and/or investment consultant, as requested

III. Promptly inform SITFO and the consultant regarding all significant and/or material matters, as well as changes pertaining to the investment of the Trusts' assets

IV. Utilize the same care, skill, prudence and due diligence under the circumstances that experienced investment professionals acting in a like capacity and fully familiar with such matters would use:

    a. In like activities for like trusts with like aims,

    b. In accordance and compliance with all applicable laws, rules and regulations from local, state, federal and international political entities,

    c. As it pertains to fiduciary duties and responsibilities

Duties and Responsibilities of the Custodian (Custody Policy)

The custodian's primary function will be to hold in custody the assets of the portfolio, including individual securities and shares, or other interests invested in commingled vehicles. In addition, the custodian will:

XI. Facilitate cash flows and transactions

XII. Reconcile account positions and activity

XIII. Account for the collection and accrual of interest and dividends, and all portfolio transactions

XIV. Prepare periodic (e.g., monthly) account statements

XV. Provide ongoing sub-accounting for various Trust ownership interests

Statement of Objectives

The overall, long-term investment objective of the Trusts is to achieve an annualized net-of-fees total return of CPI + 5%.

The primary return objective is twofold; maintain purchasing power while also sustaining the distribution rate. Portfolio growth in excess of the distribution and inflation is a secondary, but important objective. Although we do not target a specific volatility, it is expected to be similar to, or less than the volatility of a portfolio comprised of broad equity/bond indices that reflect the target asset allocation.

In summary, the objectives are to:

- Maintain purchasing power, while providing for current distributions
- Secondarily, provide portfolio growth in excess of the distribution and inflation
- Minimize volatility to be no greater than what is necessary to achieve the return objective

- Maintain an asset allocation that is compatible with these objectives

Distribution Policy

The School Trust Fund will make an annual distribution based on the formula outlined in statute Section 53A-16-101(2)(b), as follows:

> (2)(b) The Trust Distribution Account consists of the average of:
>
> (I) 4% of the average market value of the permanent State School Fund based on an annual review each July of the past 12 consecutive quarters; and
> (II) The prior year's distribution from the Trust Distribution Account as described in Section 53A-16-101.5, increased by prior year changes in the percentage of student enrollment growth and in the consumer price index.
>
> (3) Notwithstanding Subsection (2)(b), the distribution may not exceed 4% of the average market value of the permanent State School Fund over the past 12 consecutive quarters.

The other trusts will distribute as outlined in statute Section 53C-3-102(7):

> (7) Distributions to the respective institutions from the associated permanent funds created from lands granted in Sections 8 and 12 of the Utah Enabling Act shall consist of 4% of the average market value of each institutional permanent fund over the past 12 consecutive quarters.

Asset Allocation

Asset allocation will likely be the key driver of returns over the long term. The target asset allocation should provide an expected total return equal to or greater than the primary investment objective of the Trusts, while avoiding undue risk concentrations in any single asset class or category, thus reducing risk at the overall portfolio level.

Investing in a diversified manner, to sufficiently provide for future purchasing power and the possibility of growth, is likely to include investments that are volatile or illiquid on their own. Other investments will be used to reduce volatility, provide liquidity, or protect the portfolio in inflationary or deflationary environments. In determining the appropriate asset allocation, the inclusion or exclusion of investments shall be based on the impact to the total portfolio, rather than judging investments on a stand-alone basis.

The current target allocation and the minimum and maximum ranges as established by the Board, include:

	Min	Target	Max
GROWTH	25	37	50
US Equity	9.0	15	21
US Large Cap	4.5	7.5	10.5
US Small Cap	4.5	7.5	10.5
International Equity	9.0	15	21
International Developed Equity	4.5	7.5	10.5
Emerging Markets Equity	4.5	7.5	10.5
Private Equity	4.0	7	10
INCOME	20	31	40
Credit	6	9	12
Securitized	5	8	11
EMD	2	5	8
Private Debt	6	9	12
REAL ASSETS	15	20	25
TIPS	0	3	6
Public Real Assets (Infra/MLP/REIT)	1	4	7
Private Real Estate	6	9	12
Private Natural Resources	1	4	7
DEFENSIVE	10	12	20
Long US Treasury	5	7	15
CTA	3	5	7
Cash	0	0	5

Time Horizon

Our time horizon is theoretically infinite and we have described our horizon as "being measurable in years or even decades" in our Beliefs Statement. This long-term thinking heavily influences our decision making, yet we understand geopolitical, global macroeconomic and operational realities require us to implement and manage to a shorter time frame.

The asset allocation is formulated, implemented, and managed to achieve our long-term investment objective of CPI + 5% annualized.

Rebalancing of Strategic Allocation

The portfolio is governed by ranges specified in the asset allocation. The ranges are a function of the volatility and proportion of each asset class. Allocations will be monitored by the consultant and SITFO and reported to the Board monthly. The Board will rely on SITFO to initiate rebalancing whenever minimum or maximum constraints are breached.

SITFO will employ cash flows to maintain allocations within ranges and to minimize the need to effect transactions to rebalance.

At any point in time, the actual asset mix may diverge from the target allocations as a result of market fluctuations, cash contributions, capital calls/distributions, etc. The potential influence of less liquid strategies on the portfolio will be considered when making investment decisions, such as asset allocation and rebalancing. The role of the ranges is to allow for these short-term fluctuations, and to provide limits for any strategic shifts. The Board will review asset allocations relative to policy targets at least quarterly. Explicit decisions to move outside the target ranges require Board approval.

Diversification & Risk Management

The Board and SITFO recognize the difficulty of achieving the investment objectives in light of the uncertainties and complexities of investment markets. In establishing the asset allocation, the ability to withstand volatility and illiquidity are considered and managed as they present themselves in the objective analysis for an efficient portfolio.

Volatility

Consistent with the desire for adequate diversification, the asset allocation is based on the expectation that volatility will be similar to, or less than the volatility of a portfolio comprised of broad equity/bond indices required to achieve our investment objectives, such as 80% MSCI ACWI and 20% Barclays US Aggregate.

Liquidity

Given the long-time horizon and the expected distributions of no more than 4% annually, the portfolio is able to tolerate illiquidity in order to support higher returns and to further diversification efforts. We will seek to maintain a balance between investment goals and liquidity needs, given that liquidity is necessary to meet the distribution policy payout and to manage internal portfolio needs such as capital calls, investment opportunities, and expenses. In some instances, the most appropriate investment option may be one that comes with liquidity constraints. The Board and SITFO will periodically review the effectiveness of the liquidity allocation in meeting the short- and long-term objectives with the following limits at the time of investment:

- 15% of the portfolio, or greater, shall be available at least weekly
- No greater than 35% of the portfolio (at the time of new commitments) shall have liquidity longer than annual redemptions

Position Sizing

Investments shall be diversified with the intent to minimize the risk of large investment losses at the total portfolio level. Consequently, the total portfolio will be constructed and maintained to provide prudent diversification with regard to the concentration of holdings in individual strategies, managers, sectors, or securities.

Capital will be deployed in tranches whenever possible to avoid market-timing risks; specifically:

- No investment manager shall exceed 5% of the portfolio at the time of initial purchase, except in circumstances of exchanging managers or vehicles of like strategy/style
- No active investment manager shall exceed 10% of the portfolio at market value

Performance Monitoring

Investment performance will be reviewed and comprehensive performance reports will be provided quarterly to the Board. Investment objectives are intended to be achieved over the long term. It is not expected that investment objectives will be attained each year. The Board recognizes that over various time periods, the portfolio may over or under perform relative to indices or peer groups.

Benchmarking

The primary objective of the portfolio is to achieve a net-of-fees total return of CPI + 5%.

Investment objective:
Long-term returns of CPI + 5% annualized.

Another important investment objective is to measure the performance or value added from decisions targeting specific asset classes or regions. The asset-specific benchmark is weighted by the target allocations.

Target-Weighted Benchmark:

U.S. Equity	Target Allocation	Russell 3000
Non-U.S. Equity	Target Allocation	FTSE Global All Cap ex US
Fixed Income	Target Allocation	Barclays US Aggregate
Real Estate	Target Allocation	NCREIF Property Index

Active Allocation Index:
Finally, we seek to measure the risk and performance of taking on active management. The active allocation index will use the manager-specific benchmarks weighted by the actual manager weights. The performance differential is intended to reflect the value added from active management. This index will be updated based on manager weights, keeping previous history linked over time.

Manager Evaluation

Summary of Qualitative Measures

Each investment manager will be reviewed by SITFO on an ongoing basis and evaluated using the non-exhaustive criteria listed below. SITFO will report the results of reviews to the Board and provide recommendations as warranted. Summary of evaluation criteria includes, but is not limited to:

- Maintaining a stable organization
- Retaining key personnel
- Avoiding regulatory actions against the firm, its principals, or employees
- Avoiding significant deviations from the manager's stated investment philosophy

Although there are no set criteria that will be utilized in selecting managers, SITFO will consider the criteria above, as well as the unique role the manager may play, the length of time the firm has been in existence, its track record, assets under management, and the amount of assets SITFO already has invested with the firm.

Summary of Quantitative Measures

Public Liquid and Semi-Liquid Active Managers

Liquid and semi-liquid active managers will be measured against an appropriate market index and a peer universe of portfolios managed in a similar investment style. SITFO and the Board expect the managers to outperform their respective benchmarks and rank above average in a peer group over a full market cycle. We do not expect that all investment objectives will be attained each year.

However, managers will be subject to review on a regular basis as SITFO and the Board perform regular monitoring exercises. Failing to meet criteria over a 5-year period will trigger an analysis to determine suitability and probability of meeting the objectives.

Public Liquid Passive Managers

Passive (or index) managers are expected to approximate the total return of their respective benchmarks quarterly, net of fees.

Private Illiquid Managers

Private partnerships typically range from 7-10 years in life, during which time the Trusts may not be able to sell the investments without recognizing a substantial loss. Additionally, the partnership may not produce meaningful returns for 3-5 years (depending on the strategy). New investments and investment fees may create a drag on fund performance (known as the J-curve) in the early years (3-5 years) until these investments begin to mature.

Private, illiquid manager performance will be measured utilizing investment multiples, internal rate of return (IRR) from the inception of the partnership compared to an appropriate peer group, and/or a public market equivalent benchmark (including time weighted return analysis). When appropriate, based on size and maturity of the private allocations, a time-weighted rate of return will also be used to measure the performance of private assets.