



SCHOOL & INSTITUTIONAL  
TRUST FUNDS OFFICE

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# Investment Policy Statement

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# 1 - Introduction

## 1.1 Authority and Beneficiaries

The Utah State Legislature created the School & Institutional Trust Funds Office (SITFO) as an independent agency within state government. SITFO has a five-person board of trustees with the state treasurer acting as ex officio chairperson. Trustees are experienced investment professionals nominated via a robust and independent process outlined in statute.

The purpose of SITFO is to invest School and Institutional Trust Lands Administration (SITLA) revenues in a manner that supports the distribution policy in perpetuity while providing for intergenerational equity between current and future beneficiaries. Trusts are managed for the sole benefit of their respective beneficiaries.

Trusts are managed with similar asset allocations because return and risk objectives are the same. There is significant benefit of scale for the smaller trusts to be invested alongside the permanent School Trust Fund, which accounts for 95% of combined assets. In addition to the School Trust Fund, there are 10 smaller institutional trust funds:

- 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

The source of investable financial assets is the same across all trusts, however, the size of contributions differs. The relative importance of contributions is likely to decrease over time because:

- SITFO expects the trusts to grow through compounding of investments
- SITFO takes a conservative approach in evaluating the land assets as a diminishing revenue resource

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, Chapter 1
- State of Utah Constitution Article VI, Section 29 and Article X, Sections 5 and 7
- Utah Code 53C-3-102, 53F-9-201, 63G-6a-107, and 63E-1-102

## 1.2 Purpose and Fiduciary Duty

The purpose of this investment policy statement (IPS) is to assist SITFO and its board in effectively supervising, monitoring, and evaluating the investment of the trusts' assets. It is also a mechanism for continuity of approach and institutional knowledge. SITFO staff and trustees evaluate the IPS on an annual basis. This process is intended to ground SITFO in policy, revise language for the sake of clarity, reflect any updates to investment processes and structures, and formalize addendums approved by the board. Given SITFO's long-term horizon, it does not expect significant changes from year to year.

SITFO and its board have a fiduciary responsibility to make investment decisions and take actions in the best interest of the beneficiaries. Fiduciaries must provide full and fair disclosure of all material facts regarding any potential conflicts of interest. In seeking to achieve the investment objectives set forth in the policy, board, staff, consultants, and investment managers shall exercise prudent and appropriate care. All investment actions and decisions must be based solely on the interest of the beneficiaries. For additional guidance, SITFO and the board have formulated their investment beliefs in an accompanying document called "Statement of Investment Beliefs." Investment beliefs are principles, not policy, and are thus not included herein. The statutes governing SITFO are referenced throughout this document but are not included in full. The statutes can be referenced here: 53-D-1 School and Institutional Trust Fund Management and Land Trusts Protection and Advocacy Office

# 2 - Duties and Responsibilities

## 2.1 Creation and Membership of the Board

The creation and membership of SITFO's board of trustees is described in statute 53D-1-301 and can be summarized as follows:

- The board consists of the Treasurer of the State of Utah and four additional members as appointed by the state treasurer:
  - a. From a list provided by the nominating committee
  - b. On a non-partisan basis
  - c. Who possess expertise in institutional money management and

d. For six-year terms as outlined as below

<b>Trustee</b>	<b>Appointed</b>	<b>Re-Appointed</b>	<b>Term Expires</b>
Chair Marlo Oaks	Ex-Officio	Ex-Officio	Ex-Officio
Vice-Chair Kent Misener	July 1, 2014	July 1, 2020	June 30, 2026
David Nixon	July 1, 2014	June 30, 2019	June 30, 2025
John Lunt	July 1, 2014	July 1, 2017	June 30, 2023
Jason Gull	July 1, 2018	NA	June 30, 2024

## 2.2 Duties and Responsibilities of the Board

SITFO's board of trustees is vested with the authority for setting investment policy. The board determines its own meeting schedule and meets at least four times annually to:

- Annually review and approve:
  - a. The strategic asset allocation and capital market assumptions.
  - b. The investment policy statement.
  - c. The statement of investment beliefs.
  - d. Changes to SITFO's office budget, staffing, and operations.
  - e. Director's performance, goals, and compensation.
- Annually review:
  - a. The underlying structure of each asset class.
- Quarterly review:
  - a. The investment performance and market value of each trust.
  - b. The asset class weights relative to the target allocation for each asset class.
  - c. Compliance with the IPS.
- Maintain an understanding of the investment process including asset allocation, manager selection, and risk management.
- Review the auditors annual report and consult with the auditor, as needed.
- Review and approve SITFO hiring or termination of consultants and custodian.
- Review the distribution policy.

## 2.3 Duties and Responsibilities of SITFO

SITFO staff is charged with the day-to-day management of the trusts including:

- Implementation, management and monitoring of the investments of each trust, including:
  - a. Implementation of investment strategy as per the Risk Tolerance Guidelines outlined in Section 6 of the IPS.
- Hiring and firing of investment managers to implement the asset allocation.
- Execution of rebalancing transactions.
- Review and monitoring of:
  - a. Total portfolio and asset class level returns to ensure continued appropriateness of asset allocation, asset class structures, and investment managers.
  - b. Portfolio risks as per the Risk Tolerance Guidelines outlined in Section 6 of the investment policy statement.
  - c. Capital market developments and investment opportunities.
  - d. Effectiveness of securities lending program.
- Ensuring compliance with the investment policy statement and applicable statutes.
- Advise the trustees as to:
  - a. Broad objectives, investment beliefs, risk management, investment policy statement, asset allocation, asset class structures, and risk tolerance guidelines.
  - b. Sufficiency of resources necessary to conduct agency affairs.
  - c. The appointment and effectiveness of the service providers including custodian, consultant, and other outside providers.
  - d. Board meeting agendas

#### 2.4 Duties and Responsibilities of the Consultants

Consultants will be retained and will be responsible to:

- Review and monitor
  - a. Total portfolio and asset class level returns to ensure continued appropriateness of asset allocation, asset class structures, and investment managers.
  - b. Portfolio risks as per the Risk Tolerance Guidelines outlined in Section 6 of the IPS.
  - c. Capital market developments and investment opportunities.
- Recommend, coordinate, and advise SITFO staff and trustees as to:

- a. Broad objectives, investment beliefs, risk management, investment policy statement, asset allocation, asset class structures, and risk tolerance guidelines.
- Assist with any other investment, policy, or operational issues as requested by the board.
- Prepare comprehensive due diligence monitoring and investment performance reports with respect to trust investments
- Recommend changes to the portfolio based on risks and opportunities.
- Assist in the implementation of investment decisions and support ongoing investment operations.
- Provide appropriate education on investment, operational, and governance topics as necessary.
- Attend board meetings as requested.

## 2.5 Duties and Responsibilities of the Investment Managers

The duties and responsibilities of the investment managers are incorporated in the legal documents signed before investment. These include, but are not limited to the following:

- Manage the underlying assets consistent with their mandate and this policy.
- Report investment results and meet with the board, staff, and/or investment consultant as required.
- Promptly inform SITFO and the consultant of all material matters, including changes pertaining to the investment of trust assets.
- 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:
  - in like activities for like trusts with like aims;
  - in accordance and compliance with all applicable laws, rules, and regulations from local, state, federal, and international political entities;
  - as it pertains to fiduciary duties and responsibilities.

## 2.6 Duties and Responsibilities of the Custodian (Custody Policy)

The custodian's primary function is 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 is responsible to:

- Provide safe custody over the assets of each trust, including appointment of sub-custodians.

- Report to SITFO (no less frequently than annually) all outstanding reclaims for withholding taxes and required global market documentation updates including required updates to power of attorney documentation for proxy voting.
- Facilitate cash flows and transactions, including the provision of methods for secure delivery of authorized instructions, temporary cash investment and foreign exchange services.
- Reconcile account positions and activity, including monthly reconciliation with separate account investment managers.
- Account for all portfolio transactions, including the collection and accrual of interest and dividends.
- Provide ongoing sub-accounting for various trust ownership interests.
- Provide other reporting and value-added services (with scope and fees, if any, subject to separate written agreements) including:
  - a. General Ledger Reporting Templates and Ledger Activity and Trial Balance Reports
  - b. ASC Topic 820 Fair Value Reporting Legal Determination Services
  - c. ASC Topic 820 Enhanced Fair Value Reporting / GASB 72 Level Determination Services including Documentation of Practical Expedient Application
  - d. Enhanced GASB Reporting Services including drafting and tabular production for Financial Statement Footnotes
- Provide Securities lending (subject to a separate Securities Lending Policy and Authorization Agreement)

### **3 - Statement of Return and Risk Objectives**

SITFO does not target a specific risk level. In general, SITFO attempts to minimize volatility such that it is no greater than necessary to achieve the long-term investment objective.

The return and risk objectives are the guiding principles of the asset allocation process and are incorporated therein.

SITFO's long-term investment objective is CPI + 5%. The primary return objective is to maintain purchasing power while sustaining the current distribution amount which is a maximum of 4% of the current market value of the trusts and is defined further in section 4, "Distribution Policy". A portfolio growth rate that exceeds the maximum distribution amount of 4% plus inflation is a secondary objective and is embedded in the CPI + 5% target.



## 4 - Distribution Policy

The School Trust Fund will make an annual distribution based on the formula outlined in statute Section 53F-9-201 as follows:

- (a) "Annual distribution calculation" means, for a given fiscal year, the average of:
  - (i) 4% of the average market value of the State School Fund for that fiscal year; and
  - (ii) the distribution amount for the prior fiscal year, multiplied by the sum of:
    - (A) one;
    - (B) the percent change in student enrollment from the school year two years prior to the prior school year; and
    - (C) the actual total percent change of the consumer price index during the last 12 months as measured in June of the prior fiscal year.
- (b) "Average market value of the State School Fund" means the results of a calculation completed by the SITFO director each fiscal year that averages the value of the State School Fund for the past 20 consecutive quarters ending in the prior fiscal year.
- (c) "Consumer price index" means the Consumer Price Index for All Urban Consumers: All Items Less Food & Energy, as published by the Bureau of Labor Statistics of the United States Department of Labor.
- (d) "SITFO director" means the director of the School and Institutional Trust Fund Office appointed under Section 53D-1-401.
- (e) "State School Fund investment earnings distribution amount" or "distribution amount" means, for a fiscal year, the lesser of:
  - (i) the annual distribution calculation; or
  - (ii) 4% of the average market value of the State School Fund.

The other 10 trusts will make an annual distribution based on the formula outlined in statute Section 53C-3-102(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 20 consecutive quarters.”

## 5 - Asset Allocation

The long-term strategic asset allocation (SAA) will likely be the key driver of returns and will be evaluated over a business cycle. The asset allocation should provide an expected total return greater than or equal to the 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. Other investments are used to reduce volatility, provide liquidity, or protect the portfolio in various economic environments. In determining the appropriate asset allocation, the inclusion or exclusion of investments is based on the impact to the total portfolio, rather than judging investments on a stand-alone basis.

### 5.1 Time Horizon

SITFO’s time horizon is theoretically infinite and is expected to be investing the trusts in perpetuity. This long-term thinking heavily influences decision making but SITFO understands that geopolitical, global macroeconomic, and operational realities may require it to consider shorter term implications when implementing and managing investments.

### 5.2 Portfolio Rebalancing

The portfolio is governed by the strategic asset allocation weights and the maximum/minimum allocation constraints established in Section 6.3a. Allocations are monitored by SITFO and the consultant on a regular basis and reported to the board at least quarterly. The board relies on SITFO to initiate rebalancing based upon allocation constraints and risk guidelines.

At any point in time, the actual asset mix may diverge from target allocations because of market fluctuations, cash contributions, capital calls and distributions, etc. The role of the constraints and risk guidelines is to allow for these short-term fluctuations and define limits for tactical differences relative to the approved allocations and benchmarks. The board reviews asset allocations relative to the target benchmark quarterly.

## 6 - Risk Tolerance Guidelines

The risk tolerance guidelines are established to delineate the amount of risk the board authorizes SITFO to utilize in implementing the portfolio to achieve the target risk and return

objectives.

SITFO and the board recognize the difficulty of achieving the investment objective in uncertain and complex investment markets. The portfolio's ability to withstand volatility and illiquidity is considered and managed through the lens of objective portfolio analysis.

### 6.1 Volatility

Consistent with the desire for adequate diversification, the asset allocation is consistent with the expectation that volatility will be less than that of a portfolio comprised of 70% MSCI ACWI and 30% Bloomberg Barclays US Aggregate allocation.

### 6.2 Liquidity

Given the long-term investment horizon and the size and predictability of annual distributions, the portfolio can tolerate considerable illiquidity to support higher returns and to further diversification efforts. Since a degree of liquidity is necessary to meet the distribution policy payout and to manage internal portfolio requirements such as capital calls, investment opportunities, and expenses, SITFO maintains a balance between investment goals and liquidity needs. SITFO and the board periodically review the liquidity allocation's ability to meet short- and long-term objectives and impose the following limits at the time of investment:

- 15% of the portfolio is available for redemption at least weekly
- Further limitations on illiquidity are defined by the SAA and its ranges.

### 6.3 Strategic Asset Allocation Benchmark

The SAA is established to meet or exceed the investment objective of CPI+5% over a complete market cycle. While the SAA risk profile is dominated by equity volatility, the allocation will include multiple diversifying asset classes. To ensure the portfolio maintains the target risk and return profile, the risk tolerance guidelines are established relative to the SAA.

Until the target asset allocation weights are reached, the Strategic Asset Allocation Benchmark will be replaced by the Interim Benchmark.

### 6.3a Strategic Asset Allocation Table

Level	Asset Class	Min	Target %	Max	Benchmark
2	Growth	38.5%	43.5%	48.5%	Composite of Public and Private, Pro-Rata
3	Public Equity	27.5%	30.5%	33.5%	ACWI IMI
3	Private Equity	10%	13%	16%	Cambridge Private Equity
2	Real Assets	12.5%	17.5%	22.5%	Composite of Public and Private, Pro-Rata
3	Public Real Assets	2.0%	5.0%	8.0%	S&P Real Assets Index
3	Private Real Estate	2.0%	5.0%	8.0%	Cambridge Real Estate Index
3	Private Real Assets	4.5%	7.5%	10.5%	50% Cambridge Private Natural Resources 50% Cambridge Private Infrastructure
2	Income	22%	27%	32%	Composite of Public and Private, Pro-Rata
3	Public Income	14.0%	17.0%	20.0%	U.S. High Yield 1-3 Year Index
3	Private Debt	7.0%	10.0%	13.0%	Cambridge Private Credit Index
2	Defensive	7%	12%	17%	Composite, Pro-Rata
3	GRIPs	2.0%	5.0%	8.0%	50% Bloomberg 20 - 30 Year STRIP 50% Bloomberg US TIPS 0 - 5 Year
3	Systematic Convexity	4.0%	7.0%	10.0%	40% SG Trend Index 40% HFRI Macro 20% EurekaHedge Long Vol
1	Total Portfolio		100%		

### 6.4 Interim Benchmark

It is understood that it may take considerable time to fully implement the SAA. While the portfolio is transitioning to include more private markets and greater diversification, it is understood that a transitional period is necessary for shifting actual allocations to the SAA. During the transitional period, the board authorizes an interim benchmark, with weights adjusted incrementally toward the board approved SAA policy weights. Each quarter, the allocation weight of the approved asset classes that have not been fully implemented are adjusted higher, towards the target, in 0.5% increments based upon invested capital. The increased allocation weights are offset with a commensurate pro-rata decrease in allocation weights for the other asset classes within the GRID bucket. Allocation weights can only be moved toward approved policy weights.

Upon reaching the target asset allocation, the Interim Benchmark will be replaced by the Strategic Asset Allocation Benchmark.

### 6.5 Actual Allocation Benchmark

The Actual Allocation benchmark (“Actual”) is established to measure the contribution of active managers. The Actual Allocation benchmarks are calculated monthly using beginning of month investment weights of a given investment manager applied to each corresponding investment manager benchmark.

## 6.6 Position Sizing

SITFO pursues diversification with the intent to minimize the risk of large investment losses at the total portfolio level. Consequently, the total portfolio is constructed and maintained to provide prudent diversification with respect to the concentration of holdings in individual strategies, managers, sectors, or securities. Capital is 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 and/or style.
- No active investment manager shall exceed 10% of the portfolio at market value.

# 7 - Reporting & Communication

## 7.1 Risk Dashboard

Periodically, the board will receive a risk dashboard covering the primary portfolio level risks and compliance with the IPS. The objective of the report is to communicate to the board the overall level of risk the portfolio is taking, both in absolute terms and relative to the interim benchmark, as well as the primary portfolio risk sensitivities. The report may include any of the following metrics: tracking error, value at risk (VaR), equity beta, interest rate beta, scenario, stress test, currency, and geographic allocations.

## 7.2 Performance Measurement and Portfolio Reporting

The consultant, custodian, or other independent party provides to the board comprehensive quarterly performance reports sufficient to monitor, measure, and analyze the performance, risk, and asset allocation. SITFO expects to achieve its investment objective over the long term, not each year. The board recognizes over various periods the portfolio may over or under perform relative to its indices or peer groups.

## 7.3 Asset Class Structure Reporting

To assist trustees in portfolio monitoring, staff and consultant will prepare asset class structure reports to define the philosophy and implementation of each GRID category and asset class. These reports will be reviewed quarterly by GRID level category. Asset class structure reports will include the philosophy and objectives of each category or asset class and set expectations for how the asset allocation will be implemented through sub-asset class, strategy, and manager selection.