UTAH SCHOOL & INSTITUTIONAL TRUST FUNDS OFFICE

# Statement of Investment Beliefs

DECEMBER 2025

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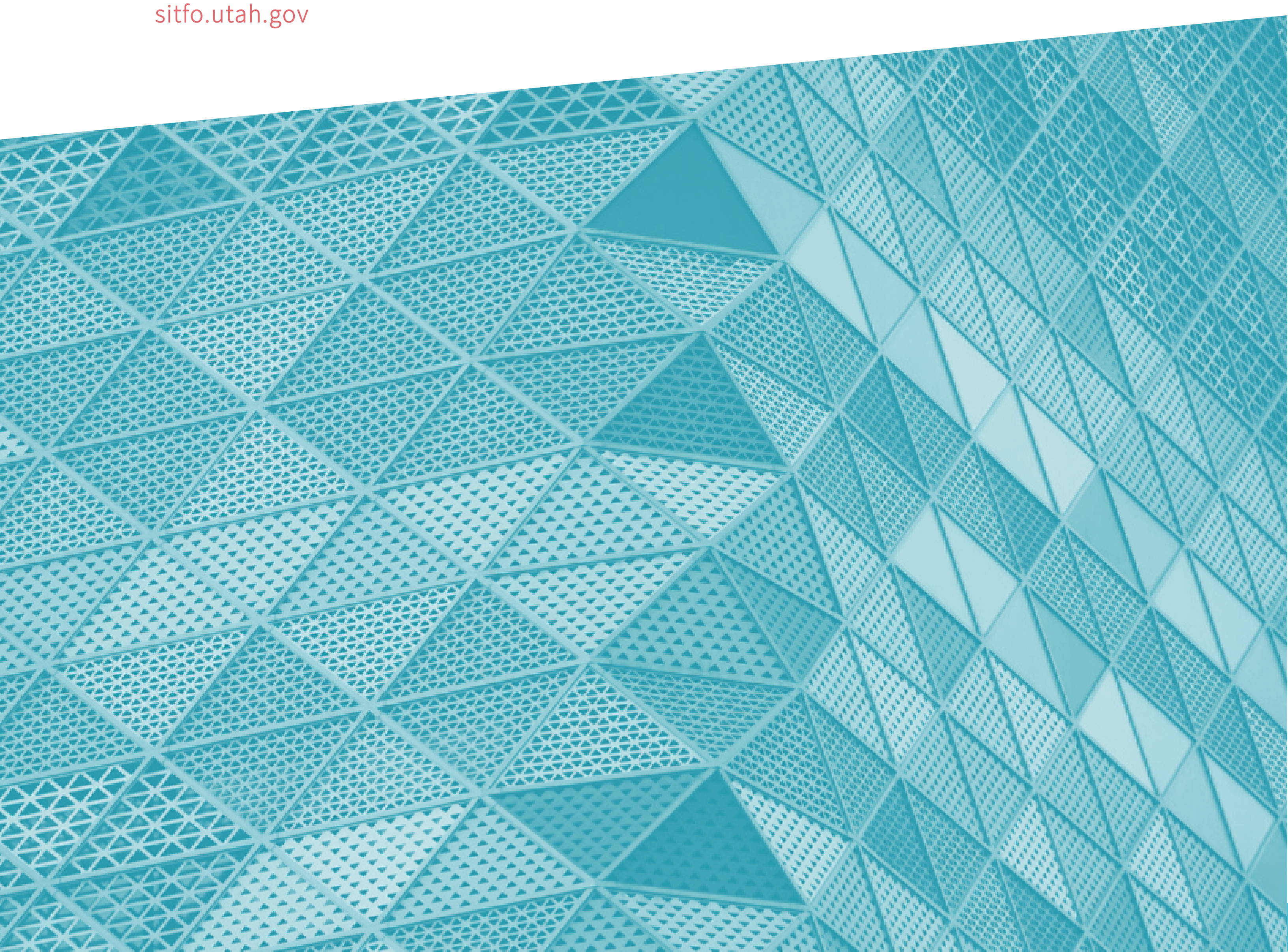

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*The following document outlines beliefs, principles, and philosophies that SITFO's board and staff agree to use as guiding principles. It is neither policy nor a procedural manual. The primary purpose is to assist in governance and decision making. Board and staff should consider this a living document and discuss improvements as needed.*

# WHO WE ARE

The Utah State Legislature created the School & Institutional Trust Funds Office (SITFO) as an independent agency with a clear fiduciary mandate to manage trust assets. A five-member Board of Trustees, chaired ex officio by the State Treasurer, oversees the organization, and professional staff bring diverse investment experience consistent with the responsibilities articulated in the Investment Policy Statement (IPS). SITFO invests Trust Lands Administration revenues to support a perpetual distribution policy and preserve intergenerational equity; each trust is managed solely for the benefit of its designated beneficiaries.

SITFO employs similar strategic asset allocations across trusts, reflecting common long-term return and risk objectives while capturing efficiency, governance consistency, and economies of scale. The School Trust Fund represents the majority of combined assets, and ten smaller institutional trust funds benefit from being invested alongside it.

Although the trusts share the same source of investable financial assets, contributions are expected to become relatively less important over time as investment compounding becomes the primary driver of growth. SITFO takes a conservative view of land assets as a diminishing and finite revenue source.

## Characteristics

Board and staff are expected to possess a deep understanding of modern portfolio theory and bring significant investment experience to the agency. SITFO's relatively small group of decision makers helps minimize bureaucratic inefficiencies and behavioral biases that can impede decision making, and allows objective, research-oriented recommendations to be implemented efficiently.

Recognizing the increasing complexity of managing a diversified and growing portfolio, SITFO prudently engages qualified third-party providers—such as investment consultants, research and software vendors, and external investment managers—to supplement internal expertise, while retaining discretion and emphasizing thoughtful customization. With an investment horizon measured in decades, SITFO can assume appropriate levels of volatility and illiquidity risk in pursuit of its investment objectives.

It is SITFO's fiduciary responsibility to ground investment decisions in research and portfolio theory and to objectively consider opportunities without regard to political or other non-economic considerations. Humility is recognized as an essential safeguard against cognitive and behavioral biases, so the agency commits to rigorous analysis, structured decision processes, adherence to documented checklists, and a culture that values open-mindedness, constructive challenge, and continuous improvement.

## Behavioral

SITFO acknowledges that behavioral finance themes—such as overconfidence, loss aversion, inertia, herding behavior, and other cognitive and emotional biases—can materially affect judgment and investment decision making. Rather than provide a comprehensive review of these topics here, SITFO relies on the IPS and related governance protocols to help identify, discuss, and limit behavioral tendencies in strategic and tactical decisions.

## Price and Opportunity Cost Awareness

Understanding the cycle—economic, market, style, and strategy—and outlining the portfolio's range of expected returns in the near to intermediate term provide essential context for prudent investment decisions, including new mandates, rebalancing, and tactical adjustments.

Investment opportunities offering higher expected returns are often less popular, misunderstood, or temporarily out of favor but should not be discarded based on perceived headline risk or conventional wisdom.

No action is also a deliberate action. Choosing not to act amid significant uncertainty can reflect prudence rather than indecision. The Board and staff acknowledge they are expected to make decisions to act—or not—in the face of significant uncertainty, based on a disciplined, long-term view rather than emotion.

## Governance and Management

Governance is most helpful when it provides robust checks and balances, and least helpful when it fosters groupthink, is used as a shield from taking responsibility, or is abused for political purposes. Board members bring valuable perspective precisely because they are not engaged in daily portfolio management, allowing them to assess strategy and risk with greater objectivity.

Board members do not typically perform the same level of research and due diligence as staff or consultants and have delegated manager selection to staff, who should source and promote the best ideas without bias and provide additional support when requested.

SITFO devotes significant effort to attracting, developing, and retaining talent. The organization seeks to offer the ability to deploy patient capital with minimal non-investment constraints and to emphasize the higher purpose of advancing public good, consistent with its statutory authority and fiduciary mandate.

## Performance Measurement

SITFO selects investments based on expected outcomes in a total portfolio context rather than out of fear of being different from the past, peers, or one's own biases. Investment decisions emphasize long-term expected outcomes and risk-adjusted returns.

Benchmarks and peer groups are important tools for fostering accountability and supporting objectivity, but their relevance to SITFO's long-term, multi-generational mandate is inherently limited. At times, particularly near extremes in the market cycle, cap-weighted benchmarks and peer rankings can become metrics of herd mentality.

Benchmarking is most effective when factor exposures are well understood and when appropriate time horizons are applied. Benchmarks at the manager, asset class, and total portfolio levels should be constructed to reflect expected outcomes and to measure performance relative to applicable factor exposures.

Decisions to hire, retain, or terminate investment managers should not be based solely on historical performance. Past performance should be analyzed to better understand a manager's process and capabilities, but decisions should be holistic and emphasize factors expected to drive future performance, including:

- organizational strength and culture;
- integrity, talent, and skill of key professionals;
- validity and consistency of investment philosophy;
- soundness and discipline of the investment process;
- nature and durability of the opportunity set; and
- approach to risk management.

# EFFICIENT MARKET RESPONSE

While SITFO does not believe markets are strictly efficient, it recognizes that many skilled investors seek to profit from inefficiencies and that competing with those investors for relative performance is a zero-sum game. SITFO believes it is possible to identify skilled managers in advance through a thorough, disciplined, and objective effort conducted by professionals with significant experience in manager research and selection.

## Passive Management

Passive investing can be an effective way to minimize tracking error and peer risk, reduce fees, lower business and operational risk, gain efficient access to multiple markets, and optimize the fee budget between lower-cost beta exposures and higher-conviction expected alpha sources. Even in markets that may be considered inefficient and therefore present higher potential for active managers, SITFO may use passive investments to minimize active risks or simply to gain exposure as needed.

## Active Management

Active management can be an important source of incremental returns, but talent, skill, and discipline are necessary to exploit this potential. Certain active strategies or styles deliver specific exposures or investment outcomes that are not readily available in a passive format. Uncommon skill, a disciplined philosophy and process, a rich opportunity set, and appropriate risk management are all necessary for an active manager to outperform.

## Rules-Based Management

Between purely passive and purely active approaches, SITFO may utilize rules-based strategies. Many investment strategies can be explained and even replicated by strategy betas or factors that are investable. Factor-based investing demonstrates that certain structural market characteristics—such as value, size, momentum, quality, and low volatility—can generate persistent risk premia over time and can complement both passive and active allocations within SITFO's total portfolio.

# RISK

A simple but effective definition of risk is the permanent loss of capital, though risk manifests in many forms and cannot be fully captured by quantitative measures alone. Qualitative considerations—such as illiquidity, governance failures, organizational instability, etc.—also represent significant sources of risk that warrant attention.

As stated above, SITFO's long investment horizon allows it to tolerate volatility and illiquidity. So, it's appropriate to tolerate properly compensated risk that might be imprudent for individuals or pension plans with finite horizons, variable liabilities, or different objectives. At the same time, SITFO remains acutely aware that the corpus of each trust represents a permanent endowment and must not be impaired. Accordingly, the agency maintains a strong focus on downside risk, capital preservation, and prudent diversification consistent with fiduciary obligations.

## Defining Risk

Relevant factors for defining risk may include high valuations, fees, timing, inflation, fraud, illiquidity, downside volatility and drawdowns, equity beta, interest-rate sensitivities (duration), credit exposure, operational and business risk, opportunity cost, leverage, currency fluctuations, and political or regulatory instability.

Volatility remains a useful and informative risk measure but is insufficient on its own, as it treats gains and losses identically. Metrics that emphasize downside volatility and account for skewness and kurtosis help capture asymmetry and tail risks more accurately. High valuations and volatility are often correlated and can materially increase the risk of permanent loss of capital, particularly when investors buy at high valuations and sell at low valuations. Risks that are most likely to lead to permanent loss of capital include inflation, fraud, extremely high valuation levels, and excessive fees.

## Risk Management

Monitoring risks on a regular basis is important to observe incremental changes that may accrue over time, including both quantitative measures and qualitative elements such as organizational developments or governance concerns at the manager level.

## Risk Tolerance

Given the nuance involved in defining risk, risk tolerances are evaluated across multiple dimensions of the portfolio, including quantitative measures—such as volatility, downside volatility, and value at risk—

and qualitative considerations such as illiquidity, fee structures, counterparty exposures, governance quality, and operational soundness.

Risks that may be unfamiliar to the layperson, including complex strategies, emerging or less familiar geographies, and illiquidity, can be appropriate for SITFO as an organization with a time horizon measured in decades. SITFO holds itself and those responsible to a high standard of due diligence to manage these risks. Additional discussion of risk is provided in the appendix.

# ASSET ALLOCATION

Asset allocation is the predominant driver of portfolio return and risk. A long-term strategic asset allocation is therefore the most significant method of protecting the portfolio from short-term decisions influenced by emotional reactions, political pressure, or performance chasing. Asset allocation decisions are considered through both quantitative and qualitative lenses that incorporate a variety of risks, scenarios, and outcomes, and reflect the portfolio's ability to withstand a moderate level of risk, including illiquidity.

## Defining an Asset Class

Asset classes can be defined as groupings of investment strategies or exposures that perform similarly across most market environments, possess relatively high internal correlations and common risk drivers, are institutionally investable, and add value in a total portfolio framework.

Aggregating asset classes and sub-asset classes into broader groups by their expected role in the portfolio—for example, growth, defensive, or inflation protection—can enhance communication with stakeholders, improve governance and decision making, and provide for more efficient modeling and implementation.

## Diversification

Diversification is fundamental to an optimized portfolio that seeks to maximize returns for a given level of risk. It helps protect against any single portfolio segment causing the total portfolio to exceed expected risk and loss parameters.

## Ranges and Rebalancing

Rebalancing within established ranges is essential to achieving the benefits of diversification and maintaining the integrity of the strategic asset allocation.

Adhering to a predetermined asset allocation with sufficiently narrow ranges around target weights reduces the temptation to make reactive or emotion-driven allocation changes and helps avoid common behavioral pitfalls.

Because of inherent market volatility, large one-time additions or redemptions can introduce timing risk. SITFO may mitigate this risk through multi-tranche implementation that smooths market impact and enhances execution efficiency.

## Valuations

Adding an asset class may enhance diversification when the new exposure exhibits relatively low correlation to existing holdings and is expected to improve risk-adjusted returns. However, it may not be prudent to add that same exposure at a point in time when valuations are unattractive. Valuations are incorporated into forward-looking risk and return assumptions to promote judicious and timely implementation of new investments.

## Evolution

SITFO recognizes the importance of adhering to a long-term strategic asset allocation while also acknowledging that it would be imprudent to ignore changes in market conditions or developments in investment strategies. Prudence requires continuous research, monitoring, and evaluation of both the asset allocation framework and its underlying components.

# ASSET CLASS STRUCTURE AND MANAGER SELECTION

While portfolio risk and return characteristics are largely determined by strategic asset allocation decisions, asset class structure and manager selection drive performance at the margins and are the mechanisms by which the portfolio gains exposure to asset classes. These implementation decisions can add value through rigorous and consistent due diligence while allowing flexibility to take advantage of unique strategies that meet the target return and role of the asset class.

## Structure and Bias

Asset class structure and manager selection should reflect the distinct purpose of each asset class as that is the primary channel through which the strategic allocation is implemented.

Benchmarks serve as the neutral reference point for evaluating performance and risk exposure. Therefore, asset class and manager biases should be justified by sound investment logic and capture structural inefficiencies associated with their respective asset class.

Co-investments can be an effective mechanism for improving net returns, reducing fees, and managing the pacing of private market commitments. A simple approach to avoid the need to underwrite each co-investment is to commit capital to a given fund with an additional earmarked amount for co-investing. Outsourcing co-investments to a best-in-class third-party can also be additive depending on terms, structure, and quality of deals.

## Manager Diversification

Diversification among investment managers is an important tool for mitigating firm-specific risk, avoiding concentration in investment styles or themes, broadening sources of alpha, and reducing the likelihood of material underperformance.

Over-diversification is an expensive way to capture asset-class betas, as alpha is a zero-sum game across participants. When utilizing active managers, SITFO seeks to retain alpha-generating potential while still diversifying sufficiently to address the risks noted above, implying some degree of concentration relative to maximum diversification.

## Manager Selection

Uncommon skill, a disciplined philosophy and process, an attractive opportunity set, and sound risk management are expected to enable an active manager to outperform. The collective experience of staff and consultants, in conjunction with a disciplined process, enables the identification, selection, and oversight of high-caliber investment professionals.

Each new manager should be additive to the total portfolio by enhancing diversification, providing access to a new asset class or strategy, adding a differentiated alpha-generation source, and/or improving overall risk and return characteristics. Quantitative and qualitative factors are both assessed in evaluating manager skill, and historical performance plays a limited role, serving primarily to facilitate risk analysis and to understand persistence and evidence of experience.

# APPENDIX

## Public Equity Investment Beliefs, Principles, and Philosophy

SITFO's multigenerational investment horizon allows the agency to tolerate a variety of risks such as market volatility, illiquidity, and exposure to unconventional or nascent funds and strategies. SITFO is benchmark-aware but has a total portfolio mindset and is outcome oriented.

SITFO respects the principles of the efficient market hypothesis, while recognizing that cap-weighted indices are not inherently superior beyond minimizing tracking error and fees. Such indices carry their own risks, including concentration in the most highly valued securities and a tilt toward momentum.

SITFO employs a core-satellite approach in public equity. Core managers are intended to represent the breadth of the asset class and are typically implemented through passive or rules-based strategies that provide efficient, low-cost exposure. Satellite managers are actively managed and characterized by higher skill, higher tracking error, and the potential for differentiated alpha generation with style diversification.

Each new manager should be additive to the portfolio by enhancing diversification, providing new exposures, and generally improving portfolio or asset-class-level risk and return characteristics. Too many managers or overly similar strategies may erode efficiency and result in offsetting exposures.

Low net exposure investment managers are generally not appropriate for the Growth portfolio unless the potential for alpha is deemed highly probable or the risk profile is predictive of market-like returns.

## Private Equity Investment Beliefs, Principles, and Philosophy

Private equity is used to achieve meaningful returns for the total portfolio, with a return hurdle of CPI + 8%. SITFO is building a focused portfolio of partnerships with managers who demonstrate persistent value creation through operational excellence, strategic insight, and the exploitation of structural inefficiencies rather than reliance on financial leverage.

SITFO seeks managers with sustainable competitive advantages and strong LP/GP alignment. The organization leverages its mission to gain access to capacity-constrained and emerging managers with compelling track records and distinctive strategies, and it expects private equity managers to meet or exceed upper-quartile performance benchmarks for their sub-asset class.

Alignment of interests between SITFO and its general partners is a central consideration. As part of its due diligence, SITFO evaluates factors such as firm lifecycle, governance structure, investment discipline, and fund size to help ensure that each partnership reflects a sustainable business model and fiduciary alignment.

Within private equity, exposure is organized across venture capital, buyout and growth equity, and secondaries/opportunistic strategies:

- Venture exposure emphasizes early-stage managers that maintain disciplined fund sizes and secure meaningful ownership stakes in portfolio companies.
- Buyout and Growth exposure is concentrated in operationally focused managers, often in the lower middle market where structural advantages can underpin superior return prospects.
- Secondaries are used to mitigate the J-curve, provide liquidity and diversification.
- Opportunistic strategies are those that do not fit within the above but provide competitive returns and diversification.

## Public Real Assets Investment Beliefs, Principles, and Philosophy

Public real assets are expected to serve as the portfolio's primary inflation-sensitive exposure. Although these investments are designed to respond favorably to rising price environments, most public real asset exposures also embed varying degrees of equity, credit, and interest-rate sensitivity.

SITFO classifies public real asset investments into three broad sectors: real estate, natural resources, and infrastructure. These sectors can be accessed through a variety of security types.

Given the breadth and evolving nature of the opportunity set—and the absence of a widely adopted benchmark or investable index for the total real assets universe—SITFO primarily employs active managers in this asset class.

## Private Real Assets Investment Beliefs, Principles, and Philosophy

Private real assets serve as the portfolio's primary mechanism for inflation protection and an important source of diversification, while also contributing meaningfully to return objectives.

While it is difficult to achieve a perfect link to inflation, this remains an objective that SITFO balances against sensitivity to economic growth and diversification.

SITFO de-emphasizes duration in favor of inflation sensitivity and total returns, categorizing investments as infrastructure, natural resources, real estate, or opportunistic sub-asset classes.

The allocation targets a long-term return of CPI + 6.25%, resulting in a bias toward equity-oriented strategies further up the risk-return curve.

## Public Income Investment Beliefs, Principles, and Philosophy

SITFO targets much of the expected return for the public income category to be derived from contractually obligated or asset-backed cash flows associated with securities positioned higher in the capital structure than equities. These exposures are designed to provide stable income and mitigate downside risk, while recognizing that correlations and drawdowns can rise during periods of market stress or liquidity crises.

The public income category is expected to generate equity-like returns while diversifying away from traditional corporate equity risk by diversifying borrowers and collateral—for example through securitized consumer credit, insurance-linked securities, transportation and other hard-asset lending, and non-U.S. sovereign and currency exposure via emerging market debt.

Within this framework, SITFO aims to limit duration risk where practical by emphasizing floating-rate or shorter fixed-rate structures and higher-coupon securities. Given the specialized and often less efficient nature of the opportunity set, passive implementation options are limited. SITFO's long-term horizon and tolerance for illiquidity allows for the use of open-ended, private vehicles that permit periodic redemptions, enhancing access to specialized income-generating strategies while maintaining sufficient portfolio flexibility.

## Private Income Investment Beliefs, Principles, and Philosophy

Private Income allows the trusts to diversify away from traditional fixed income, trading liquidity for improved risk-adjusted returns. By accepting reduced liquidity, SITFO expects a premium from lending to borrowers or against assets that do not access public capital markets. SITFO seeks to optimize the return of this asset class with a hurdle return of CPI + 6.5% net of fees.

SITFO defines Private Income as income-oriented interests in corporate or asset-based opportunities. Investments include corporate, asset-backed, and other forms of debt or debt-like securities and are accessed through a mix of open- and closed-end structures.

Investments are broadly classified as Origination or Opportunistic Debt. Origination includes lending-oriented funds where contractual income serves as the primary driver of returns, typically emphasizing capital preservation and providing a consistent source of income that helps mitigate volatility and risk. Opportunistic Debt includes funds that may invest across the credit spectrum and employ secondary or more return-seeking strategies, introducing elements of asset appreciation and allowing the portfolio to capitalize on dislocation and volatility.

The classification of Origination and Opportunistic Debt serves to monitor and manage risk. SITFO seeks to maximize each unit of illiquidity and selects funds based on their probability of exceeding the hurdle return on a time-weighted return basis rather than their specific classification. A balanced exposure across the risk spectrum, combined with thoughtful sub-asset-class strategy and manager selection, supports achievement of return objectives.

SITFO is cognizant of the asset class's historical inefficiencies and prioritizes funds structured in ways that maximize the portfolio's prospects through both strategy and structural characteristics. SITFO seeks to partner with managers who understand their competitive advantages and limitations and who operate within well-defined investment frameworks, including differentiated sourcing networks, collateral and structuring expertise, and workout capabilities.

## Defensive Investment Beliefs, Principles, and Philosophy

The evolution from core to core-plus fixed income and the growing use of alternative strategies for defensive purposes has introduced new complexities; while these approaches may enhance yield, they can embed equity beta and negative convexity, reducing their effectiveness as true hedges during periods of market stress.

A more direct approach to hedging would be to purchase equity put options, which can be reliable but costly and behaviorally difficult to maintain. Cash remains an important tool by providing optionality and liquidity, but it offers no positive convexity, is vulnerable to erosion through inflation, and carries long-term opportunity cost via cash drag.

SITFO's response is to maintain an allocation within the Defensive category to dynamic, liquid strategies that exhibit low correlation to equities and provide positive convexity during adverse market conditions.

High-quality duration is viewed as a key hedge against most deflationary-driven drawdowns. Duration is implemented primarily in the Defensive category and is limited elsewhere in the portfolio. Because stock-bond correlations are time-varying and do not adequately capture the conditional distribution of interest-rate behavior in left-tail equity events, SITFO generally prefers higher-volatility implementations that are consistent with the diversifying role of duration.

Convexity strategies are expected to provide returns above CPI + 2.5% over the long term, convexity in significant drawdowns, and liquidity. Trend is implemented through a core/satellite approach, where core managers offer liquidity and capital efficiency and satellites may have less efficiency but higher differentiation, and must contribute to the Defensive role.

Macro exposures within Convexity are implemented through directional discretionary managers that exhibit lumpy but positively skewed returns and convexity, as opposed to relative-value managers that lack convexity. Given the role and weight of Convexity and the diversifying nature of these strategies, higher volatility implementation is generally preferred.

## Risk Management Beliefs, Principles, and Philosophy

SITFO's risk management philosophy is centered on achieving the long-term return objective of CPI + 5% with an attractive risk profile characterized by a narrow confidence interval and positive skew in long-term outcomes. Risk management is not simply about minimizing volatility but about identifying, understanding, and managing both intended and unintended risks, with a particular focus on downside risk and negative tail events.

SITFO applies healthy skepticism to simplifying assumptions such as normally distributed returns, unchanging correlations, and fully efficient markets, recognizing that these relationships often break down in stressed environments. Benchmarks are viewed as critical reference points and communication tools for understanding and communicating risk, even as SITFO acknowledges that some asset classes lack suitable or investable benchmarks.

Illiquidity risk can be beneficial to meeting return objectives when properly managed. SITFO distinguishes between vehicle-level illiquidity—the inability to redeem capital from an investment vehicle regardless of the liquidity of underlying holdings—and asset-level illiquidity associated with the infrequent marking of private assets. Both are managed with an emphasis on asset-liability matching, particularly during periods of market stress, and through statistical methods that proxy private fund exposures for risk analysis.

Position sizing and concentration are critical determinants of portfolio risk and return. SITFO employs a disciplined, risk-based framework to determine position sizing and the number of line items when constructing the portfolio. Manager selection and ongoing monitoring rely on risk analytics to measure contributions to total portfolio risk on an ex-ante basis and to ensure that diversification benefits are genuine rather than merely statistical.

In addition to traditional single-period risk metrics such as volatility, SITFO utilizes path-dependent measures such as maximum drawdown and conditional expected drawdown to capture the full trajectory of asset behavior and to provide a more intuitive view of risk experienced over time.

The following statements of belief summarize how SITFO interprets and applies several common risk metrics within its portfolio management and oversight framework:

Tracking Error (TE) - SITFO does not prioritize minimizing TE in all circumstances. Expected return per unit of risk is evaluated holistically to determine whether deviations from benchmark exposures are justified.

Volatility - SITFO does not prioritize volatility on a stand-alone or line-item basis. Elevated volatility can be warranted and managed through correlation and position sizing. Total-portfolio volatility is a key compliance metric, and SITFO focuses on downside implications using measures such as maximum drawdown, conditional value at risk, and semi-standard deviation.

Beta - SITFO has an ongoing interest in understanding equity beta throughout the portfolio, as it appears in many asset classes and typically contributes more to risk than its capital allocation implies.

Correlation - SITFO is acutely aware that correlations between asset classes are dynamic and nonstationary. During tail events, many assets are known to increase in correlation to equities.

Trend - SITFO is aware of the empirical evidence supporting trend and momentum effects in financial markets and monitors trend in nearly all asset classes as a component of risk management.

Valuations - SITFO tracks valuation metrics for each asset class as a key component of long-term risk assessment. While valuations are less useful as short-term risk indicators, they are informative for longer-term returns and are useful at extremes for monitoring both risk and opportunity.