INVESTMENT POLICY STATEMENT

FOR THE UTAH PERMANENT SCHOOL

AND INSTITUTIONAL TRUST FUNDS

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Governance

The authority for setting investment policy for the Utah ~~Permanent~~ School and Institutional Trust Funds (the "Funds") is ~~ultimately~~ vested with the School and Institutional Trust Fund Board of Trustees (the "Board"). The Board's authority and duties are established in section 53D-1-303 of Title 53D, Chapter 1, the School and Institutional Trust Fund Management Act. ~~in the State Treasurer~~. ~~An Investment Advisory Committee (the "Committee") is established to give suggestions, advice, and opinions to the State Treasurer in regard to how the Funds are invested within the parameters of Utah Code Annotated (UCA), Title 51 Chapter 7a, Investment of Land Grant Trust Fund Monies.~~

Purpose

The purpose of this Investment Policy Statement (the "IPS") is to assist the School and Institutional Trust Fund Office (the "Office ") ~~State Treasurer~~ and the Board ~~Committee~~ in effectively supervising, monitoring and evaluating the investment of the Funds' assets. The Funds' investment program is defined in the various sections of the IPS by:

- Stating in a written document the expectations, objectives and guidelines for the investment of all the Funds' assets.
- Setting forth an investment structure for managing all the Funds' assets. This structure includes various asset classes, investment management styles, asset allocation and acceptable ranges that, in total, are expected to produce a sufficient level of overall diversification and total investment return over the long-term.
- Providing guidelines for the Funds that control the level of overall risk and liquidity assumed so that all the Funds' assets are managed in accordance with stated objectives.
- Encouraging effective communications between the Office ~~the Treasurer~~, the Board ~~Committee~~, the beneficiary representatives, and the investment consultants.
- Establishing formalized criteria to monitor, evaluate and compare the performance results achieved to appropriate benchmarks on a regular basis.
- Complying with all applicable fiduciary, prudence and due diligence requirements that experienced investment professionals would utilize, and with all applicable laws, rules and regulations that may impact the Funds' assets.

This IPS has been formulated, based upon consideration by the Office ~~Treasurer~~ and Board ~~Committee~~ of the financial implications of certain policies, and describes the prudent investment process that they deem appropriate.

Statement of Objectives

The objectives of the Funds' have been established in conjunction with a comprehensive review of the current and projected financial requirements. The objectives are:

(1) To at least maintain the purchasing power of the current assets and all future contributions.

~~(2) To maximize return within reasonable and prudent levels of risk.~~

(2) To balance generational equity by i) seeking to maximize return for future beneficiaries and ii) seeking to provide distributions sufficient for current beneficiaries. Both of these goals are to be pursued within reasonable and prudent levels of risk required to meet the objectives set forth in this policy.

(3) To maintain an appropriate asset allocation policy that is compatible with the objectives of the Funds, while still having the potential to produce positive real returns.

(4) To minimize and control costs of administering the Funds' assets and managing the investments.

Investment results are the critical element in achieving the investment objectives. The investment earnings are expected to be used to support both new and existing programs of the beneficiaries.

To that end, the objective of the Funds' investment management program is to produce growth and income sufficient to support a long-term total return equal to the rate of change of the CPI plus 5%. Total return is the sum of the earned interest and dividends and the realized and unrealized gains or losses less all investment management costs.

Comment [PM1]: .

- CPI +5% is a reasonable "long-term" target for a growth oriented portfolio that is willing to accept moderate risks of volatility and some illiquidity.

- Given current valuations, interest rates, and the economic environment, it will require adding exposures and taking risks that aren't currently in the portfolio.

-Meeting CPI +5% is probably a slightly more complicated task if we seek to significantly enhance the income component *beyond* what we might otherwise pursue without an income only constraint.

Duties and Responsibilities of the Board ~~Investment Advisory Committee~~

The Board~~Committee~~, established by Section 53D~~1~~-1~~7a~~-301, UCA, will determine its own meeting schedule, but will meet no less than nine times annually~~quarterly~~ to:

I. Review the overall health of the Funds.

II. Review the investment performance and the market value of the Funds.

III. Review the actual asset mix of the Funds relative to the policy mix.

IV. Review general compliance with this Statement.

V. Review Funds' cash flow and net asset positions.

~~VI. Suggest rebalancing the investment portfolio as needed.~~

~~VII.~~VI. ~~Advise~~ Review the Office~~Treasurer~~ ~~on the~~ hiring or termination of investment managers and consultants.

~~VIII.~~ Support the prudent modification of this statement by the ~~State Treasurer~~Office, except for those responsibilities reserved for other parties.

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Duties and Responsibilities of the Office~~State Treasurer~~

The Office~~Treasurer~~ is charged with the day-to-day responsibility for:

I. Managing and monitoring the investments of the Fund.

II. Implementing rebalancing transactions.

III. Preparing an agenda for Board~~the quarterly~~ meetings and submitting the agenda to the chair for amendments.

IV. Coordinating Board~~Committee~~ meetings, manager presentations and discussions, and consultant activities, presentations, and discussions.

V. Identifying issues to request to have brought before the Board~~Committee~~ and preparing recommendations to the Board~~Committee~~ on those matters.

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

VII. Such other matters as are suggested by the Board~~Committee~~ from time to time.

Duties and Responsibilities of the Consultants

Consultants may be retained and may be responsible to:

I. Advise on investment policy, implementation, and control issues as requested by the Board, after consulting with the Director of the Office~~Committee~~.

II. Prepare a monitoring and performance report with respect to the Funds' investment performance.

III. Attend Board~~Committee~~ meetings as needed.

IV. Recommend changes to the Asset Allocation Policy as required.

Duties and Responsibilities of the Investment Managers

The duties and responsibilities of the investment managers, and/or mutual funds, retained by the Office~~Committee~~ include the following:

I. Managing the Funds' assets under its care, custody and/or control in accordance with the IPS objectives and guidelines set forth herein, and also expressed in separate written agreements when deviation is deemed prudent and desirable by the Office and approved by the Board~~Committee~~.

II. Exercising investment discretion (including holding cash equivalents as an alternative) within the IPS objectives and guidelines set forth herein.

III. Promptly informing the Office~~Committee~~ in writing regarding all significant and/or material matters and changes pertaining to the investment of the Funds' assets~~.~~

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

V. Acknowledge and agree in writing to their fiduciary responsibility to fully comply with the entire IPS set forth herein, and as modified in the future.

Guidelines and Investment Policy

Asset Allocation Policy

The following represents the target allocation of assets by asset class and the minimum and maximum ranges as established by the Board~~Committee~~:

Asset Class	Minimum Target	Neutral Target	Maximum Target
Domestic Equity	42%	47%	52%
International Equity	15%	20%	25%
Fixed Income	18%	23%	28%
Real Estate	5%	10%	15%

The investment policy is expected to have a high likelihood of meeting the objectives outlined in the "Statement of Objectives" section which preceded this section.

Time Horizon

The investment guidelines and strategic asset allocation are based upon an investment horizon of greater than five years, and the strategic asset allocation for the Funds' are based on a long-term perspective. Interim fluctuations should be viewed with appropriate perspective. Rapid unanticipated market shifts or changes in economic conditions may cause the asset mix to fall outside the policy range. These divergences should be of a short term nature. The Office~~Treasurer~~ will be responsible for rebalancing the Funds' assets and ensuring that divergences are as brief as possible.

Risk Tolerances and Volatility

The Office~~Treasurer~~ and the Board~~Committee~~ recognize the difficulty of achieving the Fund's investment objectives in light of the uncertainties and complexities of contemporary investment markets. They also recognize that some risk must be assumed to achieve the Fund's long-term investment objectives.
In establishing the risk tolerances of the IPS, the ability to withstand short

and intermediate term variability were considered.

Consistent with the desire for adequate diversification, the IPS~~nvestment policy~~ is based on the expectation that the volatility of the total Fund will be similar to that of the market. Consequently, it is expected that the volatility of the total Fund will be reasonably close to the volatility of a commitment weighted composite of market indices.

Performance Expectations

The desired investment objective of the Funds' is a long-term rate of return on assets which is specified as the CPI plus 5%. The target rate of return has been based upon the assumption that future real returns will approximate the long-term rates of return experienced for the asset class in an~~the~~ asset allocation study (or capital markets projection)~~IPS~~.

Over a complete market cycle, the Funds overall annualized total return, after deducting for advisory, money management, and custodial fees, as well as total transaction costs, should meet or exceed its benchmark - a customized index comprised of market indices weighted by the strategic asset allocation of the Fund.

Asset Allocation Constraints

The Office~~Treasurer~~ and the Board~~Committee~~ believe that the Funds' risk and liquidity posture are, in large part, a function of asset class mix. They have reviewed the long-term performance characteristics of various asset classes, focusing on balancing the risks and rewards of market behavior. The following asset classes were selected:

I. Domestic ~~Large Capitalization~~ Equities
~~II. Domestic Small Capitalization Equities~~
~~III.~~II. International Equities
~~IV.~~III. Domestic Fixed Income
~~V.~~IV. Real Estate

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Based on the Funds' time horizon, risk tolerances, performance expectations and asset class preferences, an efficient or optimal portfolio was identified and is specified as the target asset allocation policy. The asset allocation policy will be updated every five years.

Rebalancing of Strategic Allocation

The percentage allocation to the class may vary as much as plus or minus 5% depending upon market conditions.

When necessary and/or available, cash inflows will be deployed in a manner consistent with the strategic asset allocation of the Funds. If there are no cash flows, the allocation of the Funds will be reviewed quarterly.

If the Office~~Treasurer~~ judges cash flows to be insufficient to bring the Funds within the strategic allocation ranges, the Office shall decide whether or not to effect transactions to bring the strategic allocation within the threshold ranges *(see **Strategic Allocation**).*

Diversification

Investments shall be diversified with the intent to minimize the risk of large investment losses. Consequently, the total portfolio will be constructed and maintained to provide prudent diversification with regard to the concentration of holdings in individual issues, issuers, or industries.

Specifically, no single investment shall exceed 5% of the portfolio at the time of purchase, with the following exceptions:

I. Obligations explicitly guaranteed by the U.S. Government, or sponsored by an agency of the U.S. Government.

II. Short-term money market funds that are within themselves diversified

III. Standard & Poor's index funds and other diversified commingled or individual accounts that are within themselves diversified on a market-capitalization-weighted basis.

Control Procedures

Performance Objectives

Investment performance will be reviewed at least annually to determine the continued feasibility of achieving the investment objectives and the appropriateness of the IPS for achieving those objectives.

It is not expected that the IPS will change frequently. In particular, short-term changes in the financial markets should not require adjustments to the IPS.

Monitoring Performance

Quarterly performance will be evaluated to test progress toward the attainment of longer-term targets. It is understood that there are likely to be short-term periods during which performance deviates from market indices. During such times, greater emphasis shall be placed on peer-performance comparisons with managers employing similar styles.

On a timely basis, the Office~~Treasurer~~ and the Board~~Committee~~ will meet to focus on:

- Manager's/Fund’s adherence to the IPS guidelines;
- Material changes in the manager's/fund’s organization, investment philosophy and/or personnel; and,
- Comparisons of the manager's/fund’s results to appropriate indices and peer groups, specifically:

Asset Category	*Index*
Domestic ~~Large Capitalization~~ Equity	~~S&P 500~~Russell 3000
~~Domestic Small Capitalization Equity~~	~~Russell 2000~~
International Equity	~~MSCI ACWI ex USA IMI Index~~FTSE Global All Cap ex US
Domestic Fixed Income	Barclays US Aggregate
Real Estate-Core Strategy	NFI-ODCE
~~Domestic Fixed Income~~Real Estate-Value Add Strategy	~~Spliced Barclays US Aggregate Float Adjusted Index~~NCREIF Total Index

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The risk associated with the manager's/fund's portfolio, as measured by the variability of quarterly returns (standard deviation), must not exceed that of the benchmark index and the peer group without a corresponding increase in performance above the benchmark and peer group. For an index fund, the tracking error must not exceed a reasonable range as established by the Office~~Treasurer~~ and the Board~~Committee~~

The performance of the Funds' investment managers/funds will be monitored on an ongoing basis and it is at the Office's~~Treasurer and the Committee's~~ discretion to take corrective action by replacing a manager if they deem it appropriate at any time.

Derivatives

Derivatives are defined as investment instruments which "derive" value from an underlying commodity, index or security. Examples include futures, options, and collateralized mortgage obligations (CMOs).

Derivative securities may be used in the following manner so long as the inclusion of such instruments is consistent with the strategy of the asset class.

The fixed-income investment manager may include GNMA, FNMA, and

FHLMC mortgage-backed instruments as well as asset backed securities in the portfolio. Inverse floating, interest only and principal only CMO derivatives, or other highly volatile instruments are prohibited.

The custodian is prohibited from using instruments which are not deemed to be appropriate by the Securities Exchange Commission (SEC) for use in money market funds. Floating rate instruments which do not approximate par at reset would be an example of such a prohibited instrument. Additionally, inverse floating and other highly volatile instruments are prohibited.

The specific provisions of this section shall not apply to any investments in an open-ended diversified management investment company established under the Investment Companies Act of 1940, a pooled-investment program, or any other type of commingled investment vehicle.