Agenda
SCHOOL AND INSTITUTIONAL TRUST FUND
BOARD OF TRUSTEES
Thursday January 28, 2016
200 East South Temple
Suite 100
Dial In Number 888-206-2266
Guest 9426154#

1. Call Meeting to Order

2. Approval of Minutes (10 min)
   November 20, 2015
   December 18, 2015

Attached, Exhibits (A) & (B)

3. Staffing update (5 min)

Ryan Kulig - Administrative Analyst
Ryan is an administrative analyst at the State of Utah's School and Institutional Trust Fund Office (SITFO). Ryan manages the operations of the office and has oversight of portfolio administration, as well as contributing to the investment analysis. Prior to joining SITFO in 2016 he worked for Sax Angle Partners, a long/short equity hedge fund, where he specialized in fundamental and technical analysis of equity investment opportunities. His expertise focused on evaluating the merits of investment strategies across a diverse range of industries. His background stems from performing financial analysis of federal grant activity for non-profit and for profit organizations with the advisory practice at MRK Advisors, a boutique consulting firm. Prior to that, Mr. Kulig conducted technical research and analysis as an intern with the advisory practice at KPMG, LLP. Mr. Kulig earned his Bachelor of Business Administration in Global Business with an Emphasis in Finance and a Minor in Economics from the University of Portland.

Nathan Barnard, CFA - Senior Investment Analyst
Nathan joined the Utah School and Institutional Trust Fund Office (SITFO) in 2016 as a senior investment analyst. His responsibilities include portfolio management and research. Prior to joining SITFO, he spent two years at Leader Capital as a fixed income portfolio analyst acting as back-up portfolio manager for their fixed income strategies. At Leader Capital, he conducted economic, fixed income market and individual credit research to develop executable investment ideas and themes. Prior to joining Leader Capital, he worked for RVK, Inc., an institutional investment consultant, for six years where he held analyst roles in portfolio analytics and later in manager research. As a Manager Research Analyst for RVK, his coverage universe included all fixed income managers across durations/maturities, qualities, sectors and regions. Nathan has a Bachelor of Science in Business Administration from the University of Colorado – Boulder where he majored in finance. He is a CFA charterholder and a member of the CFA Society of Portland.

4. Investment beliefs (45 min)
    a. Review and discuss
    b. Adopt current draft (?)

The draft of the second section has been provided for review.

Attached, Exhibit (C)

5. Investment Consultant RFP (25 min)
    a. Update

Review and discuss process and results to date. Recommendation of firms to invite included in the memo.

Attached, Exhibit (D)

6. Custody Search (25 min)
    a. Recommendation
    b. Discussion
    c. Approval

The Treasurer's office has been with their custodian for many years. They believe it is in their best interest to revisit the marketplace. Given that SITFO is also in the process of pursuing a custodial relationship we anticipate a benefit of scale if we combine our efforts. In addition, staff recommends including an operational review to re-establish and/or refine operational management practices and set the foundation for moving forward. This will involve how SITFO interacts with SITLA, the investment consultant, and the custodian to perform operational duties with respect to portfolio transactions.

Attached. Exhibit (E)

7. Investment Review (15 min)

At the last meeting we recommended allowing fixed income to reach a maximum of 28% (by virtue of an increasing cash position) and US equity to reach 42% minimum allocation. This is being implemented and will be accomplished in combination with SITLA contributions and/or 25bps withdrawal weekly on Tuesdays starting in January 2016. This assumes an approximate 4.25% cash position is developed incrementally between January and May. Contributions from SITLA would go towards the target, as well as any negative market moves in equity. This combination of factors is how we might approach 5% cash held in PTIF over this time frame.

Attached, Exhibit (F)

8. Quarterly Budget Review
   a. Review budget

Earlier in the year we agreed to review the budget quarterly. The budget format we are using is as per the State.

Attached, Exhibit (G)

9. Distribution Policy (5 min)
   a. Update from Tim Donaldson

10. Adjourn

One or more members of the Board may participate via electronic conference originated by the Chair, and the meeting may be an electronic meeting, and the anchor location shall be as set forth above, within the meanings accorded by Utah law. In compliance with the Americans with Disabilities Act, individuals requiring special accommodations during the meeting may notify SITFO in advance 801-538-1472 or rkulig@utah.gov.

SCHOOL AND INSTITUTIONAL TRUST FUND
BOARD OF TRUSTEES
350 N STATE ST STE 170
SALT LAKE CITY, UT
NOVEMBER 20, 2015

Draft Minutes

Board Members Attending: David Damschen (Acting Treasurer), John Lunt, Duane Madsen, Kent Misener, and David Nixon.

Others Attending: Peter Madsen, SITFO; Michael Green, OAG; Allen Rollo, Treasurer's Office. Tim Donaldson, Paula Plant, and Natalie Gordon, USOE.

1. Call Meeting to Order
Mr. Damschen called the meeting to order.

2. Approval of Minutes
The first item of business was the approval of the minutes from the October 23, 2015 meeting. Mr. Nixon noted that the word "whether" in the 11th sentence under the investment policy section was not needed. Mr. Misener made a motion to approve the minutes subject to correction, Mr. Nixon seconded the motion. The motion was approved unanimously.

3. Distribution Policy
Peter Madsen noted that the State Constitution will need to be amended to allow for distributions of up to four percent of the portfolio market value. State statute will also need to be changed to reflect the distribution formula outlined in the School Trust Fund Distribution Policy Analysis memo. The proposed distribution formula is the sum of the equal weighted: 1) 12 quarter moving average of the portfolio market value and 2) the prior year distribution increased by inflation and enrollment growth.

4. Investment Beliefs
Peter Madsen introduced the investment beliefs document by noting that it will help guide the Board and SITFO in governance and decision making, but the document is not a policy or procedure manual. Peter Madsen noted that the outline on page 2 of the investment beliefs document can be categorized as behavioral or technical and will be a starting point to develop the document. The investment beliefs document will be broken down into manageable sections that will be discussed at future board meetings.

5. Investment Consultant RFP
Peter Madsen noted that the RFP was sent out to 25 candidates and he expects to receive about 15 proposals by the time the RFP closes on November 29.

6. Staffing Update
Peter Madsen noted that response to the job postings has been strong, with 30 applicants for the senior investment analyst position and 45 applicants for the administrative analyst position. The postings will close on November 25.

7. Investment Review

Peter Madsen reviewed the Callan report for the quarter ending September 30, 2015 and noted that the Funds have outperformed the policy index over all time periods presented in the report. The asset allocation is within the target ranges for all asset classes and close to the neutral target. The percentile ranking for the one, three, five and ten year periods were 36^{th}, 23^{rd}, 15^{th} and 46^{th}, respectively. Peter noted that although the returns have been strong as shown on the scatter plot on page 49, the volatility has also been high because of the high equity exposure relative to peer group. Peter noted that the Vanguard Total International Stock Index Fund has approximately 21% of the fund invested in emerging markets. Finally, Peter noted that the fixed income allocation is invested in two Vanguard investment grade corporate bond funds that have durations of 2.5 and 5.4 years, respectively.

8. 2016 Meeting Days/Times

Mr. Damschen requested that the Board delay scheduling the 2016 meetings until the Governor appoints a State Treasurer to fill the remainder of former State Treasurer Ellis' term. The meeting scheduled for December 18 will still be held at 1:30 pm at the State Treasurer's Office.

There were no other items of business, so Mr. Misener made a motion to adjourn, Duane Madsen seconded the motion. The board voted unanimously to adjourn the meeting.

SCHOOL AND INSTITUTIONAL TRUST FUNDS
BOARD OF TRUSTEES
350 N STATE ST STE 170
SALT LAKE CITY, UT
December 18, 2015

Draft Minutes

Board Members Attending: David Damschen, John Lunt, Duane Madsen, Kent Misener, and David Nixon (by phone).

Others Attending: Peter Madsen, SITFO; Michael Green, OAG; Allen Rollo, OST; Tim Donaldson, Paula Plant, ; Natalie Gordon, USOE; Margaret Bird, University of Utah, Utah State, et al.

1. Call Meeting to Order

Mr. Damschen called meeting to order.

2. Approval of Minutes

The first item of business was the approval of the minutes from the November 20, 2015 meeting. There are no minutes at this time. Mr. Madsen indicated himself, Mr. Rollo and Mr. Donaldson have been spending most of their time interviewing consultants and have asked the review of minutes be done at the next boarding meeting. Mr. Damschen agreed.

3. Distribution Policy Resolution

Mr. Donaldson has prepared a resolution draft and included draft legislation. Mr. Damschen initiated a motion to approve 2015-02 resolution Mr. Lunt seconded motion. The motion to approve the 2015-02 resolution was passed unanimously by Board members.

Mr. Rollo brought to discussion to review the distribution policies for the other funds outside of the State School Fund. Mrs. Bird indicated the other entities and beneficiaries are considering a similar distribution policy. However, she noted the other entities are not treated exactly the same with respect to revenues from SITLA and so discussions are ongoing. Peter Madsen

Mr. Rollo proposed revising the distribution policy draft to protect the corpus. Mr. Donaldson and Mr. Rollo discussed the concept further. Mr. Duane Madsen expressed concern that it was over complicating matters. Mr. Donaldson expressed concern that it could lead to adverse outcomes given what has happened in other states. Mr. Peter Madsen explained that the distribution policy is based on best practices in the industry that contemplate these issues and takes a holistic approach. Mr. Duane Madsen expressed his understanding that the current draft of the distribution policy addressed these concerns and has been reviewed and agreed to. Mr. Damschen and Mr. Donaldson reminded that the distribution policy is subject to review on an ongoing basis.

4. Investment Beliefs

Mr. Peter Madsen introduces the investment beliefs document and outlines the sections. Mr. Lunt comments that the strengths of the trust such as the long-term horizon, while conceptually true, we are still subject to outside pressures that may not have a similarly long-term view. Mr. Damschen commented that the fiduciary responsibility is shared across the Board and that the strength of the Board is a benefit for outreach program to assist in communicating this matter. Mr. Duane Madsen suggested we include definition as to time frame and what our understanding of long-term horizon is. Mr. Peter Madsen agreed.

Mr. Peter Madsen said the document is rooted in behavioral finance and thus the section titled Behavioral Finance. He also pointed out that there was an intentional move away from the term “value” and instead discussion of price awareness.

Mr. Duane Madsen commented on section B regarding governance. He suggested language be introduced to express the change in fiduciary responsibility that has occurred in the past. Mr. Peter Madsen and Mr. Damschen commented that the document is forward looking and so unnecessary.

Mr. Lunt commented regarding the McKinsey quote regarding “minimal constraints” being too vague. Mr. Madsen explained his understanding that it references non-investment related constraints. Mr. Lunt agreed to this interpretation. Mr. Duane Madsen commented that the phrase suggesting that management get out of the way of staff was unnecessary. Mr. Madsen agreed.

Ms. Bird suggested a comment addressing the possible political pressures to invest outside of investment principles. Mr. Misener highlighted that one of the benefits of this document and other policies is to protect us in these types of scenarios. Mr. Damschen commented similarly to agree with Mr. Misener. Mr. Nixon commented that we want to be sure that the investment analysis drives the investment and not political rationale. Mr. Damschen suggested we are describing a plain English definition of our fiduciary responsibility. Mr. Donaldson indicates wording should be added to not restrict asset classes to allow full diversification.

Mr. Madsen noted while important, benchmarks to evaluate performance can also be misleading and should be recognized as such. Mr. Duane Madsen comments that his understanding is that benchmarks are important and we do not want to ignore them. Mr. Misener commented that passive investing is an inexpensive way to get exposure, then followed up with his support that benchmarks have element of accountability. Mr. Misener agreed that there are weaknesses with benchmarks but that we should be careful to minimize them and to be sure we balance out with peer groups. Mr. Duane Madsen commented that we are looking to balance the importance of benchmarks against their weaknesses. Mr. Peter Madsen commented that the underlying factors such as a value bias within a growth manager as example may be penalized against a benchmark yet be a valid strategy and shouldn’t be penalized. Mr. Misener commented that is likely related also to the problem of using discrete time periods to measure performance. Mr. Misener and Mr. Duane Madsen commented again that the balanced approach is key and to revisit the language to reflect the opinions discussed. Mr. Damschen agreed. Mr. Nixon notes manager retention should be comprehensive in review rather than just focused on relative performance to benchmark. Mr. Misener inquired if the document suggests we avoid cap-weighted passive strategies. Mr. Madsen tried to explain that the purpose of the criticism of cap weighted indexes is to record their weaknesses. Mr. Damschen commented that he'd rather have valid views preserved and that changes are generally additive, welcomes caveats and nuance, though wants this document of consensus to be clear and direct as well.

Ms. Bird suggests using consistent term to refer to the State School Fund throughout the document.

5. Investment Consultant

Mr. Peter Madsen expressed gratitude for Mr. Rollo and Mr. Donaldson contribution in interviewing the consultants. He indicated the process is halfway through. He indicated fees and capabilities are the first screens for proposals. Consultants were asked to bid either unbundled or bundled and to include a bid with operational support. He continues to note three groups to break down the proposals generalists, specialist, hybrid. He explained the rationale for considering each of the three groups. Generalists are sufficient in traditional investing, specialists add value where there is most opportunity to add value and greater dispersion of returns. Hybrid is possibly the sweet spot.

Mr. Peter Madsen continues to breakdown fee schedules and what is included in proposals. He is working on fee proposals to negotiate lower. The Board reviewed the table and discussed the information. Mr. Lunt asked about the consulting leads proposed. Mr. Duane Madsen inquired if we were comfortable with the process so far being limited to phone interviews and written information. Mr. Duane Madsen also asked what items concern the most. Mr. Peter Madsen responded with respect to each candidate in that, fees in that there was a discrepancy and wanted to be sure the lower priced consultant is competitive in capability, the specialist type firm would press us to alternatives mostly for each solution, and that size was a concern (too large) indicates he has hesitation with the 2 larger firms based on AUM because it is harder for them to source good ideas. Ms. Bird asked if the assets under management should be dissected further to reflect client type. Mr. Duane Madsen indicates he would like to see the top two firms present to the board.
Mr. Peter Madsen suggests to schedule on site visits to the top four proposals. The next steps are to do visits with the four consultants in January and provide more detailed insights.
Mr. Nixon notes he isn't opposed to using two different firms to get the best outcome. Mr. Nixon is seeking best-in-class. Mr. Nixon also notes that having an objective consultant with no conflicts of interest is necessary.

Mr. Peter Madsen outlined the perceived conflicts of interest and that they are minimal and are outlined to primarily be the OCIO. Mr. Misener commented that he thought the OCIO model is a possible conflict especially with the larger firms.

Mr. Green notes that he is firm on the 60 day termination clause and asks for the board's support. He continues that he is firm on key contract terms and conditions especially with regards to indemnity. Mr. Duane Madsen asks for clarification and if we are in line with the industry, to which Mr. Peter Madsen affirms and Mr. Green agrees we shouldn't have much difficulty.

Mr. Peter Madsen addresses Mr. Nixon previously stated concern about whether hybrid firms are good enough. He notes that the idea is we are looking for someone who is as good as a specialist firm and does the generalists consulting as well. Mr. Peter Madsen discussed his expectations regarding a hybrid firm and the pros and cons of a specialist as a bolt on. Having a single consultant and holistic approach may benefit us by avoiding biases and forcing delineation or categories such as hedge funds to be forced. Mr. Madsen didn't include specialists as an option past the intermediate step because the pricing is much higher, but can anticipate the benefits in manager performance of alternatives dispersion. Mr. Nixon confirmed that it is acceptable to employ a hybrid if they provide the best-in class service in alternatives. Mr. Misener agreed with Mr. Nixon. Mr. Peter Madsen will continue to pursue and verify the holistic solution.

The Board congratulates Mr. Damschen on his appointment as State Treasurer.

Mr. Damschen notes there are no resolutions of the Board needed to allow Mr. Madsen to continue his evaluation of the consultants and to proceed as recommended. \

6. Staffing

Mr. Madsen indicates the process is about halfway through and there are no more updates at this time.

7. Investment Review

Mr. Madsen notes the largest allocation in the portfolio is to US equities it's a significant contributor to risk. He continues to note we have a fairly volatile asset class and consultant recommendations and conversations from the RFP all propose to reduce US equity exposure through diversification. Mr. Peter Madsen recommended developing a cash allocation of approximately 5% through selling 25bps of US equities on Tuesdays each week through May 2016. He also recommended contributions to the portfolio be held in cash, Mr. Peter Madsen intends this program to reduce timing risk as we approach the need for cash to fund other strategies. The asset allocation will not exceed limits, but intended to reduce to 42% US equity and 28% fixed income by holding cash, invested in the PTIF. Mr. Duane Madsen and Mr. David Nixon agree and note it's the prudent thing to do. Mr. Damschen states that this should be supported by a formal resolution.

8. Other Items for Discussions

Mr. Madsen notes the office space is open for business. He will provide parking passes for the board for the next meeting at the new office.

There were no other items of business; Mr. Damschen made a motion to adjourn. The board voted unanimously to adjourn the meeting.

Exhibit C

Statement of Investment Beliefs

Utah School & Institutional Trust Fund Office

January 2016

The following document is intended to represent the beliefs which the Board and Staff of SITFO agree to use as guiding principles. This document is neither a policy nor a procedural manual. Its primary purpose is to assist in governance and decision-making. These beliefs or principles should be reviewed annually and freely discussed with the Board and staff. Suggested improvements are welcome at any time.

I. Who we are

I. Mission / Objective(s)

II. Behavioral

III. Efficient Markets Response

IV. Risk

V. Asset Allocation

- Diversification across all investment possibilities
- Mathematical rigor is appropriate, mathematical certainty is not
- Valuations matter
- Rebalancing

VI. Manager Structure / Selection

- What is important
-

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I. Who we are

The Utah State Legislature created the School & Institutional Trust Fund Office (SITFO) as an independent agency to invest the revenues from SITLA on behalf of the trusts, which are to be managed for the sole benefit of their respective beneficiaries. While the trusts have 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 being invested alongside the Utah Permanent School Trust Fund (the “School Trust Fund”)~~Trust fund~~ (95% of the combined total assets are the School Trust; there are 11 other institutional trust funds).

~~Though there are different underlying beneficiaries across the trusts, t~~The source of financial assets to be invested is the same across all trusts (SITLA). However, the nature of the cash flows differs between the School Trust Fund -and the ~~others~~other trusts. ~~SITLA has contributed an average of $70M annually to the School Trust Fund.~~ The proportional rate of growth of these contributions is likely to decrease over time for the following reasons; i) the School Trust Fund is expected to grow through compounding of investment returns and ii) a prudent view of the land assets would be to consider them a diminishing revenue source.

A. Characteristics

1. SITFO is an independent state agency with a 5-person Board of Trustees and Staff of 3 professionals. We expect that the Trustees and senior staff will be fluent in the strengths and weaknesses of modern portfolio theory and bring significant investment experience to the effort.

2. An advantage of having a relatively small set of decision makers is the potential to avoid the governance challenges and pitfalls of behavioral finance that seem to prevail with larger institutional investors. In addition to avoiding pitfalls we expect to take advantage of our set of experiences and beneficial structure to implement objective, research-oriented recommendations.

3. In order to mitigate the challenges of a relatively small number of full time professionals, Board and Staff will utilize investment consultants and external investment management to leverage existing resources.

4. ~~Another positive trait we expect to avail ourselves of is our long time horizon.~~ Our long time horizon ~~frame~~ allows us to tolerate volatility and illiquidity at moderate levels, should those risks be deemed prudent in order to meet our investment objectives. We consider our time horizon to be measured in years or even decades, not months. Specific time horizons can be codified in the investment policy.

5. We believe that ignorance and arrogance are detrimental to good decision making and that humility can be a great antidote to the pitfalls described in behavioral finance literature. Accordingly, we can remind ourselves of the potential weaknesses we live with, prepare thorough analyses, utilize checklists, adhere to disciplines, and be open-minded and available to challenges from one another.

6. We believe that our fiduciary responsibility is to consider all investment opportunities on an objective basis and ground our analysis in portfolio theory. Prudent investment considerations will drive investment decision-making. The risks and the return potential of each investment will be scrutinized; political considerations are not intended to influence the portfolio.

II. Mission/Objective

The focus of the Board and Staff is to grow the invested principal of the School and institutional trusts at a rate that provides for intergenerational equity between both current and future beneficiaries. The target rate of return aims to support the distribution policy* with specified return and risk parameters found in the investment policy. The growth rate attainable will be subject to several market based factors, as well as the amount of risk the Board agrees as acceptable in setting the portfolio strategy.

**Our intention is to modify the current distribution policy from income-only, to a formula based in statute that is approximately 4% annually.*

III. Behavioral

This document doesn't provide for a complete review of behavioral finance; however it merits some attention in order to provide for discussion and a shared understanding. There is an attempt to address the themes of overconfidence, loss aversion, inertia, group behavior, and other cognitive and emotional biases throughout the document. In addition to this document there will be a process-specific document that outlines protocols to mitigate these and other biases.

A. Price and opportunity cost awareness

1. Understanding where we are in a cycle (economic cycle, market cycle, style/strategy cycle) and outlining the portfolio components' range of expected returns in the near to intermediate term (e.g. 3-10 years, not an abstract horizon like 25+ years) can help to frame investment decisions such as new mandates, rebalancing, etc.

2. Investment opportunities that have a higher expected return may be less common, considered "out of favor", or misunderstood and should not automatically be discarded based on the perceived headline risk or conventional wisdom.

3. Inertia as a result of ignorance, fear, or lack of preparedness isn't significantly different from poorly thought out and poorly executed decisions. Great opportunities most always are accompanied by significant uncertainty.

B. Governance and management

1. Governance is most helpful when it provides robust checks and balances, and is least helpful when it fosters groupthink, is used as a shield from taking responsibility, or is abused for political purposes.

2. Board members have the benefit of not working day-to-day on the portfolio and are an important source of perspective and inquiry.

3. Board members usually are not doing the level of research and due diligence that staff or consultants should be performing, suggesting staff provide additional support where required by Board members.

4. Management should source and promote the best ideas without bias.

5. Management should spend significant time developing and retaining talent~~, which often means getting out of the way~~. McKinsey & Company summarize two reasons why top tier public institutions are able to attract and retain talent; i) "the ability to deploy patient capital with minimal constraints*" and ii) "higher purpose of furthering a social good". Important for us will be to facilitate the first and communicate the latter. (*"minimal constraints" is understood as avoiding non-investment related constraints and political interference)

C. Performance Measurement

1. We are outcome-oriented investors. Acting (or not acting) out of fear of being different from the past, different from peers, or different from one's own biases is not a constructive source of return.

2. We will use benchmarks and peer groups in our investment analysis and will have multiple frameworks of accountability. Benchmark and peer performance are important reference points, but have their own weaknesses due to construction and sampling issues. ~~In addition~~On occasion, approaching extreme points in the market cycle, cap-weighted benchmarks and peer groups can also be measures of herd mentality~~ and thus perverse indicators in some instances~~.

3. Benchmarking is best done when the factor exposures of the portfolio are well understood, taken into account, and appropriate time horizons are referenced.

4. Benchmarks at the manager, asset class, and total portfolio level should be constructed to reflect expected outcomes as well as measuring performance relative to relevant factor exposures. Multiple perspectives add insight.

5. Hiring and termination decisions of a manager should not rely solely on relative performance. Manager selection decisions should be holistic and comprehensive in nature.

IV. Efficient Markets Response

While we do not believe markets are strictly "efficient" as per the EMH, we understand there are sufficient numbers of skilled investors seeking returns to make it difficult to extract one's own required returns. Passive investing can be an effective way to minimize tracking error and peer risk, reduce fees and business risk, gain efficient access to many markets and to optimize the fee budget between lower and higher expected alpha sources. However, passive investing taken to an extreme can present opportunities for other investors to achieve outsized active returns; therefore it is still beneficial to employ active management.

A. Passive management

1. Passive investing in a cap-weighted manner can be an effective way to minimize tracking error, peer risk, and reduce fees and business risk. Thus, cap weighted indices can be a fundamentally important way to gain access to many markets. Even in markets that are deemed "inefficient" we may consider passive investments in order to minimize active risks, or simply to gain exposure prior to engineering the most efficient exposures.

B. Active management

1. Active management is also expected to play an important role in the portfolio. There may be management strategies or styles that are engineered to deliver specific exposures or investment outcomes that are not provided for in a passive format. More likely a market or opportunity may be considered "inefficient" and thus well-suited to active investment decision making. Importantly, we believe there to be reasonable dispersion of manager returns and talent across the industry, especially within alternatives, that suggest active management is worth the incremental fees and risks.

2. To exploit inefficiencies an investor must be independent-minded and opportunistic, as well as innovative relative to other participants. Late-comers to inefficiency may find diminishing returns.

3. Inefficiencies generally revolve around lack of participants, cognitive dissonance, fear/risk aversion, ignorance, inefficient governance structures, and manager size. Examples of existing inefficiencies may include: illiquidity, low-volatility equity, operationally complex strategies, and of course smaller markets (e.g., emerging markets, hybrid debt/equity, microcap, frontier markets, complex fixed income instruments.)

C. Rules-based management

1. Between active and passive we may find rules-based strategies that serve our needs. Many investment strategies can be explained, and even replicated, by "strategy betas" or factors which are investable. Factor-based investing as demonstrated by French, Fama, Assness, Arnott, and other academics and market participants over the decades, strongly suggest there are cost effective rules-based alternatives to consider.

V. Risk

A simple, but effective definition of risk is the permanent loss of capital. However, risk can be measured in a number of ways and is not limited to quantitative elements alone. Qualitative elements can also represent significant risks. Our risk tolerance will be important to define and revisit. As an institutional entity with an indefinite time horizon we should be prepared to tolerate risks that may not be appropriate for individuals or pension plans with finite horizons or specific liabilities different from our own objectives.

A. Defining risk

1. Relevant factors for defining risk may include: high valuations, fees, timing, inflation, fraud, illiquidity, downside volatility/drawdowns, equity beta, interest rate beta/duration, credit risk, operational risk, business risk, opportunity costs, leverage, and others.

2. Volatility as a risk measure is helpful and informative, but alone is insufficient as it treats gains and losses identically. Metrics that look at downside volatility and include the skewness and kurtosis of return profiles add value as well as qualitative overlays such as liquidity or political risk.

3. Volatility and high valuations are linked to permanent loss of capital primarily through buying at high valuations and selling at low valuations, which converts an unrealized loss into a permanent loss. It is important to remain objective when selling assets at any point and to consider opportunity costs as well.

4. Risks most likely to lead to permanent loss of capital are inflation, fraud, extremely high valuations, and excessive fees.

B. Managing risks

1. Diversification is a powerful tool in managing risk yet has diminishing benefits. While increasing the number of investments may lower the risk, it may also lower the return if taken far enough.

2. Investment correlations and distributions are not typically stable or normal, though most models reduce them to such assumptions. We believe it is important to consider different economic regimes and measure the skewness and kurtosis of investments before committing assets.

3. Monitoring risks on a regular basis is important in order to observe incremental changes that may accrue over time. This includes qualitative elements of an investment manager as well as quantitative metrics.

C. Risk tolerance

1. Specific risk tolerances will be outlined and parameters given in the investment policies. Given the difficulty or nuance in defining risk, these risk tolerances will be referenced across several aspects of portfolio investing such as the quantitative (e.g. volatility, downside volatility, VaR, etc.) and the qualitative (illiquidity, fee levels, counterparty risk, etc.)

2. It bears repeating that risks unfamiliar to the lay person are likely to be present in our portfolio such as complex strategies, uncommon geographies, illiquidity, and fees. We will hold

ourselves and all those responsible to a high standard of due diligence to best manage these risks.

Exhibit D

Investment Consultant Search Update – January 2016

Outline

- Our review and analysis suggested we would be well served to hire a single consultant if possible.
    1. Several firms have strong showing across alternatives.
    2. Provides a holistic and in-depth view of the portfolio.
    3. Less complexity.
    4. Fee savings.
- Original two stages narrowed the candidate list to four.
- Onsite visits were made, additional phone conversations continue.
- Two finalists remain based on their ability to provide full coverage including excellent manager selection capabilities in alternatives, subject to Board agreement.
    1. Note: Though it is considered unlikely to be necessary, we may pause or restart the process as needed.

Summary of the finalists based on further analysis

- The table following the comments below is a revised summary.
- The four consultants that were reviewed onsite were those considered to provide excellent comprehensive coverage and strong in alternatives.
- All four candidates were strong enough to make this a difficult decision. Getting to the final two candidates was not easy given the quality of these firms.
    - **4th ranked, not recommended – Meketa**
        - Generalist, larger firm with many endowment and foundation clients. Given their client base type they have been active in private equity and real estate segments of alternatives for a long time.
        - Strong effort in capital markets.
        - Recent transition in leadership is of interest, but seems well planned. The founder is now Chairman and is still active though to what extent isn't clear.
        - Don't appear to have significant strength or interest in hedge funds.
        - Tend to avoid less common investment strategies, geographies, or managers; however they evidenced proactive investment solutions. For example, they established a passive/rules-based equity strategy using a set of common factors that weren't represented in a single vehicle in the market place.
        - Proposed team is not as strong as the recommended finalists' proposed teams.
        - **Summary reasons for exclusion:**
            - Didn't score as well on breadth of research coverage.
            - Proposed team less strong, dynamic.
            - Back office support less robust.
            - Some concerns about the role the founder/Chairman is playing.

    - **3rd ranked, not recommended – NEPC**

- The largest firm of the four finalists with a large research team and deep -resources.
- Proactive in recommending asset allocation changes, introducing new strategies, and investing across the alternatives spectrum.
- Strong modeling capabilities, but charge additional for risk reporting through a 3rd party vendor.
- Also processing a transition with the founder as Chairman that seems to be going relatively well.
- Very diversified client base so they serve more "masters". In addition, having so many assets to put to work could be a concern in that they might not be able to work with capacity constrained managers and strategies.
- The team proposed isn't as strong as other finalist proposals, although their operational support is strong.
- **Summary reasons for exclusion:**
  - Strength of team.
  - Size of AUM.
  - Diversity of client base.

- **Finalist – Cliffwater**
  - Alternatives specialist with generalist consulting capabilities and clients; one of the first firms to spin out of a larger consulting entity and focus on alternatives.
  - Deep research capability across capital markets, investment strategies and managers.
  - Proactive in their approach with clients:
    - Evidence of outperforming alternatives benchmarks as they are one of the few who tracks this information and has done well.
    - They have created a rules-based/passive strategy for clients in BDCs since there is not a manager or vehicle that focuses on that segment of the market.
  - The team proposed is quite strong, including a former CEO/CIO of another consulting firm as the primary, and the co-consultant proposed is the current CEO/CIO of the firm.
  - In-house modeling points to less reliance on outside vendors for performance reporting or risk measurement. This bias could be considered a strength in terms of customization, but risks not providing best-in-class options.
  - Their alternatives research is quite strong as it is the focus of their firm. The flip side of this is that their coverage of traditional managers is weaker.
  - Best proposal related to alternatives, and there is a case to be made that is where the heaviest lifting and better risk adjusted returns are to be found, although the fees are higher.
  - Client base includes large government plans giving us pause regarding their ability to innovate, be flexible and access capacity.

- While it isn't a given that an alternatives heavy firm would see the solution to each issue as an "alts manager", it would seem that a bias to alternatives may present itself when there are possible other solutions.
- **Summary reasons for inclusion:**
  - Strong capital markets.
  - Strongest consulting team assigned.
  - Strong in modeling.
  - Strongest in alternatives.
  - Innovation / idea generation.

- **FEG**
  - Generalist firm that has invested in alternatives research coverage
  - Client base that is primarily endowment and foundation oriented is a benefit as it gives them the ability to spend time on innovative concepts that might not be of interest to other client types.
  - Developed a strong sourcing network to access funds that might otherwise be difficult to invest with.
  - Smaller size is a benefit as the inefficiencies and opportunities that come with smaller managers and less common investment strategies are usually capacity constrained.
  - Developed a philosophy around finding managers that are of sufficient size and quality, but have yet to reach full growth potential which shows strong evidence of delivering outperformance relative to larger managers who approach the asset gathering stage.
  - Smaller asset size but strong staff and financially healthy.
  - Attractive fee proposal and they are eager to win our business by assigning senior staff to us. The lead consultant assigned to us is known to Peter Madsen and is considered to be open-minded and strong on capital markets as well as alternatives given his background.
  - FEG is investing in building risk modeling tools of their own by hiring senior quantitative researcher and IT staff, as well as using a broad array of 3rd party software.
  - FEG is large enough and has a presence in the OCIO industry that the level of service expected is high.
  - **Summary reasons for inclusion:**
    - Strong capital markets.
    - Strong resources (systems, reporting, back office support).
    - Strong service model (number and type of personnel).
    - Strong consulting team assigned.
    - Strong in modeling.
    - Strong in alternatives.
    - Smaller and mostly similar client base.
    - Innovation / idea generation.

Summary Table

Consultant	RFP Score	Finalist Points / Matrix	Custody Search	AUM ($B)	Research Staff	Total Staff	Fee
FEG	89%	54	$0	$50	23	121	$688,000
Cliffwater	83%	46	$75,000	$78	28	54	$850,000
Excluded							
NEPC	*77%*	*NA*	*$0*	*$900*	*44*	*240*	*$900,000*
Meketa	*73%*	*NA*	*$0*	*$341*	*75*	*125*	*$868,500*

Finalist Points Matrix

Consultant	Asset Alloc. Modeling	Capital Markets	Manager Research (Trad.)	Manager Research (Alts.)	Consulting Team	Resources (Systems, Data, etc.)	Back Office Support	Performance / Risk Reporting	Points
Points	*0.1*	*0.2*	*0.1*	*0.2*	*0.2*	*0.08*	*0.05*	*0.07*	
FEG	60%	60%	80%	25%	40%	75%	70%	75%	54
Cliffwater	40%	40%	20%	75%	60%	25%	30%	25%	46

Consultant	Finalist Rationale (Include/Exclude)	Pros	Cons
FEG	- Strong in all areas including alternatives - Service profile is high - Consulting team has strong component, known quantity - Committed to developing technology and research, not shy about adding resources - Strong culture with tight relationships	- Focused on endowments and foundations - Inventive in approach to finding investments - Strong capital markets research - Strong team proposed, strong overall bid for our business - Strong evidence of customization - Smaller manager evidence - Full spectrum of modeling and analysis for AA - Not providing as much in risk monitoring/modeling - Strong operational support - Competitive fee of top tier - Good performance reporting	- Risk modeling needs further development, but in house approach with dedicated PhD on the lead. Will be an advantage soon. - Turnover at CIO level

Consultant	Finalist Rationale (Include/Exclude)	Pros	Cons
Cliffwater	-Strongest consulting team by experience - Strongest in alts - Less strong in service model - Strong capital markets research	- Research intense firm - Strong across alts - Strong evidence of customization - Strong innovative recommendations - Strongest team proposal - All manager research and write-ups are available via portal - AA software available via portal - Proactive view on markets	- Primarily a specialist consultant - Reporting output isn't as strong as others - Concern about their ability to provide us with support across non-portfolio related efforts (ad hoc presentations, etc.) given the seniority of the team

In brief conclusion: FEG vs Cliffwater

- FEG
    - Broad service/support expected to be higher (greater extension of staff across all areas, better reporting, and better back office support).
    - Greater coverage in traditional research.
    - Lead consultant is considered slightly more compatible/dynamic.
    - Alternatives are a strong suit, but hard to argue are better than a specialist (though similar).
- Cliffwater
    - Cliffwater's expected strength is in alternatives which will be where the most help is needed and arguably a greater source of value-add.
    - The consulting team proposed is about as strong as it gets with the lead consultant having been CEO of another firm's consulting division as well as the co-consultant being the CEO/CIO of Cliffwater.

Final Recommendation:

- Invite FEG and Cliffwater as finalists to the March 4th meeting for 1 hour each.
- Finalists will provide materials prior to the meeting.
- SITFO Staff will provide a specific recommendation prior to the meeting.
- Board is anticipated to approve (or decide otherwise) at the March 4th meeting.

Custody Search & Operations Review – January 2016

Introduction

- Both SITFO and the Treasurer's office will combine efforts in order to gain scale for a custody search.
- The back office functionality and interactions of operations of SITFO will benefit from a review of portfolio.
- Our finalist candidates for investment consultant do not have a dedicated custody search function.
- We recommend hiring RVK to perform this function.

Background

The Treasurer's office has been with their custodian for many years. They believe it is in their best interest to revisit the marketplace. Given that SITFO is also in the process of pursuing a custodial relationship we anticipate a benefit of scale if we combine our efforts.

There will likely be differing elements of service and pricing functions expected from the custodian for the two client types. However the strength of the relationship between SITFO and the Treasurer's office will bring scale in bidding the relationship and working with the consultant. In the interviews with the recommended consultant they confirmed this expectation and have recently performed similar projects for multiple stakeholder funds, including a state treasury and permanent fund.

Scope of the Project

The project is defined and will be priced according to three aspects:

1) SITFO portfolio custody search
2) Treasurer custody search
3) Operational review

The first two aspects are straight forward and will be fairly similar in nature, with important differences that will be outlined and managed by the consultant through appropriate scope definition, information documentation and presentation within the search processes. The third aspect is suggested as we have the opportunity to review, re-establish and/or refine operational management practices and set the foundation for moving forward. This will involve how SITFO interacts with SITLA, the investment consultant, and the custodian to perform operational duties with respect to portfolio transactions.

Consultant Recommendation

We included a review of the custody search function in our RFP for investment consultant. However, we prioritized drivers of investment decision making and portfolio performance. This leads us to selecting consultants who may not be considered best in class in the custody and portfolio administration effort.

The consultants who rated well in the custody search capability were AonHewitt and RVK. Given RVK's recent work of a similar nature, combing related but differing state entities for scale, and Peter Madsen's experience with the lead consultant in this area we recommend using RVK for this project.

We are pursuing a proposal for this effort which will consist of three aspects for component pricing. This will allow us to share the expenses of the search with the Treasurer's office as well as provide optionality to move forward (or not) with respect to the various components.

In discussions with the consultant, pricing is expected to range between $75,000 and $145,000 in total, including implementation support. Final pricing will be determined by the scope of work and is subject to change as discussions are currently underway. The Treasurer's Office has tentatively agreed to contribute up to $25,000.

1) SITFO portfolio custody search
2) Treasurer custody search

Components #1 & #2 would carry a $75,000 fee.
RVK is willing to invoice in proportionate amounts.

<u>Fee would be subject to invoice as follows:</u>
50% upon issuance of RFP / Search Document
50% upon issuance of final recommendation

3) Operational review

Component #3 would carry a $40,000 fee.
RVK is willing to invoice in proportionate amounts as directed by the respective clients, if any.

<u>Fee would be subject to invoice as follows:</u>
50% upon retention
50% upon issuance of final summary report, incorporating feedback and client response, if any.

Items 1 and 2: Custody search scope and deliverables include the following core elements:

- Information gathering from client(s) and incumbent provider.

- Drafting and finalization of RFP or other search document.

- Recommendation of vendor short-list with solicitation and/or minimum qualification criteria.

- Central point of contact services for vendor community (or coordination with procurement).

- Independent evaluation of RFP responses:
    - Matrix summary
    - Strengths & weaknesses
    - Areas for clarification

- Participation in and documentation of evaluation team meeting(s).

- Finalist selection recommendation (RVK or evaluation team consensus documentation).

- Further due diligence support on finalists:
    - Reference checks, if needed and performed.
    - Initial finalist interviews (Agenda / Meeting Coordination, Attendance, and Documentation), if performed.
    - Onsite due diligence (Agenda / Meeting Coordination, Attendance, and Documentation), if performed.

- Initial Selection Support Services:
    - Documentation and coordination of follow-up information requests.
    - Documentation and coordination of negotiation with finalists.
    - Final summary review of evaluation team findings and RVK recommendation.
    - Preparation of RVK business review of proposed contracts and implementation / transition plans (including retention of incumbent).

- Ongoing and Extended Implementation Support Services are available as necessary under an optional assistance rider should a provider transition occur and additional implementation services are required beyond the preparation of RVK business review of proposed contracts and implementation / transition plans.

    - Implementation Support Option 1:
        - Fixed Fee Retainer of $30,000 for up to 6 months of as-needed support, inclusive of all reasonable travel, time, and materials.

    - Implementation Support Option 2:
        - Hourly Fee of $300/hour plus reasonable pre-approved travel costs billed as incurred.

Item 3: Operational review scope and deliverables include the following core elements

- Information gathering, targeted inquiry, and documentation of internal investment operations –topics expected to include the following:
    - Physical tour and Structural/Functional Review of Site Proximity, Interconnectedness, and Functional Roles of Individuals and Teams, as applicable.
    - Investment Operations Staffing, Headcount, and Stability.
    - Operational Manuals, Policies, Experience and Evolution.
    - Outline of Vendors Used and Selection / Monitoring Process.
    - Discussion of Lifecycle of an Operational Day within Portfolios.
    - Discussion of Oversight of Portfolios.
    - Other Topics of Note or Generated as a Result of Earlier Inquiry or included in final work-plan.

- Initial Summary Report of Findings and Recommendations.

- Discussions with client stakeholders and teams.

- Consideration and incorporation of written responses, if any, from client stakeholders and teams.

- Final Summary Report of Findings and Recommendations.

Exhibit F

	FYTD	FY16	FY17	FYTD	FY16	FY17
AA Personnel Services	$178,614	$463,855	$597,427	**21%**	**54%**	**69%**
5101 Regular Salaries & Wages	$109,662.52	$303,594.90	$387,864.00	13%	35%	45%
5110 Leave Paid	$11,891.16	$20,000.00	$30,000.00	1%	2%	3%
5120 Miscellaneous Earnings	$23.54	$50.00	$100.00	0%	0%	0%
5140 Compensatory/Excess Time Earned (FLSA Exempt & Non-Exempt)	$1,004.80	$2,000.00	$2,500.00	0%	0%	0%
5160 Sate Retirement	$26,782.68	$65,606.95	$77,650.00	3%	8%	9%
5170 FICA/Medicare	$8,588.17	$20,700.00	$24,223.00	1%	2%	3%
5180 Health, Dental, Life & Long-Term Disability Insurance	$12,215.51	$30,000.00	$47,571.81	1%	3%	5%
5190 Unemployment & Workers Compensation Insurance	$1,131.03	$3,200.00	$4,138.55	0%	0%	0%
5199 Compensatory/Excess Time Earned Benefits (FLSA Exempt)	$301.44	$500.00	$1,000.00	0%	0%	0%
5300 Sate Leave Pool	$7,013.62	$18,203.52	$22,379.80	1%	2%	3%
CC Travel/Out of Sate	$1,220	$17,250	$42,500	**0%**	**2%**	**5%**
6054 Out of State Travel-Maximum Auto Mileage Rate	$0.00	$250.00	$500.00	0%	0%	0%
6055 Out of State Travel-Meal Reimbursement	$68.00	$2,000.00	$2,000.00	0%	0%	0%
6057 Out of State Travel-Transportation Costs	$1,152.34	$15,000.00	$40,000.00	0%	2%	5%
DD Current Expense	$88,325	$289,495	$160,814	**10%**	**33%**	**19%**
6115 Human Resource Services	$0.00	$1,800.00	$3,500.00	0%	0%	0%
6126 Wireless Communication Service	$0.00	$2,700.00	$3,000.00	0%	0%	0%
6132 Communication Services	$0.00	$1,640.00	$1,500.00	0%	0%	0%
6136 Postage & Mailing	$0.00	$1,000.00	$500.00	0%	0%	0%
6137 Professional & Technical Services-Non-medical	$26,739.94	$95,505.00	$15,600.00	3%	11%	2%
6138 Attorney Fees	$0.00	$3,500.00	$10,000.00	0%	0%	1%
6161 Rental of Land & Buildings	$11,757.00	$31,350.00	$47,964.00	1%	4%	6%
6166 Parking Space Rent & Bus Pass Cost	$0.00	$2,000.00	$2,000.00	0%	0%	0%
6181 Office Supplies	$15.00	$25,000.00	$10,000.00	0%	3%	1%
6182 Printing & Binding	$0.00	$2,500.00	$3,000.00	0%	0%	0%
6185 Books & Subscriptions	$0.00	$3,000.00	$3,000.00	0%	0%	0%
6186 Photocopy Expenses	$0.00	$1,000.00	$1,000.00	0%	0%	0%
6187 Small Office Equipment Less Than $5000	$0.00	$2,500.00	$1,000.00	0%	0%	0%
6188 Office Furnishings Less Than $5000	$26,528.73	$50,000.00	$5,000.00	3%	6%	1%
6189 Other Small Equipment & Supplies Less Than $5000	$0.00	$2,500.00	$1,000.00	0%	0%	0%
6257 Risk Management Insurance & Bonds	$0.00	$2,000.00	$2,000.00	0%	0%	0%
6260 Purchasing Card Current Expenses	$2,890.50	$20,000.00	$40,000.00	0%	2%	5%
6271 Reception & Meeting Costs	$0.00	$3,000.00	$3,000.00	0%	0%	0%
6274 Membership Dues	$0.00	$2,500.00	$750.00	0%	0%	0%
6276 Conventions, Seminars, Workshops & Comittees	$0.00	$4,000.00	$6,000.00	0%	0%	1%
6277 Employee Relocation Expense	$10,000.00	$15,000.00	$0.00	1%	2%	0%
6282 Employee Educational Assistance	$0.00	$5,000.00	$1,000.00	0%	1%	0%
6300 Dept of Technology Servcices Telecommunication Charges	$10,393.41	$12,000.00	$0.00	1%	1%	0%
EE Data Processing Current Expense	$1,014	$15,500	$47,000	**0%**	**2%**	**5%**
6467 Data Processing ardware Less Than $5000-Desktop Computer	$0.00	$5,000.00	$1,500.00	0%	1%	0%
6469 Data Processijng Hardware Less Than $5000-Laptop/Notebook	$0.00	$6,000.00	$1,000.00	0%	1%	0%
6471 Data Processing Hardware Less Than $5000-Peripherals	-$47.95	$500.00	$500.00	0%	0%	0%
6472 Data Processing Software Less Than $5000	$0.00	$0.00	$40,000.00	0%	0%	5%
6500 Dept of Technology Services-Data Processing Charges	$1,061.89	$4,000.00	$4,000.00	0%	0%	0%
GG Capital Expenditure	$18,054	$40,000	$5,000	**2%**	**5%**	**1%**
6702 Office Furniture & Equipment	$18,054	$40,000.00	$5,000.00	2%	5%	1%
TOTAL INCOME *School Trust Funds Management Account Appropriation*	$865,000	$865,000	$865,000	**100%**	**100%**	**100%**
TOTAL EXPENSE	$287,227	$826,100	$852,741	**33%**	**96%**	**99%**
DIFFERENCE	$577,773	$38,900	$12,259	**67%**	**4%**	**1%**

Market Environment
As of December 31, 2015

Index	Last Month	Year to Date	Last Year	Last 3 Years	Last 5 Years	Last 10 Years
Russell:3000 Index	(2.05)	0.48	0.48	14.74	12.18	7.35
S&P:500	(1.58)	1.38	1.38	15.13	12.57	7.31
Russell:2000 Index	(5.02)	(4.41)	(4.41)	11.65	9.19	6.80
MSCI:ACWI x US (Net)	(1.88)	(5.66)	(5.66)	1.50	1.06	2.92
MSCI:Emer Markets	(2.17)	(14.60)	(14.60)	(6.42)	(4.47)	3.95
Barclays:Aggregate Index	(0.32)	0.55	0.55	1.44	3.25	4.51
NCREIF:Total Index	1.02	13.52	13.52	12.10	12.22	7.77

Most asset classes ended the year with a thud as volatility increased and both equity and fixed income securities declined in value. The Fed grabbed headlines by raising its benchmark rate off zero but assured markets that monetary policy will continue to be accommodative over the next several years as the economy continues to heal from the global financial crisis. The vote of confidence in the world's largest economy wasn't enough to overcome a rout in commodity prices that spilled over to equity markets.

The final print of third quarter economic growth in the U.S. revealed that GDP expansion was slightly lower than previously estimated but was still a respectable 2.0%. Meanwhile, headline inflation slowed in the most recently available month, November, to 0.5% year-over-year. However, when excluding food and energy, annual inflation hit 2.0%.

The jobs market continued to gain steam in the U.S. as employers added 292,000 positions to payrolls. Coming off the heels of strong October and November payroll reports, average monthly job creation in the fourth quarter posted its highest mark in a year. Two consecutive years of solid job gains bolstered the Fed decision to raise rates at its December meeting. The unemployment rate stayed steady at 5.0% and is down from 5.6% at the beginning of 2015. Average hourly earnings were up 2.5% year-over-year which is above the trend of the recent economic recovery but is still weak by historical standards.

After seven years of unprecedented actions, including a Fed Funds rate near zero and multiple rounds of quantitative easing, the Federal Reserve moved to normalize monetary policy by raising rates 0.25%. The steady improvement in the labor market and confidence in the U.S. economy led the Fed to move off of their zero interest rate policy. Janet Yellen won unanimous support from the Federal Open Market Committee for the increase and emphasized that the Fed will proceed with caution when taking further rate hikes into consideration. Markets were mostly stable after the decision was announced as the move was largely anticipated by market participants. While the pace and path of future rate hikes is uncertain, the median projection of policy makers show expectations of the Fed funds rate at 1.38% at the end of 2016.

*Due to a lag in the reporting of NCREIF Property Index returns, the monthly return shown is deduced from the most recent quarterly return. This monthly return, when compounded over three months, equates to the quarterly return.

Investment Manager Returns

The table below details the rates of return for the fund's investment managers over various time periods ended December 31, 2015. Negative returns are shown in red, positive returns in black. Returns for one year or greater are annualized. The first set of returns for each asset class represents the composite returns for all the fund's accounts for that asset class.

Returns for Periods Ended December 31, 2015

	Last Month	Fiscal YTD	Last 12 Months
School Fund	(1.26%)	(1.19%)	2.08%
Utah State University	(1.21%)	(1.20%)	1.75%
Deaf School Fund	(1.19%)	(1.15%)	1.75%
Institute For The Blind	(1.32%)	(1.18%)	2.20%
State Industrial School	(1.21%)	(1.13%)	1.75%
Normal School	(1.22%)	(1.21%)	1.67%
Reservoirs Fund	(1.21%)	(1.17%)	1.72%
Utah State Hospital	(1.21%)	(1.14%)	1.75%
School of Mines	(1.21%)	(1.15%)	1.75%
University of Utah	(1.24%)	(1.31%)	1.46%
Miners Hospital	(1.36%)	(1.06%)	2.28%
State of Utah PS & ITF - Total	(1.26%)	(1.19%)	2.08%

Investment Manager Returns

The table below details the rates of return for the fund's investment managers over various time periods ended December 31, 2015. Negative returns are shown in red, positive returns in black. Returns for one year or greater are annualized. The first set of returns for each asset class represents the composite returns for all the fund's accounts for that asset class.

Returns for Periods Ended December 31, 2015

	Last 36 Months	Last 60 Months	Last 84 Months	Last 120 Months
School Fund	10.10%	9.16%	11.06%	6.42%
Utah State University	9.90%	9.13%	10.73%	6.02%
Deaf School Fund	10.01%	9.14%	10.88%	6.11%
Institute For The Blind	10.64%	9.61%	11.62%	6.61%
State Industrial School	10.17%	9.27%	11.08%	6.05%
Normal School	9.85%	9.04%	10.80%	6.09%
Reservoirs Fund	9.94%	9.10%	10.88%	6.26%
Utah State Hospital	10.11%	9.22%	11.01%	6.33%
School of Mines	10.11%	9.23%	10.98%	6.29%
University of Utah	9.78%	9.00%	10.78%	6.04%
Miners Hospital	10.56%	9.54%	11.53%	6.53%
State of Utah PS & ITF - Total	10.11%	9.17%	11.07%	6.42%

Investment Manager Asset Allocation

The table below contrasts the distribution of assets across the Fund's investment managers as of December 31, 2015, with the distribution as of November 30, 2015. The change in asset distribution is broken down into the dollar change due to Net New Investment and the dollar change due to Investment Return.

Asset Distribution Across Investment Managers

	December 31, 2015				November 30, 2015	
	Market Value	**Percent**	**Net New Inv.**	**Inv. Return**	**Market Value**	**Percent**
School Fund						
Domestic Equity	**$941,087,878**	**46.31%**	**$(19,367,777)**	**$(21,196,429)**	**$981,652,083**	**47.41%**
Vanguard Structured LC	454,946,011	22.39%	(9,601,485)	(7,487,232)	472,034,728	22.80%
Vanguard Structured Broad Market	373,428,308	18.38%	(7,936,260)	(9,427,097)	390,791,665	18.88%
Vanguard Strategic Equity	112,713,558	5.55%	(1,830,031)	(4,282,100)	118,825,689	5.74%
International Equity	**$352,843,495**	**17.36%**	**$(2,787,809)**	**$(7,402,616)**	**$363,033,921**	**17.53%**
Vanguard Intl Stock Index	352,843,495	17.36%	(2,787,809)	(7,402,616)	363,033,921	17.53%
Fixed Income	**$434,835,974**	**21.40%**	**$(939,438)**	**$(1,843,725)**	**$437,619,137**	**21.14%**
Vanguard Short-Term Inv Grade	254,628,056	12.53%	(456,122)	(910,646)	255,994,825	12.36%
Vanguard Interm-Term Inv Grade	180,207,918	8.87%	(483,315)	(933,079)	181,624,313	8.77%
Real Estate	**$267,225,645**	**13.15%**	**$4,270,614**	**$4,298,759**	**$258,656,272**	**12.49%**
UBS Trumbull Property Fund	50,310,243	2.48%	0	1,473,064	48,837,178	2.36%
UBS Trumbull Property Income Fund	73,986,657	3.64%	0	2,033,665	71,952,992	3.48%
LaSalle Income & Growth V	4,800,853	0.24%	0	0	4,800,853	0.23%
Fidelity Real Estate Growth Fund III	2,471,558	0.12%	0	23,351	2,448,208	0.12%
Colony Realty Partners III (preliminary)	14,321,960	0.70%	0	0	14,321,960	0.69%
Long Wharf Real Estate Partners IV	42,685,673	2.10%	3,108,027	954,997	38,622,648	1.87%
Long Wharf Real Estate Partners V	976,268	0.05%	1,193,641	(217,373)	-	-
Colony Realty Partners IV (preliminary)	42,790,705	2.11%	0	0	42,790,705	2.07%
LaSalle Income & Growth VI	34,881,726	1.72%	(31,055)	31,055	34,881,726	1.68%
Cash	**$36,005,251**	**1.77%**	**$6,570,579**	**$17,760**	**$29,416,912**	**1.42%**
Public Treasurer's Investment Fund	36,005,251	1.77%	6,570,579	17,760	29,416,912	1.42%
Total - School Fund	**$2,031,998,242**	**100.0%**	**$(12,253,831)**	**$(26,126,251)**	**$2,070,378,324**	**100.0%**

Investment Manager Returns

The table below details the rates of return for the fund’s investment managers over various time periods ended December 31, 2015. Negative returns are shown in red, positive returns in black. Returns for one year or greater are annualized. The first set of returns for each asset class represents the composite returns for all the fund’s accounts for that asset class.

Returns for Periods Ended December 31, 2015

	Last Month	Fiscal YTD	Last 12 Months
School Fund			
Domestic Equity	**(2.17%)**	**(0.22%)**	**2.21%**
Vanguard Structured LC	(1.60%)	0.80%	2.46%
Vanguard Structured Broad Market	(2.43%)	0.09%	3.03%
Vanguard Strategic Equity	(3.61%)	(5.16%)	(1.39%)
International Equity	**(2.03%)**	**(9.16%)**	**(4.24%)**
Vanguard Intl Stock Index	(2.03%)	(9.16%)	(4.24%)
Fixed Income	**(0.42%)**	**0.49%**	**1.37%**
Vanguard Short-Term Inv Grade	(0.36%)	0.18%	1.17%
Vanguard Interm-Term Inv Grade	(0.51%)	0.93%	1.63%
Real Estate	**1.65%**	**4.62%**	**12.91%**
UBS Trumbull Property Fund	3.02%	6.28%	12.08%
UBS Trumbull Property Income Fund	2.83%	6.03%	10.53%
LaSalle Income & Growth V	0.00%	(5.13%)	7.30%
Fidelity Real Estate Growth Fund III	0.95%	6.21%	34.09%
Colony Realty Partners III (preliminary)	0.00%	1.60%	5.83%
Long Wharf Real Estate Partners IV	2.36%	7.08%	14.96%
Colony Realty Partners IV (preliminary)	0.00%	10.55%	24.32%
LaSalle Income & Growth VI	0.09%	(5.79%)	6.06%
Cash	**0.05%**	**0.36%**	**0.58%**
Public Treasurer’s Investment Fund	0.05%	0.36%	0.58%
Total - School Fund	**(1.26%)**	**(1.19%)**	**2.08%**

Investment Manager Returns

The table below details the rates of return for the fund's investment managers over various time periods ended December 31, 2015. Negative returns are shown in red, positive returns in black. Returns for one year or greater are annualized. The first set of returns for each asset class represents the composite returns for all the fund's accounts for that asset class.

Returns for Periods Ended December 31, 2015

	Last 36 Months	Last 60 Months	Last 84 Months	Last 120 Months
School Fund				
Domestic Equity	**16.74%**	**14.40%**	**16.16%**	**7.72%**
International Equity	**1.88%**	**1.36%**	**7.18%**	**2.88%**
Fixed Income	**2.13%**	**3.65%**	**4.42%**	**4.72%**
Real Estate	**13.32%**	**13.10%**	**6.83%**	**-**
UBS Trumbull Property Fund	10.53%	10.52%	5.67%	-
UBS Trumbull Property Income Fund	9.74%	10.56%	-	-
LaSalle Income & Growth V	20.00%	18.69%	11.57%	-
Fidelity Real Estate Growth Fund III	26.86%	21.16%	(1.74%)	-
Colony Realty Partners III (preliminary)	7.69%	11.43%	-	-
Long Wharf Real Estate Partners IV	22.73%	-	-	-
Colony Realty Partners IV (preliminary)	24.85%	-	-	-
Cash	**0.49%**	**0.51%**	**0.55%**	**1.81%**
Public Treasurer's Investment Fund	0.49%	0.51%	0.55%	1.81%
Total - School Fund	**10.10%**	**9.16%**	**11.06%**	**6.42%**