



Independent  
Investment  
Consultants  
for  
Institutions



Unrestricted  
University  
Investments

*Trust, Process, Results*

Asset Allocation Analysis

September 5, 2019

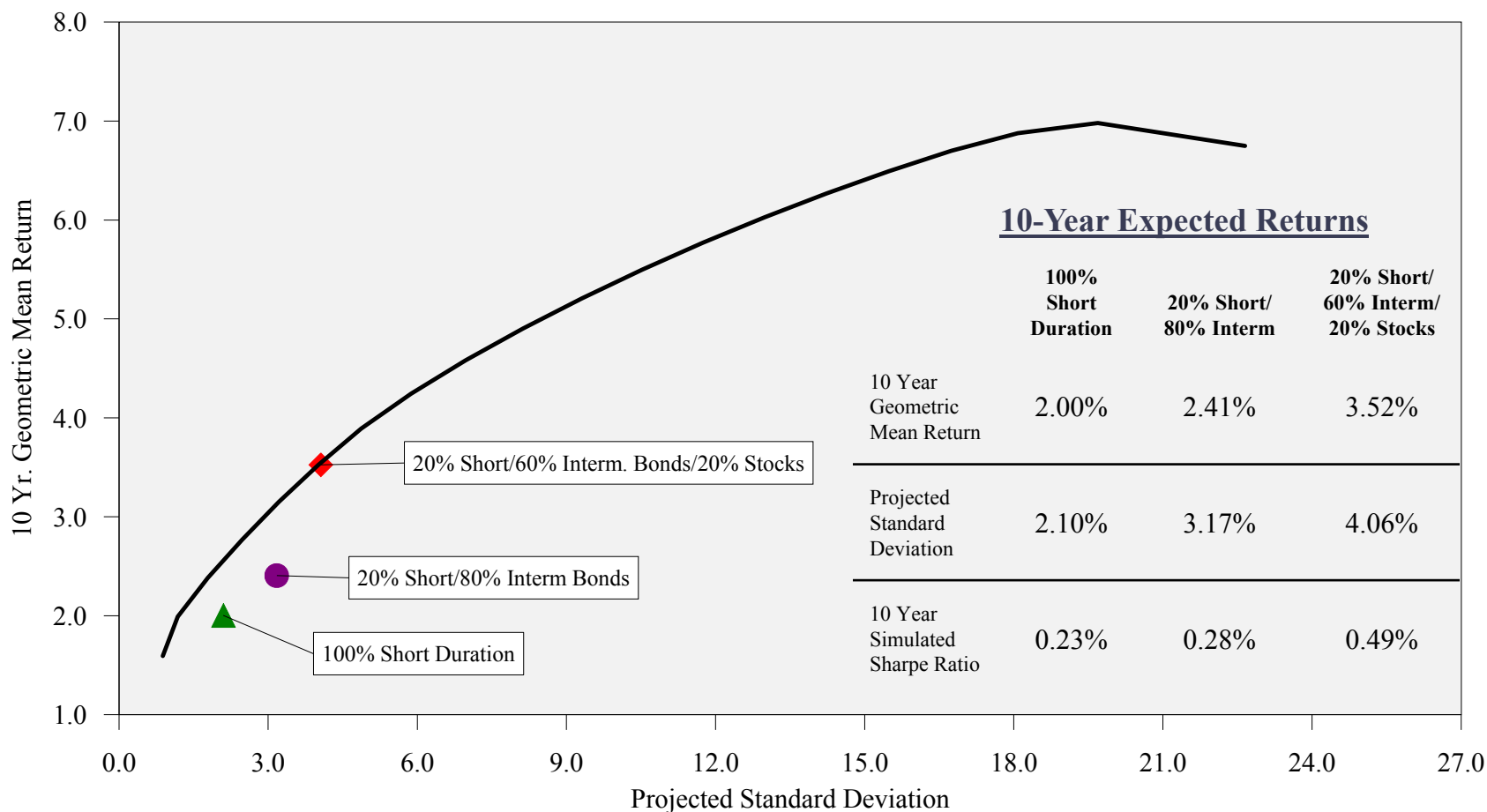
Presented by: Neil Heppler



# Financial Position and Objectives

- \$85M of unrestricted short-term marketable securities and cash
- Short-term assets are a source of liquidity and additional revenue
- Total L-T debt is \$117M with \$81M serviced by State payments and operations
- Historical investment strategy has been to invest in short duration government securities, bank deposits & CDs, and money market funds
  - ❖ Highly liquid, conservative strategy
  - ❖ Invested according to policy guidelines
- Objective is to efficiently enhance the earnings power of unrestricted assets

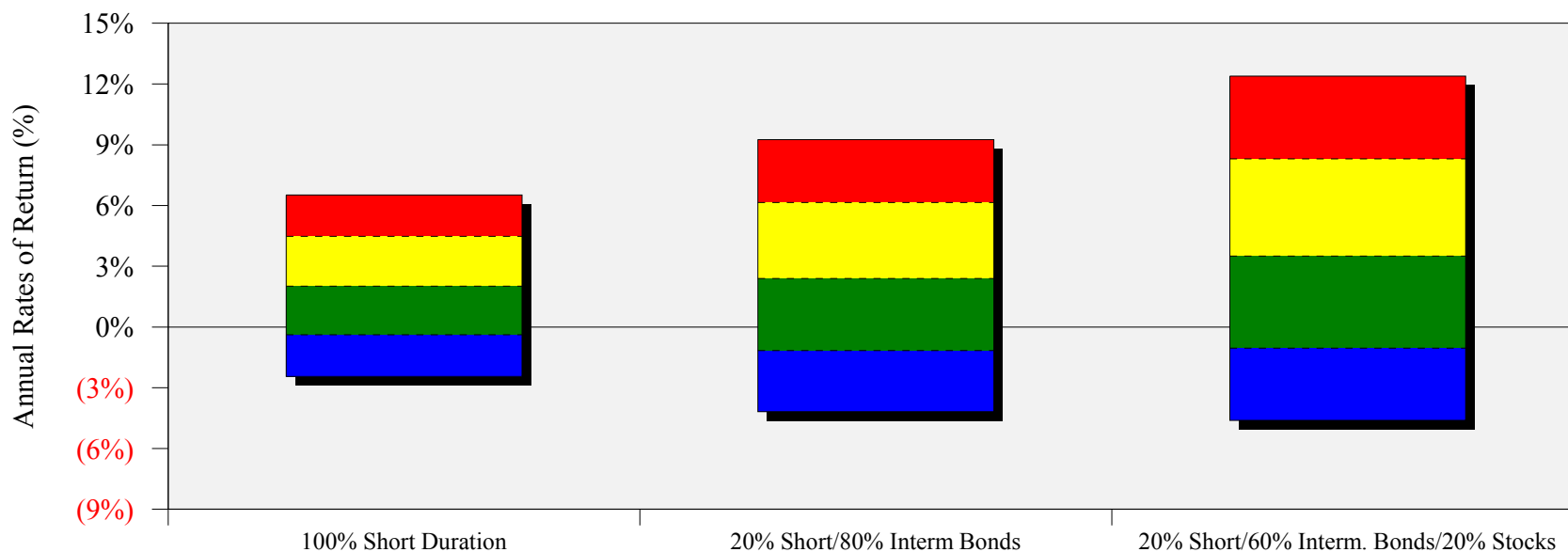
# Efficient Frontier and Expected Returns





# Expected Annual Returns

Range of Projected Rates of Return  
 Projection Period: 1 Year  
 Optimization Set: August 2019

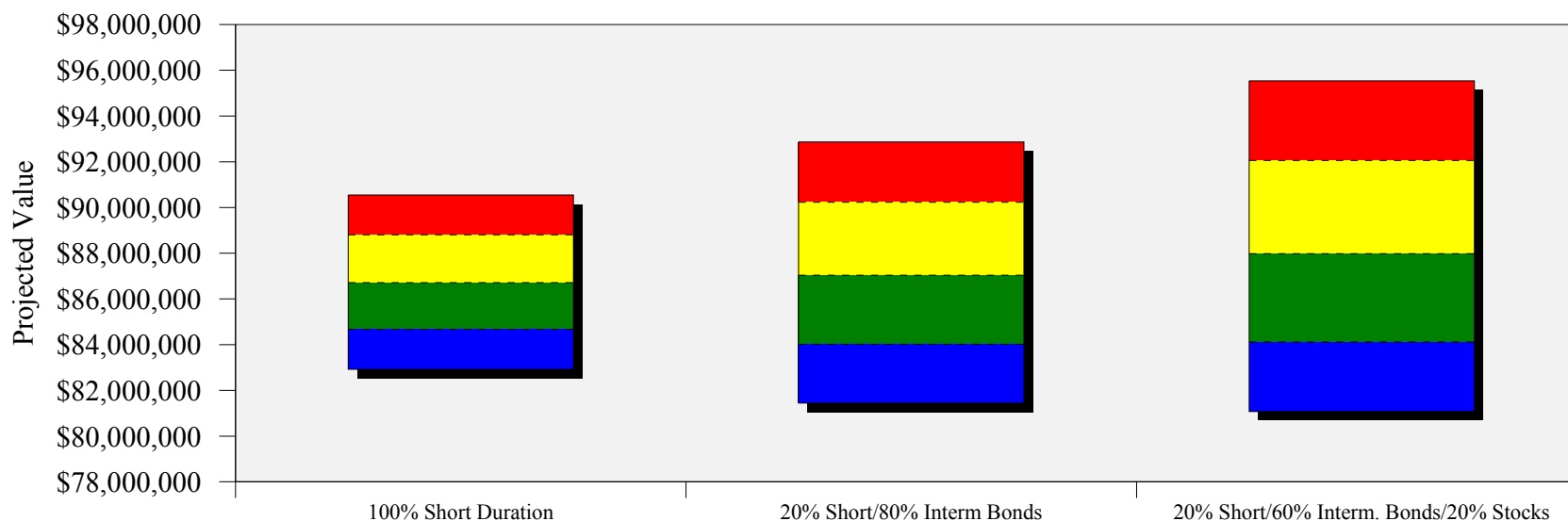


2nd Percentile	6.5%	9.3%	12.4%
13th Percentile	4.5%	6.1%	8.3%
Median	2.0%	2.4%	3.5%
87th Percentile	(0.4%)	(1.2%)	(1.0%)
98th Percentile	(2.4%)	(4.2%)	(4.6%)



# Potential Decline In Any Given Year (\$)

Range of Projected Dollar Growth  
 Projection Period: 1 Year  
 Initial Value: \$85,000,000.00  
 Optimization Set: August 2019



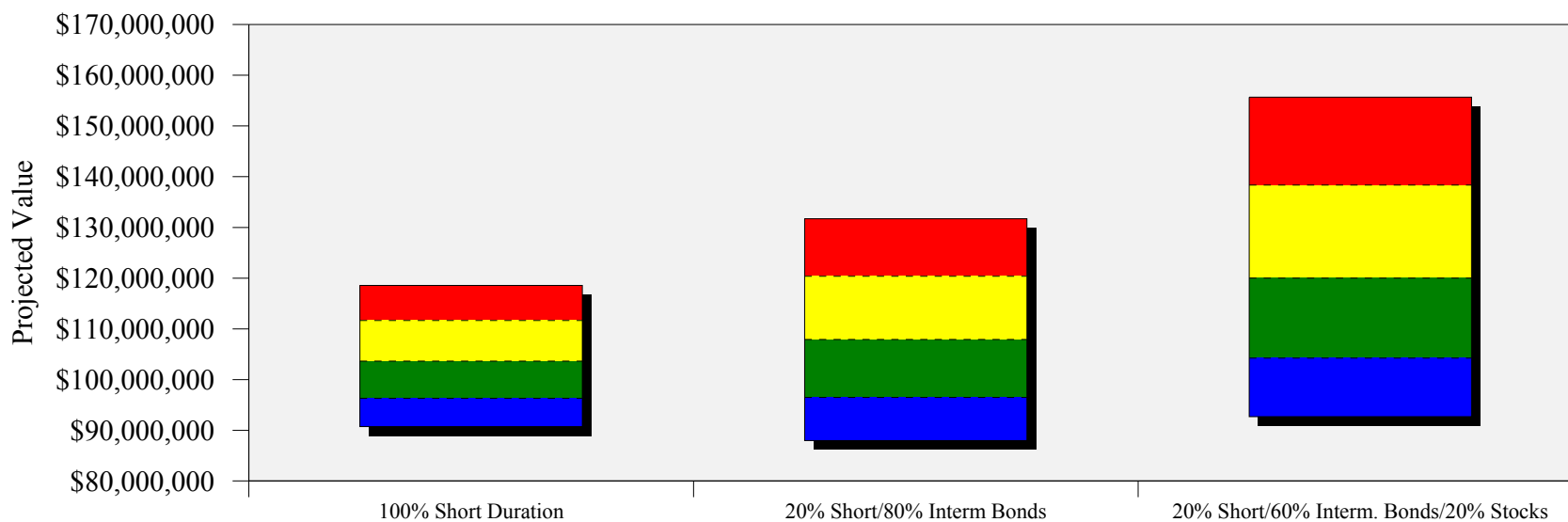
2nd Percentile	\$90,541,903	\$92,867,195	\$95,534,602
13th Percentile	\$88,803,080	\$90,226,946	\$92,051,557
Median	\$86,715,247	\$87,035,492	\$87,978,609
87th Percentile	\$84,675,305	\$84,017,434	\$84,115,953
98th Percentile	\$82,924,160	\$81,443,364	\$81,081,634

<b>One-Year Decline</b>	<b>\$2.1M</b>	<b>\$3.5M</b>	<b>\$3.9M</b>
<b>Incremental Decline</b>		<b>\$1.4M</b>	<b>\$1.8M</b>



# Potential Gains Over Ten Years (\$)

Range of Projected Dollar Growth  
 Projection Period: 10 Years  
 Initial Value: \$85,000,000.00  
 Optimization Set: August 2019

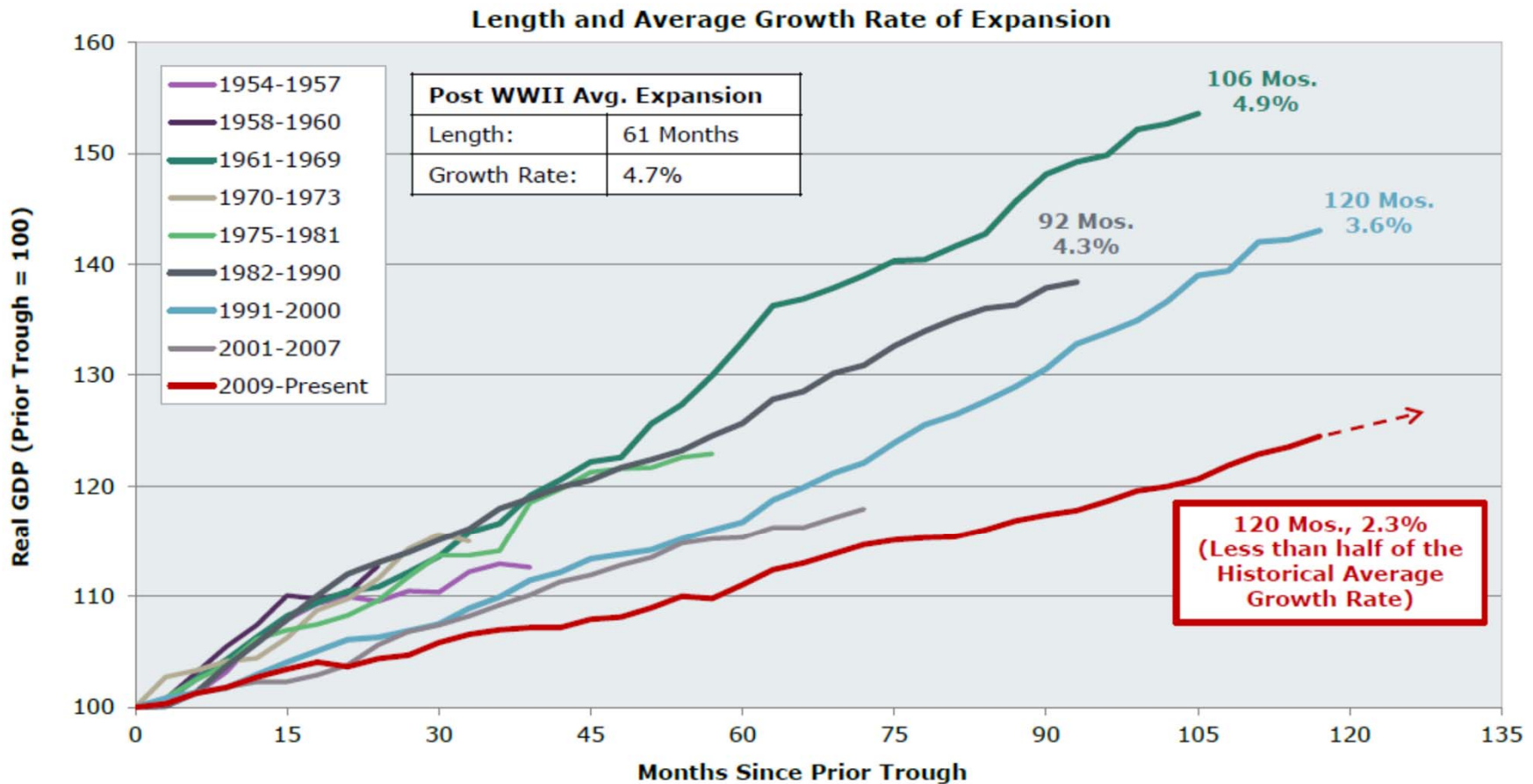


2nd Percentile	\$118,568,523	\$131,728,578	\$155,684,255
13th Percentile	\$111,653,755	\$120,378,854	\$138,353,811
Median	\$103,646,949	\$107,911,968	\$120,034,759
87th Percentile	\$96,312,290	\$96,491,861	\$104,214,937
98th Percentile	\$90,728,226	\$87,999,043	\$92,694,041

<b>10 Yr Median Gain</b>	<b>\$18.6M</b>	<b>\$22.9M</b>	<b>\$35.0M</b>
<b>10 Yr Incremental Gain</b>		<b>\$4.3M</b>	<b>\$16.4M</b>

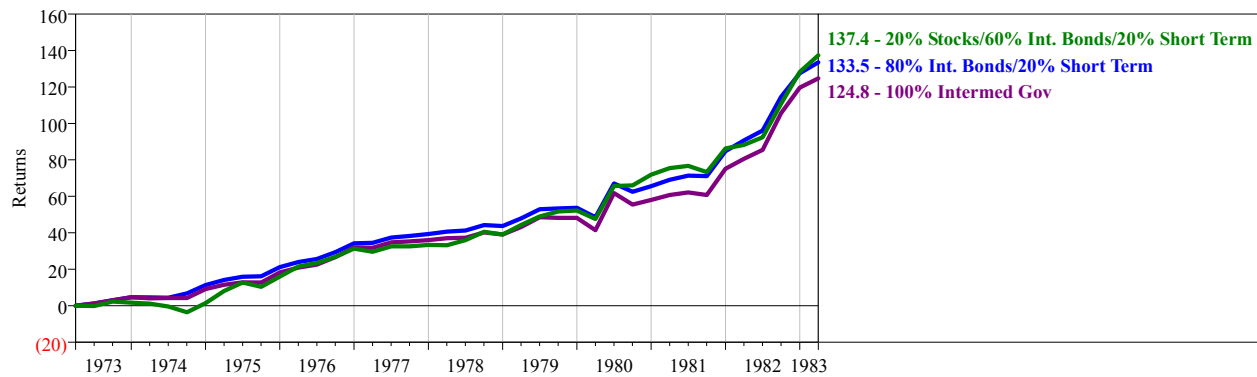
# The Longest Recovery in U.S. History

...are we in the late innings?

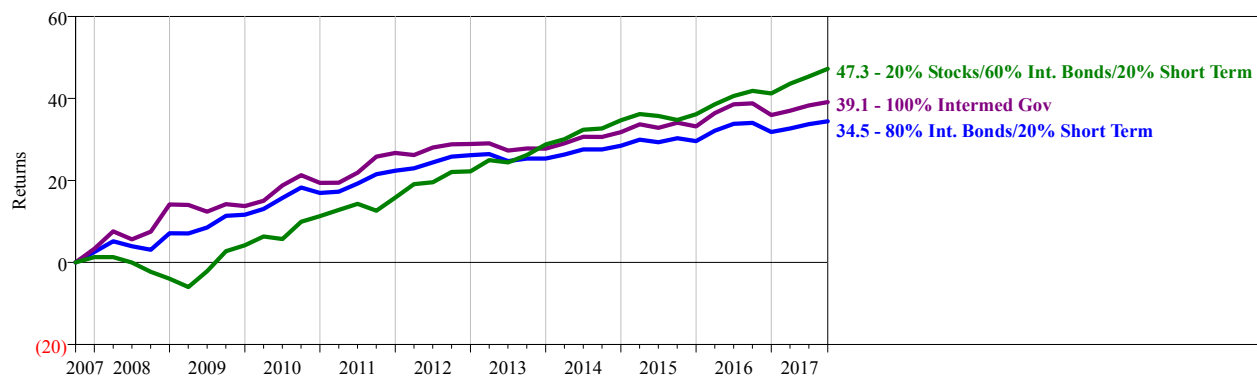


# Extraordinary Equity Bear Market Environments (% gained/lost)

Equity Bear Market 1973-1974



Equity Bear Market 2007-2009





## Recommendations to Committee

- Adopt revamped IPS for Unrestricted University Investments.
- IPS includes strategic asset allocation of 20% short-term fixed income instruments (1-3 year duration interest bearing securities) and 80% intermediate-term bond instruments (3-5 year duration).
- Longer-term expectation is to implement a 10-20% strategic allocation to equity securities. Given that we are currently experiencing the longest post-World War II positive economic cycle, expectation is to wait until the next U.S. economic recession before implementing.
- Go through process with investment consultant to identify outside separate account managers/commingled investment fund managers to manage the intermediate-term fixed income (2-3 firms/banks).



# Statement of Disclosure

## **Disclaimer**

Past performance is no guarantee of future results. Historical market trends are not necessarily indicative of future market movements.

The information contained herein is confidential information and should not be used other than by the intended recipient for its intended purpose or disseminated to any other person without the permission of the recipient. Not for public distribution. For institutional use only.

Reliance upon information in this material is at the sole discretion of the reader.

The information contained in this report does not constitute an offer to sell or buy securities mentioned herein which can only be done in compliance with applicable securities law.

This material contains opinions of Fourth Street Performance Partners, Inc. and unless indicated, all information herein is subject to change without notice.

## **Data**

The information contained in this analysis has been prepared by Fourth Street Performance Partners, Inc. and is believed to be accurate based on the asset and transaction data reported to us by trustees, custodians, and/or investment managers retained by the client. Calculations are subject to the accuracy of the source data provided and are not warranted to be accurate or complete. This analysis may contain returns and valuations for prior periods provided by other service providers of the client. Fourth Street Performance Partners, Inc. assumes no responsibility for the accuracy of these valuations or return methodologies.

The information and data contained in this material may be derived from MorningStar, Callan Associates, Investment Metrics, Factset and numerous other sources that are deemed to be reliable by Fourth Street Performance Partners, Inc., but are not necessarily all inclusive and are not guaranteed as to accuracy.

## **Russell Indexes**

Frank Russell Company is the source and owner of the trademarks, service marks, and copyrights related to the Russell Indexes. Russell® is a trademark of Frank Russell Company.

Russell Investment Group is the source and owner of the data contained or reflected in this material and all trademarks and copyrights related thereto. The material may contain confidential information and unauthorized use, disclosure, copying, dissemination, or redistribution is strictly prohibited. This is a user presentation of the data. Russell Investment Group is not responsible for the formatting or configuration of this material or for any inaccuracy in presentation thereof.