

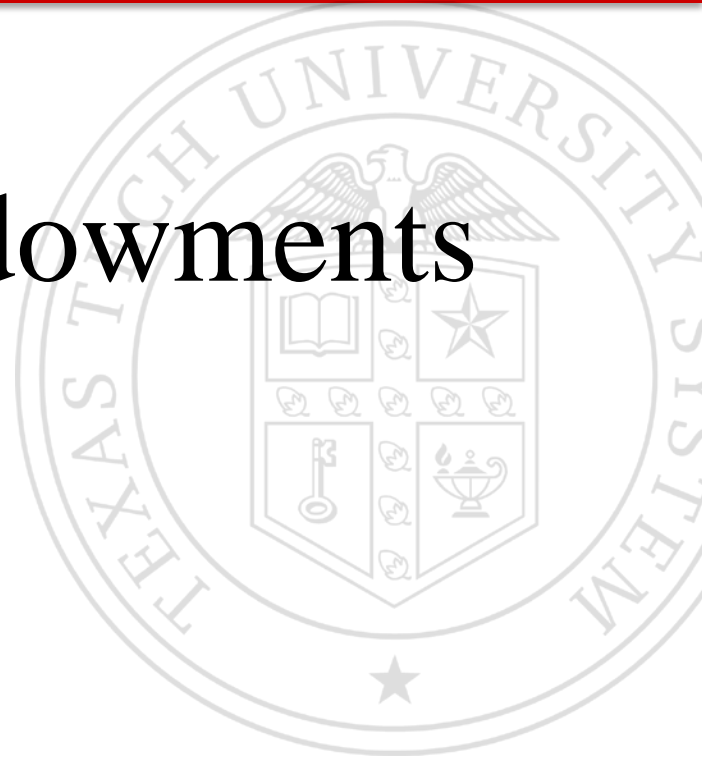


# Report on TTUS Endowments

Gary Barnes

*Vice Chancellor and Chief Financial Officer*

May 17, 2018



# Endowment Funds



## Definition:

- Gifts that are invested for long term growth to produce earnings that will last into perpetuity.

## Purpose:

- Support strategic mission and goals of institution while also fulfilling philanthropic goals of individual donors.

## Benefits:

- Support that will impact both current and future generations.
- Consistent and stable source of revenue that will last into perpetuity.

# Endowment Funds

## Financial Management/Oversight..... It Takes a Village!



TTUS Vice Chancellor and CFO (Treasurer of TTFI) oversees all financial functions related to Endowment Fund Management

### IA Financial Services & Stewardship/Compliance

- Annual Compilation/Distribution of Endowment Reports to Donors
- Manage endowment pledge reminders/collections
- Review setup of all new endowment funds

### TTUS Office of Treasury

- Calc/Process quarterly endowment distributions
- Manage all exceptions outside of LTIF Policy
- Year end profit/loss calculations/entry
- TTUS Consolidated Annual Financial Report schedules

### TTUS Investment Office

- All areas of endowment fund investments
- Performance Reports to BOR, IAC, TTFI

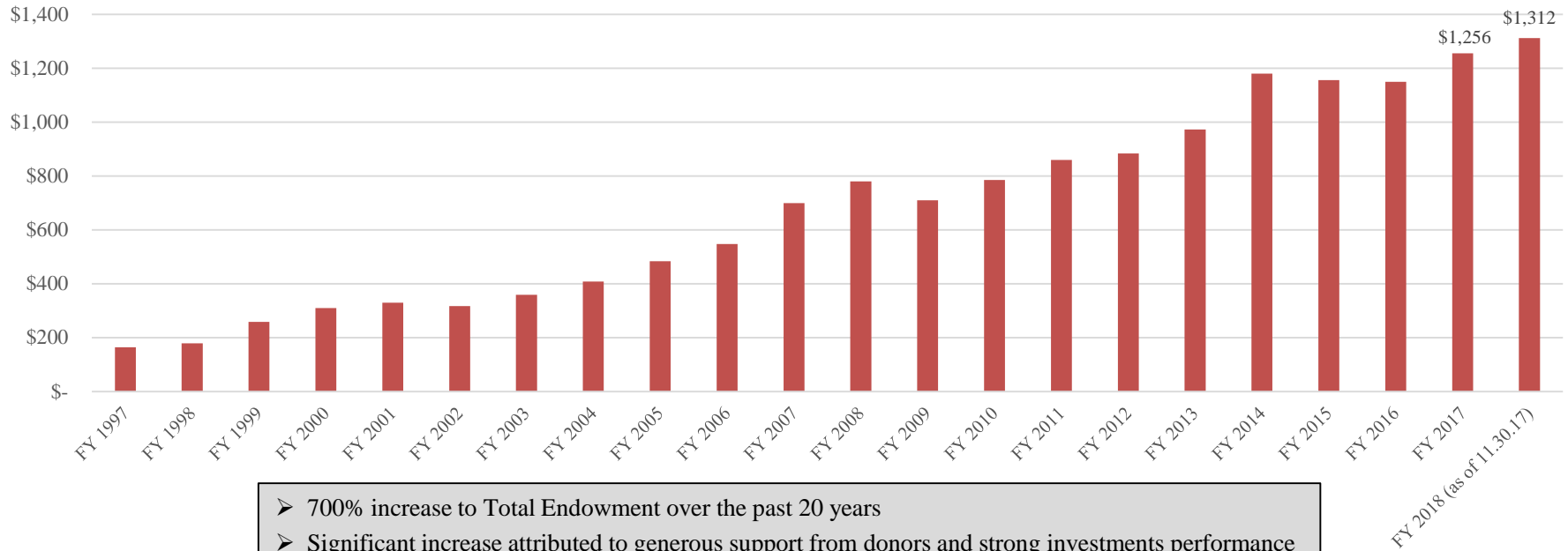
- Total Value in excess of \$1.3B
- More than **4,000 separate endowment funds** across all TTUS Components
- **3,500+ Individual Endowment Reports** Prepared Each Year
- Annual audit by external audit firm (Foundation Endowments)

The Financial Management Structure for TTUS Endowments provides:

- Appropriate Separation of Duties
- Enhanced internal controls and financial compliance
- System level service/support to components on all matters related to endowments

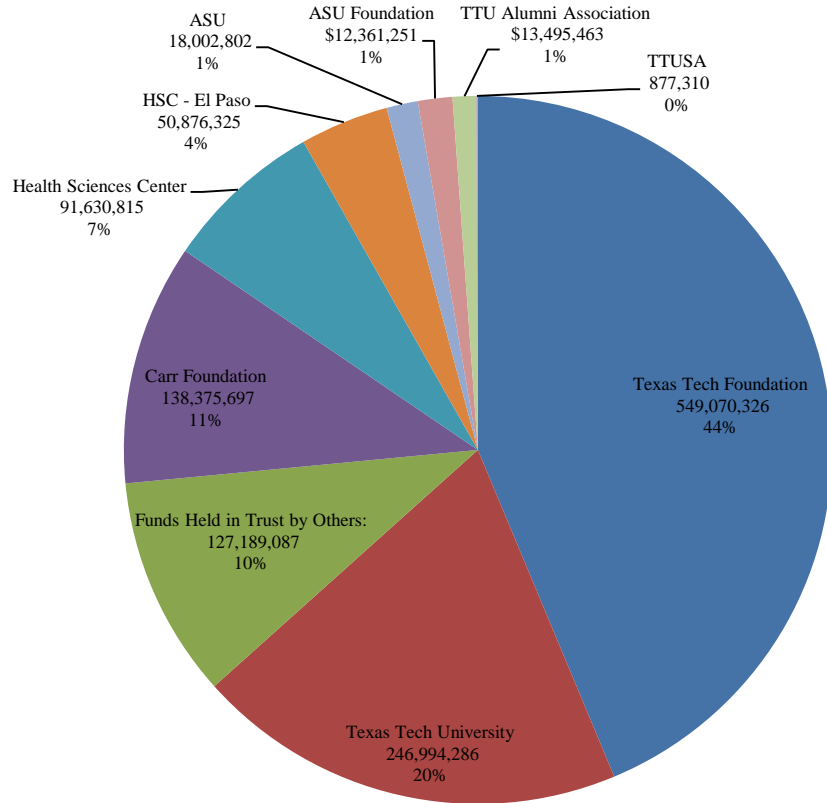
# TTU System Total Endowment

FY 1997 – FY 2018 Q1 *(in Millions)*



# TTUS Total Endowment by Institution

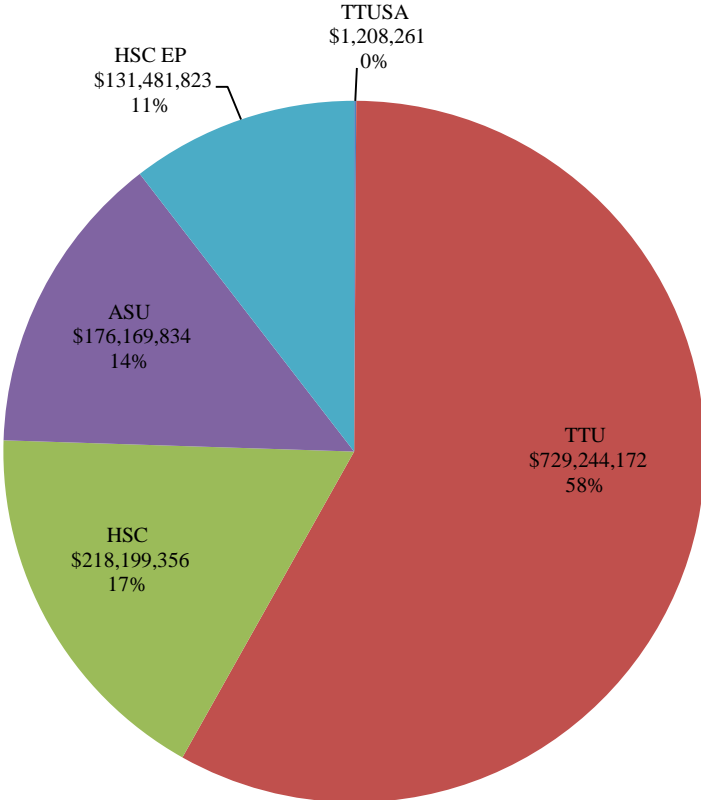
As of August 31, 2017



■ Texas Tech Foundation, Inc.	549,070,326	44%
■ TTU	246,994,286	20%
■ Funds Held by Others	127,189,087	10%
■ Carr Foundation	138,375,697	11%
■ TTUHSC	91,630,815	7%
■ TTUHSC El Paso	50,876,325	4%
■ ASU	18,002,802	1%
■ ASU Foundation	19,791,335	2%
■ TTU Alumni Assoc	13,495,463	1%
■ TTUSA	877,310	0%

# TTUS Total Endowment by Component

As of August 31, 2017



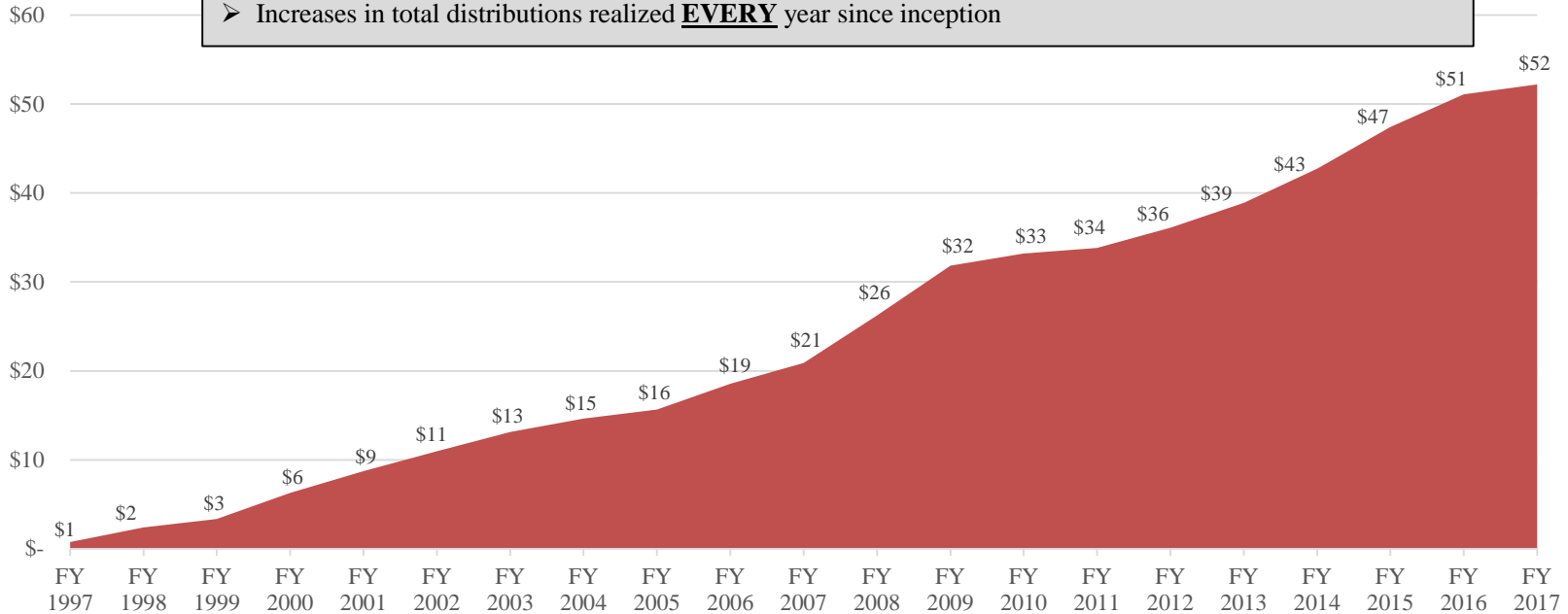
■ TTU	729,244,172	58%
■ HSC	218,199,356	17%
■ ASU	176,169,834	14%
■ HSC EP	131,481,823	10%
■ TTUSA	1,208,261	0%

# Distributions to Component Institutions

FY 1997 – FY 2017 (in Millions)



- Through careful stewardship, the target distribution rate of **4.5%** has been realized every year since inception.
- Over **\$523M in total earnings** paid since inception (through FY18 Q1) -- \$52M in FY 2017 alone
- Increases in total distributions realized **EVERY** year since inception

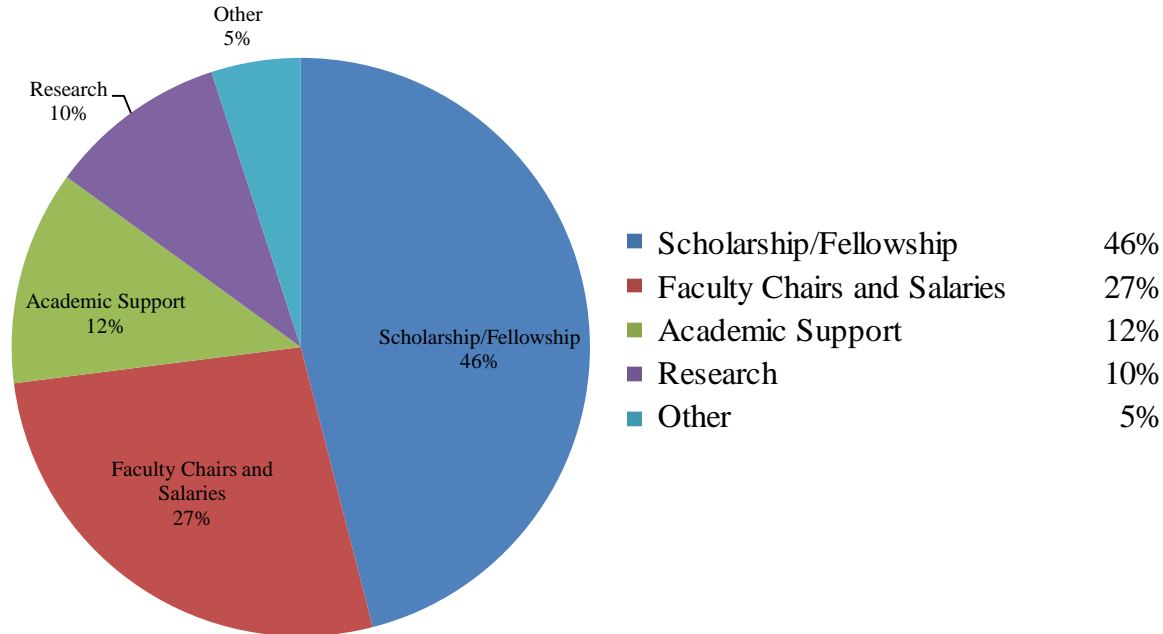


# Endowment Distribution by Type

As of August 31, 2017



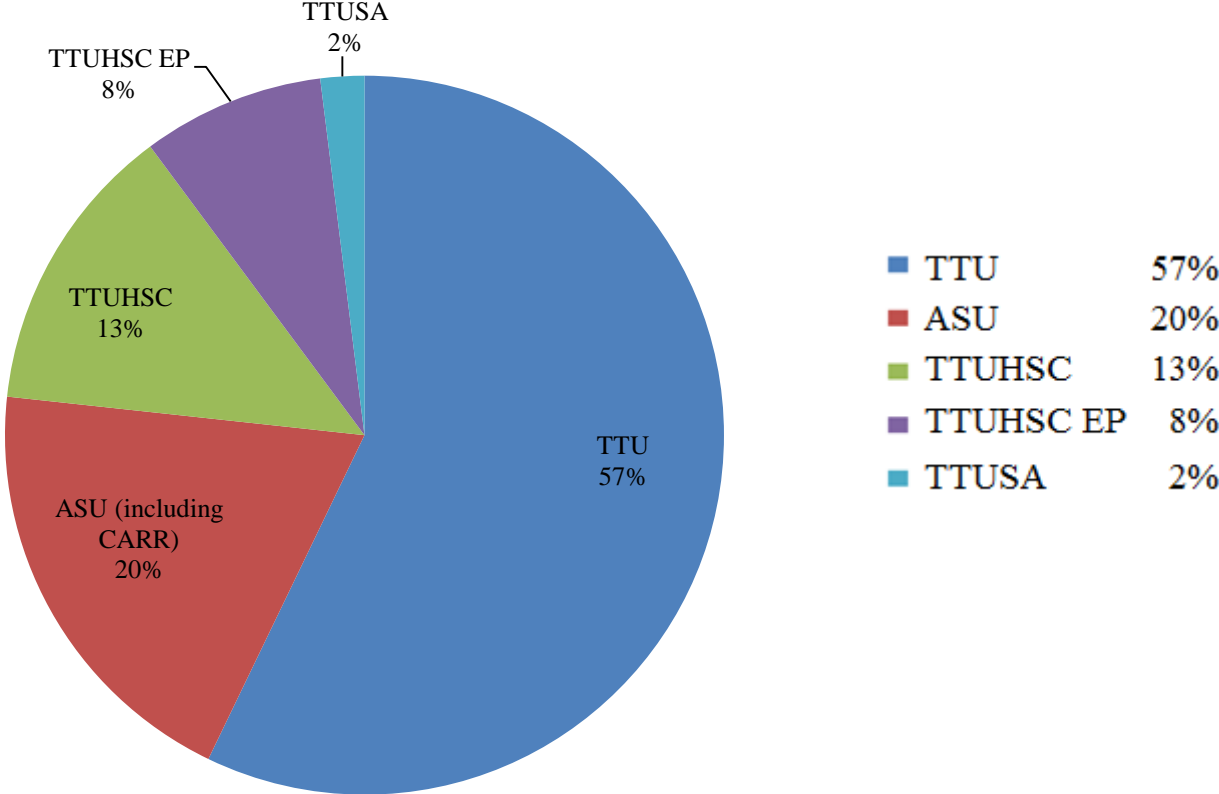
➤ In FY 2017, earnings of \$52.2 million were distributed to all 4 universities to support their academic, research and community engagement missions.





# Endowment Distribution by Component

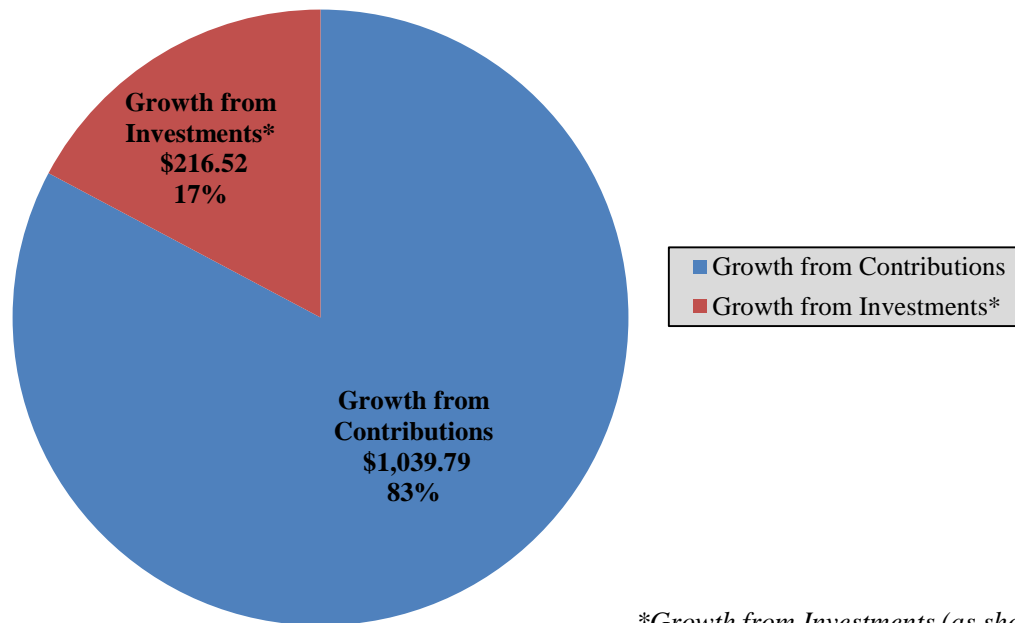
As of August 31, 2017





## Historical Perspective of Endowment Composition

*As of 8/31/2017*



*\*Growth from Investments (as shown) is net of total distributions and management fees*



# Investment Update



# Market Data

As of February 28, 2018



Benchmarks	Underlying	Weight	MTD Perf.	QTD Perf.	Calendar YTD	Fiscal YTD	Nacubo YTD	1 Year Perf.	3 Year Perf.	5 Year Perf.
<b>Policy Benchmarks</b>			-1.84%	0.40%	0.40%	5.29%	7.17%	12.40%	7.06%	8.21%
Equity	Global Index (MSCI ACWI)	35%	-4.17%	0.99%	0.99%	9.06%	12.45%	18.61%	8.47%	10.18%
Debt	Global Bonds (Barclays Global Agg)	25%	-0.89%	0.29%	0.29%	0.46%	3.16%	6.01%	2.45%	1.23%
Diversifying Assets	HFRX Global Hedge Fund	10%	-2.42%	-0.04%	-0.04%	2.07%	3.31%	4.26%	5.53%	4.85%
Private Investments	VE All PE Qtr Lag	27%	0.00%	0.00%	0.00%	7.52%	7.52%	16.74%	10.40%	13.04%
Private Investments	NCREIF	3%	0.00%	0.00%	0.00%	3.52%	3.52%	6.96%	9.38%	10.18%
<b>Other Benchmarks</b>										
Equity	S&P 500 Total Return		-3.69%	1.83%	1.83%	10.84%	13.46%	17.10%	11.14%	14.73%
Equity	Non US Developed Equity (MSCI EAFE)		-4.51%	0.28%	0.28%	7.12%	10.17%	20.13%	5.65%	7.06%
Equity	EM Equities (MSCI EMF)		-4.61%	3.34%	3.34%	10.58%	19.79%	30.51%	8.97%	5.02%
Debt	EM Bonds (JPM EM Bond Index)		-1.96%	-2.15%	-2.15%	-1.63%	0.72%	3.31%	5.51%	3.63%
Cash & Alpha Pool	90 Day T-Bills		0.13%	0.25%	0.25%	0.65%	0.83%	1.12%	0.52%	0.33%
Hedge Funds	HFRI FOF Composite		-1.33%	0.92%	0.92%	3.46%	5.38%	6.71%	2.30%	3.70%
Private Investments	Private Market Index (90% VE, 10% NCREIF)		0.00%	0.00%	0.00%	7.11%	7.11%	15.73%	10.31%	12.76%

## CIO NOTES:

The beginning of the year was one of feast and then famine for the equity markets. Global equities had a tremendous rally of 7.32% in January only to have a harder sell off in February of roughly 9%. At the end of the month, global equities were essentially flat. Fortunately, this volatile event did not spill over into other asset classes and was contained in the equity markets.

Events like these are not surprising given the change in central bank policy, the high valuations across asset classes, the position of the overall business cycle, and the elevation of geopolitical risk. The endowment has been intentionally positioned in such a way as to preserve capital when these down market events occur. During February, the endowment neutralized roughly 20% of the equity losses due to the tail hedges in the portfolio. These hedges were designed for more severe events, so it was nice to see them work in this relatively benign situation. The hedges also presented the opportunity to reinvest those proceeds when the market was down.

The LTIF public equity and debt portfolios have held up well over the NACUBO year. Public debt has had some headwinds which were not unexpected as those investments can be very lumpy. We expect public debt to make up for lost ground and add substantial out-performance by mid-year. The public diversifying portfolio is now on track and outperforming the benchmark. We have very high confidence that this will continue to add positive returns regardless of market conditions. Private assets still lag the benchmark as it takes time to realize the improvements made there over the past two years. Staff is optimistic we will start to realize these improvements this year, and we are very excited about the future of the private asset portfolio.

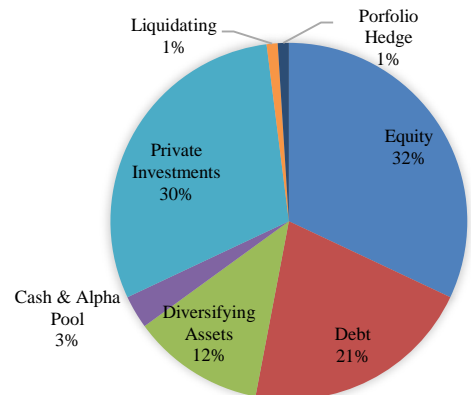
# Performance & Asset Allocation

As of February 28, 2018

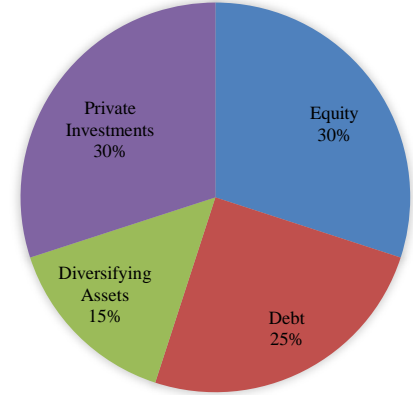


Fund	MTD Perf.	QTD Perf.	Calendar		NACUBO			
			YTD	Fiscal YTD	YTD	1 Year Perf.	3 Year Perf.	5 Year Perf.
Equity	-3.73%	1.48%	1.48%	10.66%	15.06%	20.75%	8.99%	10.38%
Debt	-1.00%	1.22%	1.22%	1.80%	3.97%	3.87%	8.93%	6.62%
Diversifying Assets	0.96%	1.34%	1.34%	4.26%	4.42%	6.23%	-0.27%	-1.18%
Cash & Alpha Pool	0.00%	0.63%	0.63%	2.34%	3.24%	4.00%	2.09%	3.07%
Liquidating	-6.39%	-16.59%	-16.59%	-23.96%	-14.98%	111.96%	37.98%	21.21%
Private Investments	-0.28%	-0.25%	-0.25%	4.59%	5.23%	5.92%	5.62%	7.69%
<b>TOTAL LTIF</b>	<b>-1.04%</b>	<b>0.82%</b>	<b>0.82%</b>	<b>4.76%</b>	<b>6.66%</b>	<b>8.64%</b>	<b>6.16%</b>	<b>7.11%</b>

**LTIF TOTAL ALLOCATION**



**LTIF TARGET ALLOCATION**



# Sub-Asset Detail



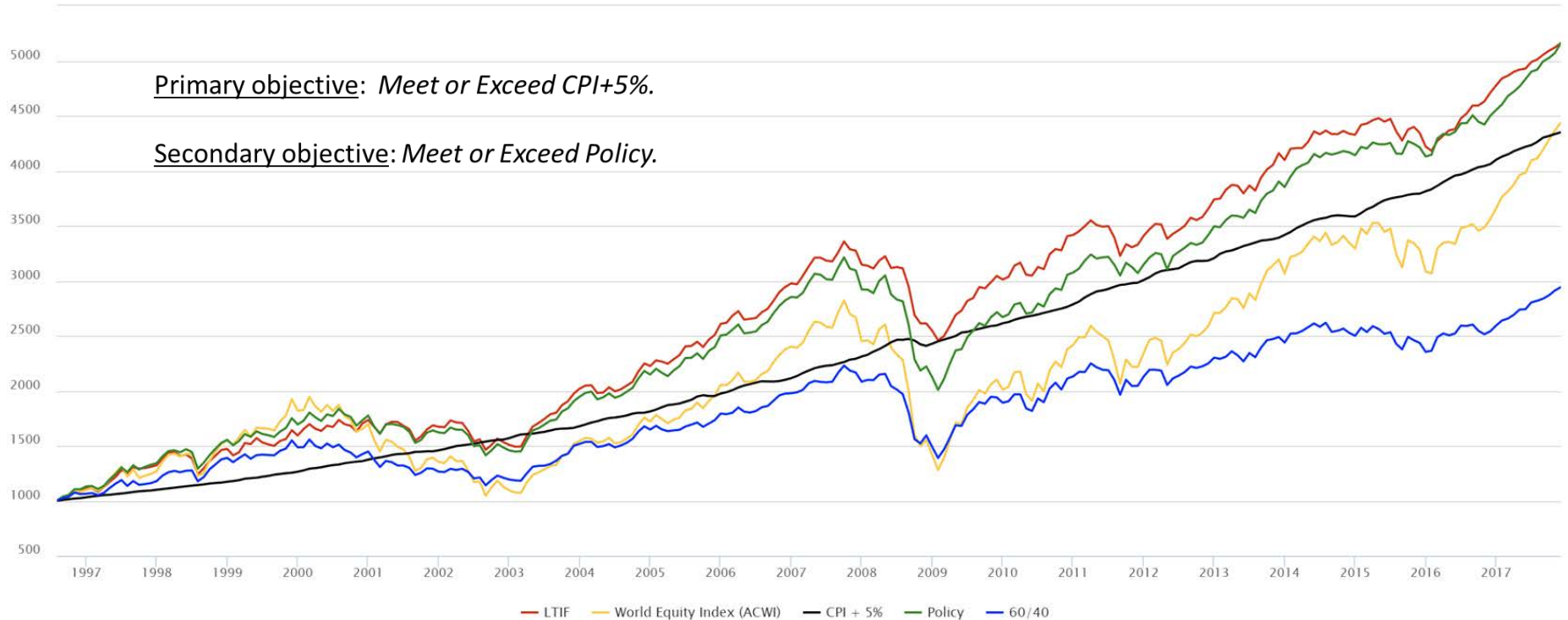
Fund	Current Exposure	MTD Perf.	QTD Perf.	Calendar YTD	Fiscal YTD	Nacubo YTD	1 Year Perf.	3 Year Perf.	5 Year Perf.
<b>TOTAL</b>	1,192,438,683	-1.04%	0.82%	0.82%	4.76%	6.66%	8.64%	6.16%	7.11%
Policy		-1.84%	0.40%	0.40%	5.29%	7.17%	12.40%	7.06%	8.21%
Portfolio Hedge Contribution	12,566,941	0.31%	0.31%	0.31%	0.05%	0.05%	-0.17%	n/a	n/a
<b>Equity</b>	385,809,930	-3.73%	1.48%	1.48%	10.66%	15.06%	20.75%	8.99%	10.38%
<i>Equity Policy Benchmark (MSCI ACWI)</i>		-4.17%	0.99%	0.99%	9.06%	12.45%	18.61%	8.47%	10.18%
<b>US Equity</b>	120,789,940	-3.79%	2.55%	2.55%	13.61%	17.14%	21.04%	13.79%	14.53%
<i>Benchmark: S&amp;P 500 Total Return</i>		-3.69%	1.83%	1.83%	10.84%	13.46%	17.10%	11.14%	14.73%
<b>Global Equity</b>	44,512,683	-3.38%	2.74%	2.74%	6.90%	11.13%	19.35%	7.77%	12.74%
<i>Benchmark: MSCI ACWI (Net)</i>		-4.17%	0.99%	0.99%	9.06%	12.45%	18.61%	8.47%	10.18%
<b>Non US Developed Equity</b>	89,752,754	-4.24%	-0.09%	-0.09%	7.60%	11.04%	19.43%	5.14%	7.70%
<i>Benchmark: MSCI EAFE (Net)</i>		-4.51%	0.28%	0.28%	7.12%	10.17%	20.13%	5.65%	7.06%
<b>Non US Emerging Markets Equity</b>	59,017,453	-5.42%	2.13%	2.13%	12.75%	23.89%	36.54%	14.82%	9.07%
<i>Benchmark: MSCI EMF (Net)</i>		-4.61%	3.34%	3.34%	10.58%	19.79%	30.51%	8.97%	5.02%
<b>Alternative Equity</b>	71,737,099	-1.78%	0.29%	0.29%	10.46%	14.13%	15.71%	8.87%	8.45%
<i>Benchmark: MSCI ACWI (Net)</i>		-4.17%	0.99%	0.99%	9.06%	12.45%	18.61%	8.47%	10.18%
<b>Debt</b>	246,764,054	-1.00%	1.22%	1.22%	1.80%	3.97%	3.87%	8.93%	6.62%
<i>Debt Policy Benchmark (Barclays Global Agg)</i>		-0.89%	0.29%	0.29%	0.46%	3.16%	6.01%	2.45%	1.23%
<b>Sovereign/Investment Grade Bonds</b>	-	n/a	n/a	n/a	n/a	n/a	0.10%	2.54%	2.34%
<i>Benchmark: Barclays Global Aggregate</i>		-0.89%	0.29%	0.29%	0.46%	3.16%	6.01%	2.45%	1.23%
<b>Credit</b>	185,396,445	0.13%	1.73%	1.73%	2.96%	4.53%	2.48%	9.93%	8.23%
<i>Benchmark: Barclays Global Aggregate</i>		-0.89%	0.29%	0.29%	0.46%	3.16%	6.01%	2.45%	1.23%
<b>Emerging Markets Debt</b>	61,367,609	-4.26%	-0.34%	-0.34%	-1.46%	2.24%	7.53%	10.68%	6.89%
<i>Benchmark: JP Morgan EM Bond Index</i>		-1.96%	-2.15%	-2.15%	-1.63%	0.72%	3.31%	5.51%	3.63%
<b>Diversifying Assets</b>	140,503,978	0.96%	1.34%	1.34%	4.26%	4.42%	6.23%	-0.27%	-1.18%
<i>Benchmark: HFRXGL Index</i>		-2.42%	-0.04%	-0.04%	2.07%	3.31%	4.26%	5.53%	4.85%
<b>Cash &amp; Alpha Pool</b>	37,408,231	0.00%	0.63%	0.63%	2.34%	3.24%	4.00%	2.09%	3.07%
Cash	29,453,827	0.04%	0.12%	0.12%	0.81%	1.08%	1.30%	0.53%	0.32%
Cash Collateral	80,763,676	0.09%	0.16%	0.16%	0.39%	0.50%	0.60%	0.27%	n/a
Collateral Held Elsewhere	5,010,000	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	n/a	n/a
Adjustments for Synthetic Exposure	(306,649,852)								
<b>Alpha Pool</b>	228,830,580	0.00%	0.95%	0.95%	3.37%	4.69%	5.80%	3.99%	4.96%
<i>Benchmark: HFRI FOF Index</i>		-1.33%	0.92%	0.92%	3.46%	5.38%	6.71%	2.30%	3.70%
<b>Liquidating</b>	7,002,437	-6.39%	-16.59%	-16.59%	-23.96%	-14.98%	111.96%	37.98%	21.21%
<b>Private Investments</b>	362,383,112	-0.28%	-0.25%	-0.25%	4.59%	5.23%	5.92%	5.62%	7.69%
<i>Benchmark: Private Market Index (90% VE, 10% NCREIF)</i>		0.00%	0.00%	0.00%	7.11%	7.11%	15.73%	10.31%	12.76%
Private Equity	118,610,174	-0.32%	0.31%	0.31%	3.00%	3.32%	3.48%	3.74%	7.32%
Private Credit	116,122,452	0.50%	1.34%	1.34%	5.14%	5.45%	7.63%	6.48%	8.91%
Private Diversifying Assets	127,650,486	-0.93%	-2.09%	-2.09%	5.53%	6.73%	6.54%	5.85%	6.89%

# Investment Performance

As of December 31, 2017



Growth of \$1,000



# Performance vs. Peers



TTUS NACUBO Percentile Ranking - All E&F				
	1 Year	3 Year	5 Year	10 Year
2017	47.6%	47.1% ↑	64.5% ↑	53.1% ↑
2016	43.8% ↑	59.6% ↑	72.1% ↑	54.9%
2015	52.3% ↑	68.4% ↑	90.6%	32.6%
2014	66.0% ↑	80.8% ↑	89.2%	18.6% ↑
2013	68.6%	96.8%	84.5%	28.5%

TTUS NACUBO Percentile Ranking - 750M-1.5B				
	1 Year	3 Year	5 Year	10 Year
2017	51.5%	65.6% ↑	81.3% ↑	62.9% ↑
2016	50.8% ↑	74.6% ↑	88.1% ↑	66.0%
2015	63.1% ↑	74.6% ↑	92.3% ↑	42.9%
2014	68.8% ↑	84.1% ↑	93.7%	29.3% ↑
2013	77.4%	100.0%	76.9%	45.1%

 IMPROVED RANKING

*Performance year ending 6/30/2017*

- 3-year rankings have steadily improved over the last four years in both peer groups
- Slight decline in 1-year rankings – overall improvement in other three categories





# SITIF Committee Review/Recommendations



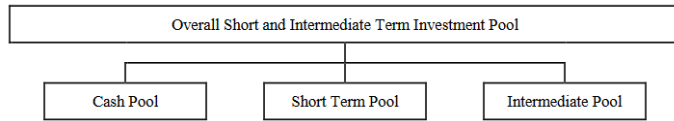
# TTUS Short/Intermediate Term Investment Funds (SITIF)

## FY 2018 SITIF Committee Review/Recommendations



- **SITIF Operating Funds Investment Committee** consists of: TTUS VC and CFO, TTUS Chief Investment Officer, TTUS Assistant Vice Chancellor of Treasury and Cash Management, CFO's from all 4 component institutions.
- SITIF Investment Structure & Target Asset Allocation (*as outlined in BOR Investment Policy Statement*):

### Investment Structure.



### Target Asset Allocation and Permissible Ranges.

Segments	Target Allocation	Permissible Ranges
Cash Pool	10%	10% — 30%
Short Term Pool	40%	25% — 50%
Intermediate Pool	50%	30% — 70%

- In April 2018 the SITIF Committee concluded a thorough evaluation resulting in the following recommendations:
  - Transfer investment responsibility of the intermediate pool allocation from the Treasury to the Office of Investment
  - Increase the intermediate pool allocation from 50% to 60% (SITIF policy statement allows up to 70%)
- Advantages/Anticipated Outcomes of recommended changes:
  - Estimated 2% premium over historic intermediate pool performance
  - Reduction in external management fees
  - Enhanced Efficiencies by reducing duplication of efforts



# Questions?

