2016 Investment Review
Presented to Joint Leadership Team
Armstrong State University
28 March 2017
Agenda

- Overview of Investment Committee
- Overview of University Investments
  - Balances as of 31 Dec 2016
- SunTrust Pooled Fund Performance Report
- Spending Policy for FY18
Committee Membership

- Chris Corrigan, VP for Business and Finance*
- Cam Reagin, AVP for Finance*
- Bob Smith, Provost*
- Bill Kelso, VP for Advancement
- Omid Ardakani, Assistant Professor, Department of Economics
- Joshua Williams, Assistant Professor, Department of Psychology
- *Ex Officio Members
Committee Responsibilities

- Establishment, oversight and review of investment policies and objectives.
- Allocation of funds among equity, fixed income and cash.
- Annual review of each investment manager with regard to performance results, investment activity and adherence to policy. Performance shall be compared against suitable benchmarks.
- Approval of the hiring and termination of relationships with outside investment managers, consultants, and custodians.
- Make changes in the endowment spending policy.
- Present an annual report to the President’s Cabinet on the composition and performance of the University’s investments.
- Review and approve manager fees on at least an annual basis.
Overview of Armstrong Investments

• University Endowments (SunTrust Diversified Fund)
  – legacy funds from before the Foundation was established
  – $3.196M on 31 December 2016
  – 17 funds – 12 scholarship funds, 5 program funds

• University Short Term Cash investments
  – SunTrust Short Term Fund - $5.122 M
  – BB&T Money Market - $5.001M (.30% APR)
Investment Review

- SunTrust pooled fund
  - Performance Review
    - Short Term Fund – CY return: 0.93% vs. 0.79% for benchmark
    - Diversified fund – CY return: 8.13% vs. 10.1% for benchmark
  - Summary of fees charged
    - Short Term Fund – 26 bp* (annual)
    - Diversified Fund – 43 bp* (annual)
  - Investment outlook
  - Discussion fund changes (Total Return Fund)

*100 basis points (bp) = 1.0%
Spending Policy (1 of 4)

- Process to distribute a specific payout rate of the endowment base to support the University’s programs.
- Set annually by the committee not later than 1 April for the following fiscal year.
- The rate is a set % of a three year moving average of fund market values (as of last day of December).
- Absent a policy and committee, we have been using the Foundation’s spending rate 4.5% – (Note the Foundation reduced it’s rate to 4.2% from 4.5% in FY17).
Spending Policy (2 of 4)

- Our current spend rate is 4.5%
- Because the 3 year moving average of the endowment's market value has increased slightly, reducing the spending rate this year will yield a similar amount of spending dollars as FY17 (this year) - see below calculation.
- The higher education endowment industry has recognized these facts and lowered the average spending rate in 2016 to 4.0%.
## Spending Policy (3 of 4)

<table>
<thead>
<tr>
<th>Historical rate of return</th>
<th>Spend Rate</th>
<th>Investment Growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>5.90%</td>
<td>4.00%</td>
<td>1.90%</td>
</tr>
<tr>
<td>5.90%</td>
<td>4.20%</td>
<td>1.70%</td>
</tr>
<tr>
<td>5.90%</td>
<td>4.50%</td>
<td>1.40%</td>
</tr>
<tr>
<td>5.90%</td>
<td>5.00%</td>
<td>0.90%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Endowment Spend</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014-15</td>
<td>$37,250.00</td>
</tr>
<tr>
<td>2015-16</td>
<td>$44,750.00</td>
</tr>
<tr>
<td>2016-17</td>
<td>$125,212.81</td>
</tr>
<tr>
<td>2017-18*</td>
<td>$119,447.62</td>
</tr>
</tbody>
</table>

*at proposed 4.2% rate
Spending Policy (4 of 4)

- Committee’s Approved FY18 spend rate – 4.2%
  
  - Preserves real growth in endowment in the face of lower expected equity returns
  - Maintains scholarship amounts similar to last year.
Other Actions By the Committee

- Maintain Current Asset Allocation (for Endowment Funds)
- Continue participation in SunTrust Pooled “Diversified Fund”
## Asset Allocation

<table>
<thead>
<tr>
<th></th>
<th>Allocation</th>
<th>Target Range</th>
</tr>
</thead>
<tbody>
<tr>
<td>Equity Fund</td>
<td>70%</td>
<td>60 – 80%</td>
</tr>
<tr>
<td>Fixed Income Fund</td>
<td>25%</td>
<td>20 – 40%</td>
</tr>
<tr>
<td>Alternative Investments</td>
<td>5%</td>
<td>0% - 10%</td>
</tr>
<tr>
<td>Cash/Short-Term Fund</td>
<td>0%</td>
<td>0 – 10%</td>
</tr>
<tr>
<td>Total (weighted avg.)</td>
<td>100%</td>
<td>100%</td>
</tr>
</tbody>
</table>
Benchmarks

- The purpose of the benchmark is not to provide a recipe for managers, but rather to set a minimum performance level. Managers should outperform the benchmark using strategic asset allocation within asset classes and careful asset selection.
  - Equity - Russell 3000 index
  - Fixed Income - Barclays US Aggregate Bond index
  - Alternative - HFRI Event Driven Total Index.
Spending Policy (2 of 5)

- Our Investment policy says, "the portfolio's primary investment objectives should be to meet or exceed the Foundation's spending rate plus the annual rate of inflation."

- CY16 experienced 8.13% growth (net of fees). CY16 annual rate of inflation was marked at 2.1% by US Inflation Calculator. FY17 spend set at 4.5%.

- The Expected return on a diversified portfolio, according to analysis by using historical returns has decreased to 5.9% (Vanguard estimate for the inflation adjusted return for a 70/30 portfolio using data from 1926-2015).