

## MEMORANDUM

TO:           Honorable Howard A. Stephenson, Senate Chair  
                  Honorable Bill Wright, House Chair

FROM:        Richard K. Ellis, State Treasurer

DATE:        September 7, 2011

SUBJECT:     State School Fund Report

Provided herewith is the annual report for the State School Fund created in Utah Constitution Article X, Section 5. The market value of the investment portfolio as of June 30, 2011 was \$1,202,588,400, an increase of \$274,706,100 or 29.61% from the portfolio's June 30, 2010 market value of \$927,882,300. The growth in the portfolio's value resulted from a \$205,391,500, 22.14% increase in the market value of the investments, contributions to the fund of \$68,167,000, or 7.35%, and reinvested capital gains of \$1,147,600, or 0.12%.

The interest and dividends earned on the investments held by the fund are used to fund the School LAND Trust Program (Utah Code 53A-16-101.5) which provides incremental funding directly to schools. The total distributed to the LAND Trust Program for Fiscal Year 2011 was \$26,256,700, an increase of \$3,237,700, or 14.07%, over the Fiscal Year 2010 distribution of \$23,019,000.

**STATE SCHOOL FUND**  
**Balance Sheet (1)**

	6/30/2011 (2)	6/30/2010
<b>Assets</b>		
Cash .....	\$ 1,810,843	\$ 1,613,307
Investment with State Treasurer .....	1,010,644,828	941,330,179
Market Value Adjustment .....	191,943,550	(13,447,908)
Interest Receivable .....	253,977	248,647
Mortgage Loan Receivable .....	14,304,470	14,304,470
Certificate of Sale Receivable .....	8,831,082	8,648,592
Due From Other Funds .....	8,763,172	7,918,957
Enabling Act Land .....	9,790,810	9,597,880
Land .....	48,338,594	53,488,198
Purchased Land at Cost .....	1,063,796	1,063,796
Investment Long Term .....	2,035,755	1,972,755
Donated Land .....	171	171
Water Rights .....	8,190,998	2,149,109
<b>Total Assets .....</b>	<b>\$ <u>1,305,972,046</u></b>	<b>\$ <u>1,028,888,153</u></b>
<b>Liabilities and Fund Balances</b>		
Liabilities:		
Due to Other Funds .....	\$ 162,065	\$ 122,469
Deferred Revenue .....	26,567,521	25,875,085
<b>Total Liabilities .....</b>	<b><u>26,729,586</u></b>	<b><u>25,997,554</u></b>
Fund Balances:		
Reserved for Public Education .....	1,279,242,460	1,002,890,599
<b>Total Fund Balances .....</b>	<b><u>1,279,242,460</u></b>	<b><u>1,002,890,599</u></b>
<b>Total Liabilities and Fund Balances .....</b>	<b>\$ <u>1,305,972,046</u></b>	<b>\$ <u>1,028,888,153</u></b>

(1) The information for the balance sheet comes from AM31 reports generated by the State's accounting system.

(2) Figures for the fiscal year ending June 30, 2011 are unaudited.

## STATE SCHOOL FUND

### List of Assets

As of June 30, 2011

	Cost	Market Gain/(Loss)	Market Value
<b>Fixed Income</b>			
Vanguard Total Bond Market Index.....	\$ 274,757,064.08	\$ 17,244,653.82	\$ 292,001,717.90
Public Treasurers' Investment Fund .....	7,818,336.87	-	7,818,336.87
Total .....	\$ 282,575,400.95	\$ 17,244,653.82	\$ 299,820,054.77
<b>Domestic Equities</b>			
Vanguard Structured Large Cap Equity .....	\$ 214,565,642.47	\$ 60,120,270.77	\$ 274,685,913.24
Vanguard Structured Broad Market .....	176,708,378.84	47,705,083.72	224,413,462.56
Vanguard Strategic Equity .....	61,412,568.12	15,405,934.42	76,818,502.54
Total .....	\$ 452,686,589.43	\$ 123,231,288.91	\$ 575,917,878.34
<b>International Equities</b>			
Vanguard Total International .....	\$ 181,011,037.31	\$ 60,847,697.40	\$ 241,858,734.71
Total .....	\$ 181,011,037.31	\$ 60,847,697.40	\$ 241,858,734.71
<b>Real Estate</b>			
UBS Trumbull Property Fund .....	\$ 45,956,294.88	\$ (9,882,305.25)	\$ 36,073,989.63
UBS Trumbull Property Income Fund .....	14,036,043.85	914,895.96	\$ 14,950,939.81
Fidelity Real Estate Growth Fund III .....	8,488,151.37	(2,169,636.52)	6,318,514.85
Colony Capital Partners III .....	9,853,416.58	543,112.69	10,396,529.27
LaSalle Income & Growth V .....	16,037,893.64	1,213,843.36	17,251,737.00
Total .....	\$ 94,371,800.32	\$ (9,380,089.76)	\$ 84,991,710.56
Totals .....	\$ 1,010,644,828.01	\$ 191,943,550.37	\$ 1,202,588,378.38

## STATE SCHOOL FUND

### Net Contributions

Fiscal Year 2011

Year	Month Received	Amount
2010	July	\$ 54,255
	August	5,499,758
	September	8,096,009
	October	(8,530,471)
	November	7,215,568
	December	4,669,349
2011	January	11,402,795
	February	8,107,127
	March	9,350,459
	April	2,875,041
	May	12,302,280
	June	7,124,843
Total Contributions .....		\$ 68,167,013

**STATE SCHOOL FUND**  
**Changes in Market Value**  
**As of June 30, 2011**

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Market Value 6/30/10 .....	\$	927,882,271
Contributions .....		68,167,013
Reinvested Capital Gains .....		1,147,636
Change in Market Value .....		205,391,458
Market Value 6/30/11 .....	\$	1,202,588,378

**STATE SCHOOL FUND**  
**Fund Income and Distributions**  
**As of June 30, 2011**

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<u>Income Source</u>	<u>Received</u>	<u>Distributed</u>	<u>Retained</u>
Interest .....	\$ 9,080,436.08	\$ 9,080,436.08	0.00
Dividends .....	17,176,216.31	17,176,216.31	0.00
	\$ 26,256,652.39	\$ 26,256,652.39	

**Internal Rate of Return**  
**As of June 30, 2011**

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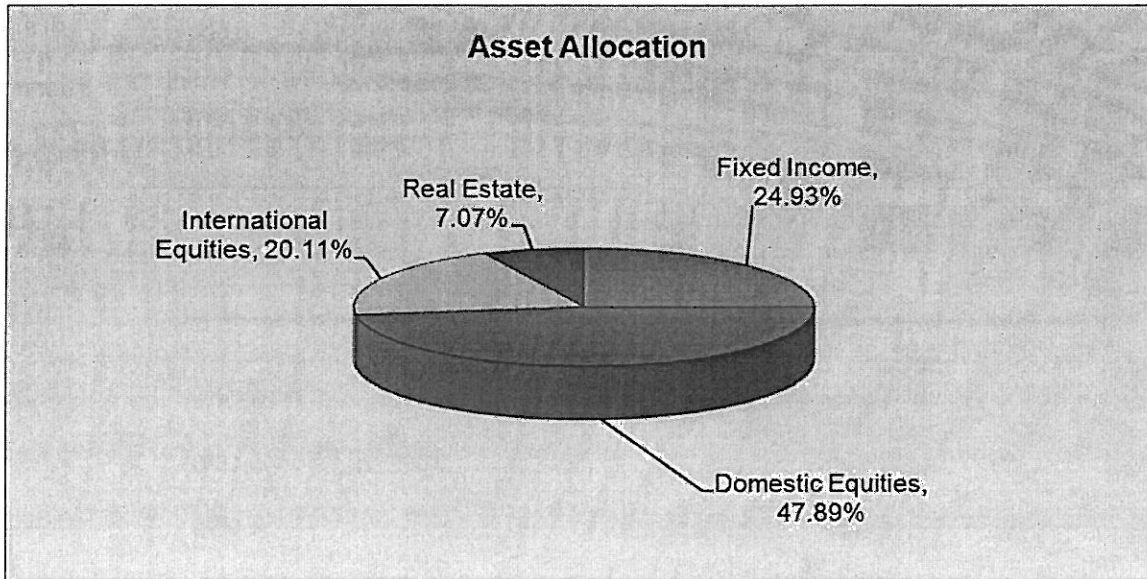
1 year .....	24.74%
3 year .....	5.18%
5 year .....	4.90%

# STATE SCHOOL FUND

Asset Allocation  
As of June 30, 2011

	<u>Target</u>		<u>Market Value</u> <u>Basis</u>		<u>Target Range</u>
<b>Equity:</b>					
Domestic Equity .....	47.00 %		47.89 %		42-52%
International Equity .....	20.00		20.11		15-25%
Total Equity .....	67.00 %		68.00 %		
<b>Fixed Income-Domestic</b>					
Fixed Income-Domestic (1) .....	23.00 %		24.93 %		18-28%
<b>Real Estate:</b>					
Real Estate- Domestic .....	10.00 %		7.07 %		5-15%
Total Fund .....	100.00 %		100.00		

(1) Includes 0.65% invested in the Public Treasurers' Investment Fund.



**STATE SCHOOL FUND**  
**Investment Management Expenses**  
**As of June 30, 2011**

	<u>Estimated Expenses (1)</u>	<u>Expense Ratio</u>
Public Treasurers' Investment Fund .....	\$ 365	0.005%
Vanguard Total Bond Market Index Fund .....	146,001	0.050%
Vanguard Structured Large Cap .....	466,966	0.170%
Vanguard Structured Broad Market .....	381,503	0.170%
Vanguard Strategic Equity .....	230,456	0.300%
Vanguard Total International Stock Index .....	290,230	0.120%
UBS Trumbull Property Fund .....	357,493	0.991% <sup>¶(2)</sup>
UBS Trumbull Property Income Fund .....	127,831	0.855% <sup>¶(3)</sup>
Fidelity Real Estate Growth Fund III .....	101,096	1.600% <sup>¶(4)</sup>
LaSalle Income & Growth Fund V .....	244,975	1.420% <sup>¶(5)</sup>
Colony Capital Partners III .....	135,155	1.300% <sup>¶(6)</sup>
Total Management Expenses .....	<u>\$ 2,482,070</u>	0.206%

(1) These are estimated annual expenses calculated by applying the fund's expense ratio times the quarter-end asset value.

(2) The expense ratio shown is the fee based on \$50M in assets at UBS and a 5% real return. The fee can range from a minimum of .841% to a maximum of 1.091% of assets, based upon performance.

(3) The expense ratio shown is based upon \$50M of assets under management at UBS.

(4) Expense ratio based upon a return of up to 12%.

(5) Expense ratio based upon a return of 10%.

(6) Expense ratio based upon a return of up to 10%.