

December 18, 2019

The Honorable James C. Justice, II  
Governor of West Virginia  
State Capitol 1900 Kanawha Blvd., East  
Charleston, WV 25305

Dear Governor Justice,

In accordance with the requirements of WV State Code 12-1-12d(f), I respectfully submit the enclosed report on behalf of the West Virginia University Board of Governors. This report provides information about the University's unrestricted investment fund and the operating investments for the period October 1, 2018 – September 30, 2019.

The September 30, 2019 values of the WVU unrestricted investment and operating investment portfolios managed by the WVU Foundation were \$66,701,560 and \$55,089,695, respectively. The asset allocation ranges for these funds as well as the actual allocations as of September 30, 2019 may be found in the attached report from the WVU Foundation on Pages 3 and 5.

The 12-month return for the unrestricted investments can be found on Page 4. The WVU unrestricted portfolio achieved a 12-month return during the investment reporting period of 3.6%. As a point of comparison, during the same period of time the Russell 3000 returned 2.9% and the Barclay's Aggregate bond index returned 10.3%. WVU uses a blended benchmark to assess performance of the unrestricted investment portfolio. The benchmark blended rate for the period was 3.2%. This portfolio outperformed its blended benchmark by 40 basis points and has outperformed the blended benchmark since inception.

As mentioned on Page 3 of the WVU Foundation report, WVU reviews its asset allocation of these portfolios at least annually. Over the past few years, upon recommendation of the WVU Foundation based on WVU's expressed risk tolerance, WVU has modestly increased its equity allocation of the unrestricted investment portfolio to more closely reflect the long term nature of the assets being managed.

WVU and the WVU Foundation are proud that the unrestricted investment portfolio has performed well in volatile equity and challenging fixed income market conditions. The graph on Page 1 of the WVU Foundation report demonstrates moderate growth of the S&P during the past year after a large decline early in the reporting year. We continue to view the comparative performance of our portfolio detailed on Page 4 as evidence that this investment program and the prudent investment strategies allowed within the program can generate positive results.

During the 2015 legislative session, the limit on the amount of money that WVU can invest with its Foundation was removed. WVU elected to place its available operating dollars with the WVU Foundation for investment in short term, federally guaranteed investments. WVU made its first investment of such money on August 25, 2015. The returns on these investments as well as additional detail about how the money has been shifted between the various investment vehicles can be found on Page 5. Funds are removed from these investments as they are needed to meet the current obligations of the University throughout the year.

Should you desire additional information regarding WVU's investments managed by the WVU Foundation, please contact me directly at 304-293-4008.

Sincerely,



David R. Kosslow  
Assistant Vice President for Finance

Enclosure

cc: Aaron Allred, Legislative Services  
David B. Alvarez, WVU Board of Governors Chair  
Marty Becker, WVU Board of Governors Finance Chair  
E. Gordon Gee, President  
Rob Alsop, Vice President for Strategic Initiatives

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Vice President for Strategic Initiatives  
West Virginia University  
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Paula Congelio  
Vice President and CFO  
West Virginia University  
Post Office Box 9000 Suite 1000  
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Re: Annual Report to West Virginia University  
Regarding the Unrestricted Investment Funds and the Operating Investments

The West Virginia University Foundation, Incorporated, in its capacity as Investment Agent, has prepared the enclosed annual report on the Unrestricted Investment Funds (the "Investment Funds") and the WVU Operating Investments (the "Operating Investments") for the 12-month period ending September 30, 2019.

Included herein is a Market Overview and an Investments Review for the 12-month period, detailing the investment assets under management, asset allocation, and annual performance.

We are honored to serve as Investment Agent on behalf of West Virginia University and look forward to serving your needs as they relate to the Investment and Operating Funds. If you have any questions or would like any additional information, please do not hesitate to contact us.

Sincerely,



Richard S. Kraich, CFA  
Vice President & Chief Investment Officer

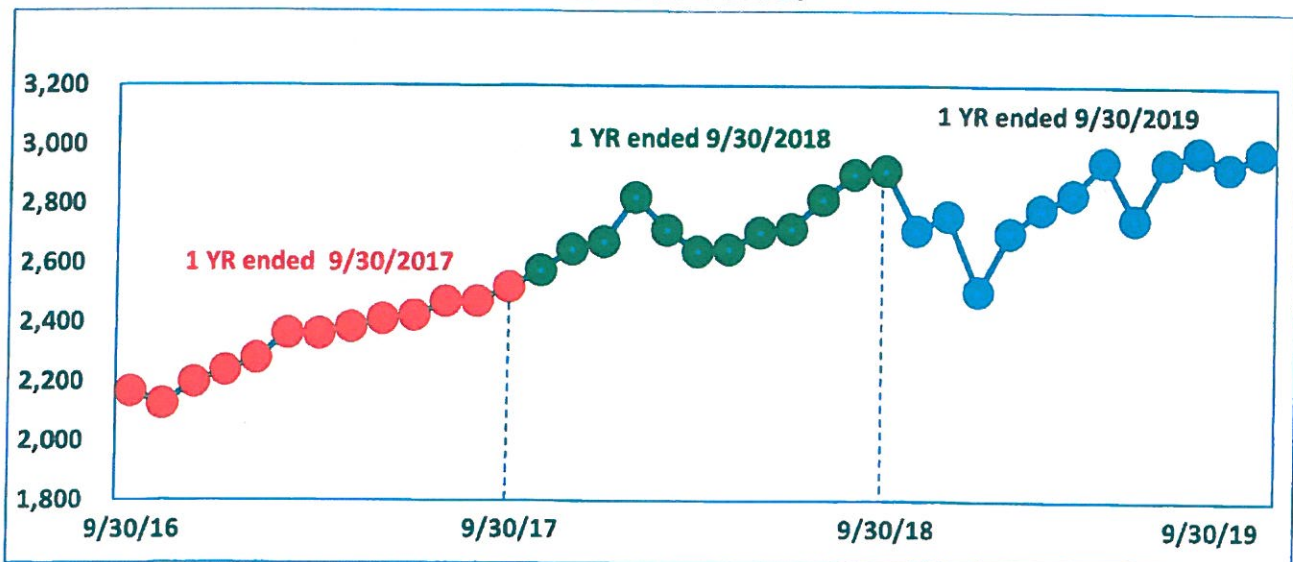
## Market Overview

The one-year period ended September 30, 2019 began with a dramatic correction in the equity markets (the worst December for stocks since the Great Depression) followed by a recovery. Although uncommon for treasury and equity rallies to coincide, the next two quarters of the year saw both asset classes benefitting from the dovish shift in tone from global central banks. In the final quarter, investors faced rising trade tensions between the U.S. and China, concerns over slowing global growth, and ongoing geopolitical uncertainty. The Federal Reserve reduced the federal funds rate by 25 basis points in July, the first reduction since 2008 and again by 25 basis points in both September and October, fulfilling its pledge to sustain the economic expansion. As a result, the Barclays Aggregate returned 10.3% for the year.

Due to the difficult December quarter, despite a strong final nine months, U.S. equity market returns were relatively muted for the 12-month period. The S&P 500 gained 4.3% and the Russell 3000 gained 2.9%. International equities fared worse, with the Morgan Stanley Capital International EAFE Index returning -1.3% and the Morgan Stanley Capital International Emerging Markets index returning -2.0% for the 12-month period.

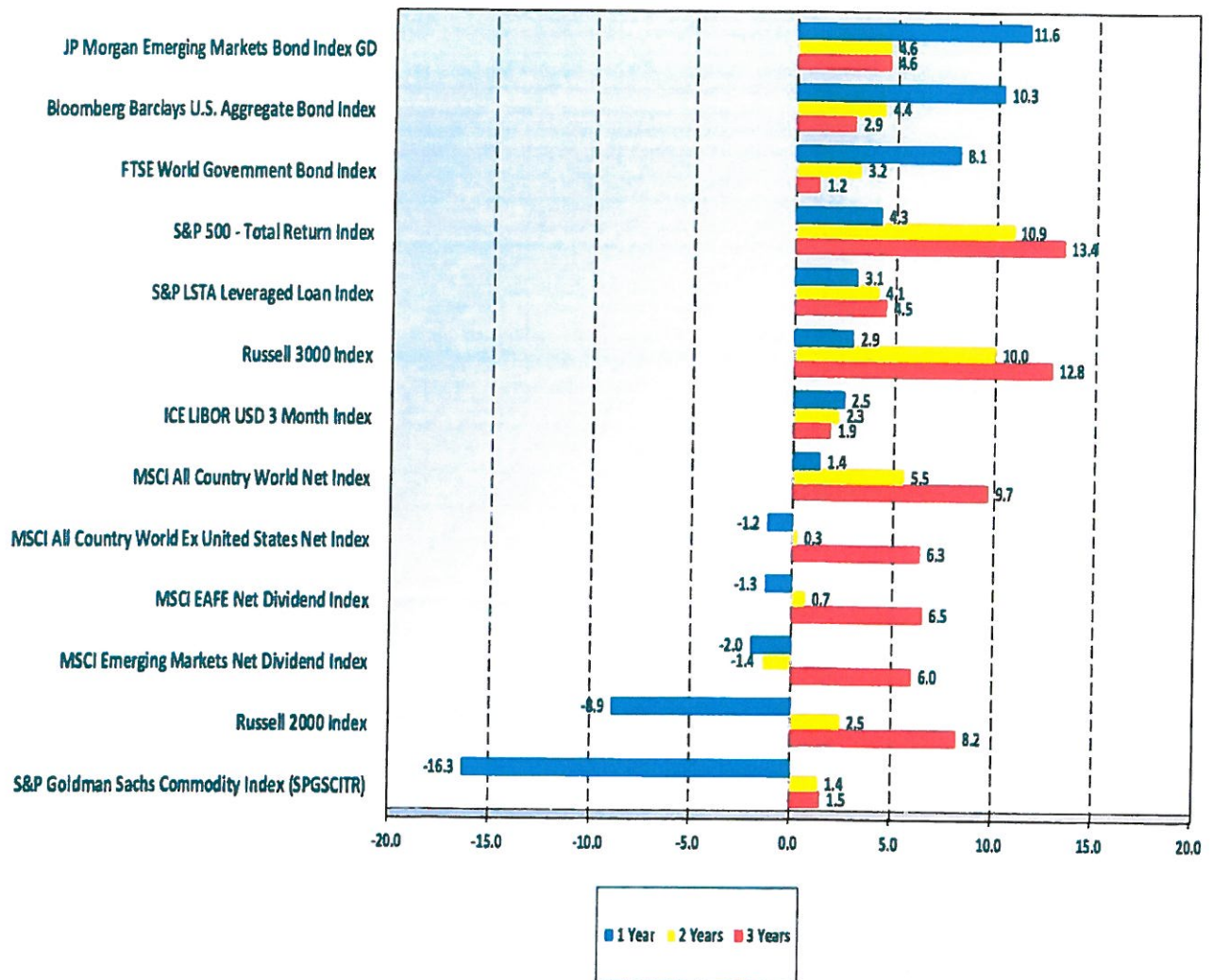
The following charts display (i) the change in value of the S&P 500 over the most recent 3-year period, and (ii) the performance of key market indices for the 1-, 2-, and 3-year periods ended September 30, 2019. The first chart illustrates the S&P 500 monthly values over the last 3 years. The Market Performance chart illustrates the strong performance of U.S. equities over the 2- and 3-year periods, with fixed income leading for the 1-year period.

### S&P 500 Values



\*S&P 500 values shown do not include dividends.

## Market Performance Periods Ended September 30, 2019



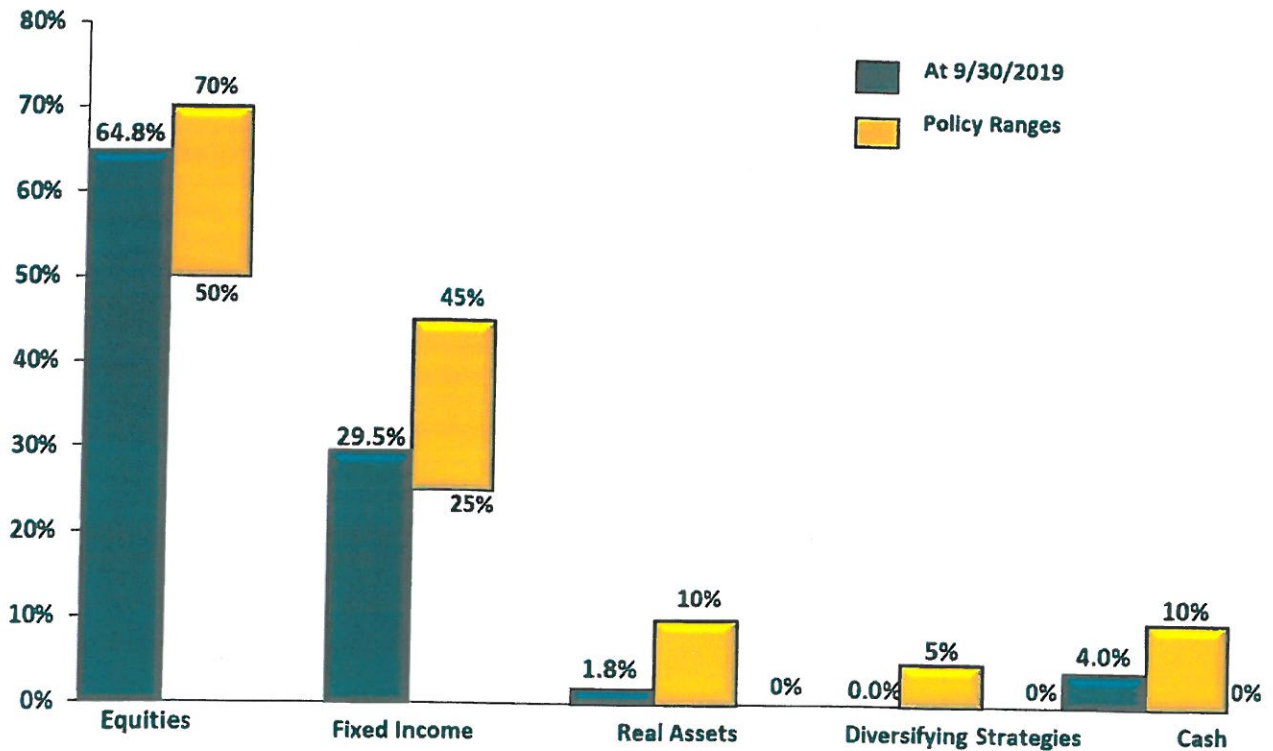
## WVU Investment Funds Review

**Investment Assets under Management:** At September 30, 2019 the value of the Investment Funds' portfolio was \$66.7 million. There were no transfers in or out of the pool during the 12-month period. The portfolio produced \$2.3 million in earnings during the 1-year period and \$14.0 million for the 3-year period ending September 30, 2019.

**Asset Allocation:** The Investment Funds' asset allocation policy is reviewed annually with the WVU Investment Committee. In March 2019, the asset allocation target for Real Assets was decreased from 5% to 3% and the asset allocation target for cash was increased from 2% to 4%. No changes were made to any of the other targets or ranges.

At September 30, 2019, all asset classes were in line with their policy ranges. This portfolio is rebalanced quarterly to policy ranges subject to Committee review and approval. The Investment Policy allows for flexibility to maintain allocations outside the recommended range at the Committee's discretion.

### Asset Allocation as of September 30, 2019



## Performance Summary as of September 30, 2019

For the 12 months ended September 30, 2019, the Investment Funds returned 3.6% for the year, resulting in a gain of \$2.3 million and exceeding the custom benchmark return of 3.2%. An overweight position to U.S. Equities benefited the portfolio as Domestic Equities returned 3.0% for the year, just above the Russell 3000 Index return of 2.9%. International Equities returned 0.8%, led by MFS International Value Fund, which returned 4% when the MSCI EAFE returned -1.3%. The Fixed Income portion of the portfolio outperformed equities, returning 8.3%, led by IR+M Core Bond Fund which returned 10.4% for the period. Real Assets, representing less than 2% of the portfolio, struggled during the year, returning -9.3%. Since inception of the Investment Funds' program in November 2006, the program has generated an annualized return of 5.4% versus the custom benchmark return of 5.3%.

## Performance Returns as of September 30, 2019

	<u>1 YR</u>	<u>3 YR</u>	<u>ITD*</u>
<b>WVU Unrestricted Investment Funds</b>	<b>3.6</b>	<b>7.4</b>	<b>5.4</b>
<i>Custom Benchmark**</i>	<i>3.2</i>	<i>7.6</i>	<i>5.3</i>
<i>Russell 3000</i>	<i>2.9</i>	<i>12.8</i>	<i>8.2</i>
<i>MSCI EAFE</i>	<i>-1.3</i>	<i>6.5</i>	<i>2.4</i>
<i>Barclays Aggregate Bond Index</i>	<i>10.3</i>	<i>2.9</i>	<i>4.3</i>

*\*The inception date of the portfolio for performance tracking purposes is 12/1/2006.*

*\*\*Custom Benchmark calculated by BNY Mellon. Benchmark is a dynamic blend based upon the average monthly balances of all WVU Unrestricted investment accounts and the returns of their corresponding benchmark indices.*

## WVU Operating Investments Portfolio Review

The objective of managing the WVU Operating Investments is to generate interest with very limited, if any, risk to capital using short duration investment strategies. For the 12-month period ending September 30, 2019, the Operating Investments utilized an ICS savings account and a CDARS program using 4-week and 13-week maturities through United Bank. This program was initiated after receiving the State Treasurer's Office approval on August 25, 2015.

### Activity as of September 30, 2019

	9/30/18					9/30/19
	Balance	Deposits	Interest	Transfers	Withdrawals	Balance
ICS Savings	42,595,197	202,500,000	1,237,818	60,256,680	(271,500,000)	35,089,695
4 Week CDARS	30,053,207	62,500,000	203,473	(82,756,680)		10,000,000
13 Week CDARS	-	10,000,000	-	-	-	10,000,000
<b>Total</b>	<b>72,648,403</b>	<b>275,000,000</b>	<b>1,441,291</b>	<b>(22,500,000)</b>	<b>(271,500,000)</b>	<b>55,089,695</b>

<b>Interest Rate Range 9/30/18 - 9/30/19</b>
ICS Savings: 2.08% - 2.74%
4 Week CDARS: 2.23% - 2.93%
13 Week CDARS: 2.28% - 2.98%