



West Virginia University

Division of Planning and Treasury Operations

December 22, 2016

The Honorable Earl Ray Tomblin
Governor of West Virginia
State Capitol 1900 Kanawha Blvd., East
Charleston, WV 25305

Dear Governor Tomblin,

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 newly authorized operating investments for the period October 1, 2015 – September 30, 2016.

The September 30, 2016 values of the WVU unrestricted investment and operating investment portfolios managed by the WVU Foundation were \$60,497,431 and \$55,863,025, respectively. The asset allocation ranges for these funds as well as the actual allocations as of September 30, 2016 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 11.0%. As a point of comparison, during the same period of time the S&P 500 returned 15.4% and the Barclay's Aggregate bond index returned 5.2%. WVU uses a blended benchmark to assess performance of the unrestricted investment portfolio. The benchmark blended rate for the period was 9.7%. This portfolio outperformed its blended benchmark by 130 basis points and has also outperformed the blended benchmark for the 3-year period and 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 solid growth of the S&P during the past several year after a somewhat down period in the previous 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 investment managed by the WVU Foundation, please contact me directly at 304-293-4245.

Sincerely,

A handwritten signature in black ink, reading "David R. Kosslow". The signature is fluid and cursive, with a large initial "D" and "K".

David R. Kosslow
Director – Treasury Operations

cc: Aaron Allred, Legislative Services
Thomas V. Flaherty, WVU Board of Governors Chair
David Alvarez, WVU Board of Governors Finance Chair
E. Gordon Gee, President
Narvel G. Weese, Jr., Vice President for Administration and Finance



December 20, 2016

Mr. Nurvel G. Weese, Jr.
Vice President for Administration and Finance
West Virginia University
Stewart Hall
Post Office Box 6205
Morgantown, West Virginia 26506

Re: Annual Report to West Virginia University
Regarding the Unrestricted Investment Funds and the Operating Investments

Dear Mr. Weese:

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, 2016.

Included herein is a Market Overview and a Portfolio 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,

A handwritten signature in blue ink that reads "Richard S. Kraich".

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

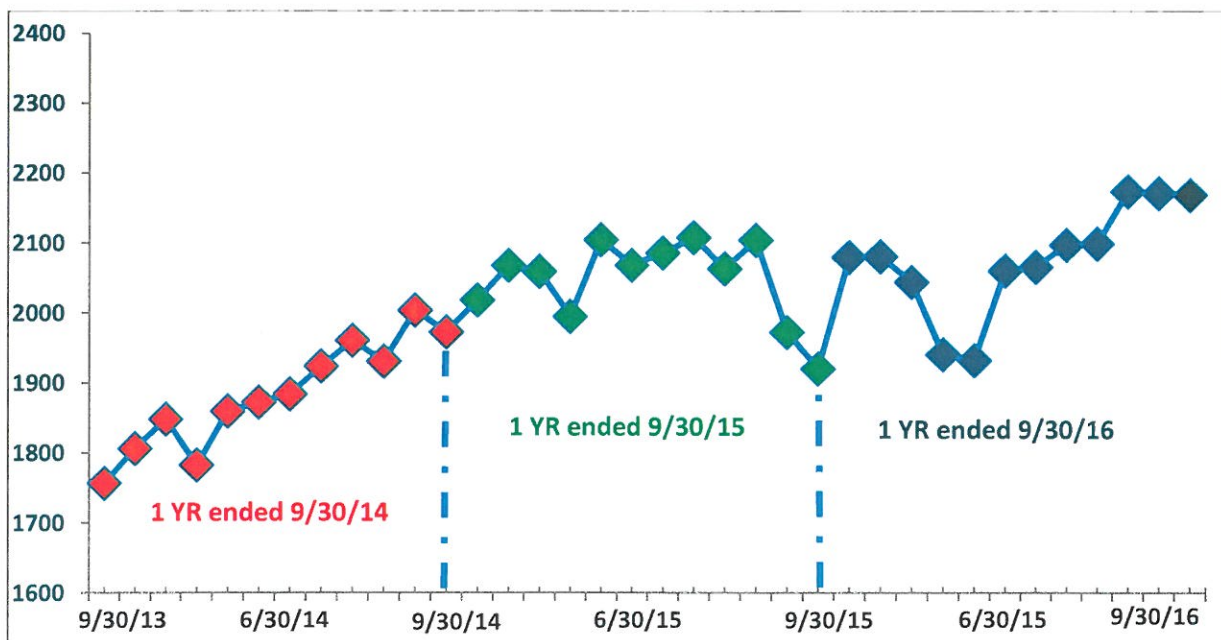
Market Overview

The U.S. equity markets advanced during the year, buoyed by the Federal Reserve's decision to modestly tighten its policy by raising interest rates one time before reverting to a holding pattern. The S&P 500 returned 15.4% while the Russell 3000 returned 15.0%. Small cap stocks fared as well over the past 12 months, returning 15.5% for the Russell 2000. The Morgan Stanley Capital International EAFE Index returned 6.5% and the Morgan Stanley Capital International Emerging Markets index rose 16.8% for the 12-month period. The gains in the markets were not without volatility, however, as sharp declines to start 2016 and after the UK's Brexit vote were followed by strong rebounds. Central banks globally remained generally accommodative.

The Barclays Aggregate Bond Index returned 5.2% during the one year period ended September 30, 2016 as investors awaited the Fed's next interest rate hike. The Citigroup World Government Bond Index gained 9.7% for the year, with one-third of the global government-bond market trading at negative yields. The JP Morgan Emerging Markets Bond Index returned 16.2% as investors searched for higher yields in a low-rate environment. Commodities suffered losses this year, returning -12.2% for the S&P Goldman Sachs Commodity Index, as agriculture was particularly hit.

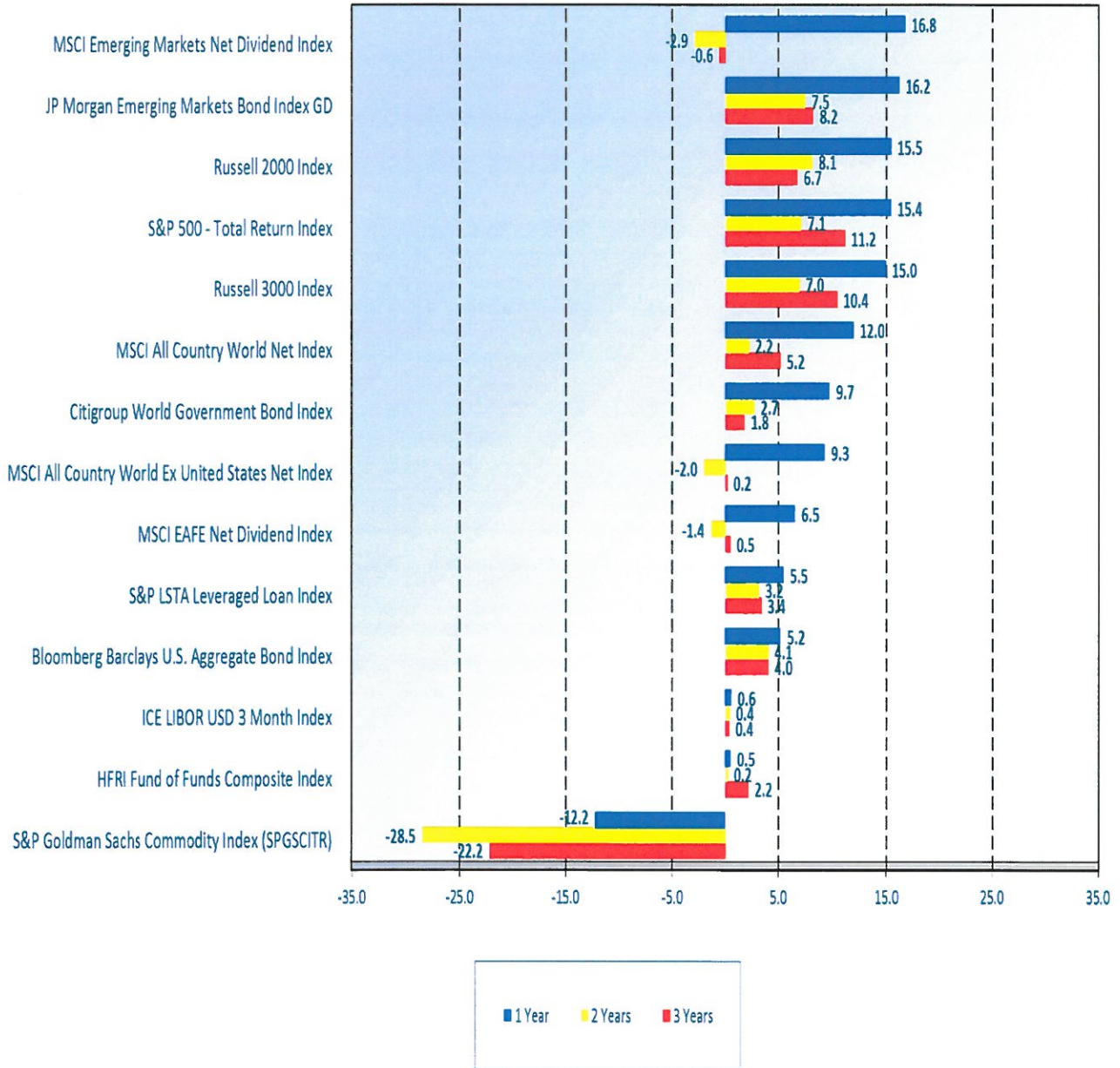
The following charts display (i) the change in value of the S&P 500 over the most recent 3-year period, and (ii) the performance of key market indices for the 1-, 2-, and 3-year periods ended September 30, 2016. The first chart illustrates the S&P 500 monthly values over the last 3 years. The Market Performance chart illustrates the strong performance of U.S. equities over most time periods.

S&P 500 Values



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

Market Performance Periods Ended September 30, 2016



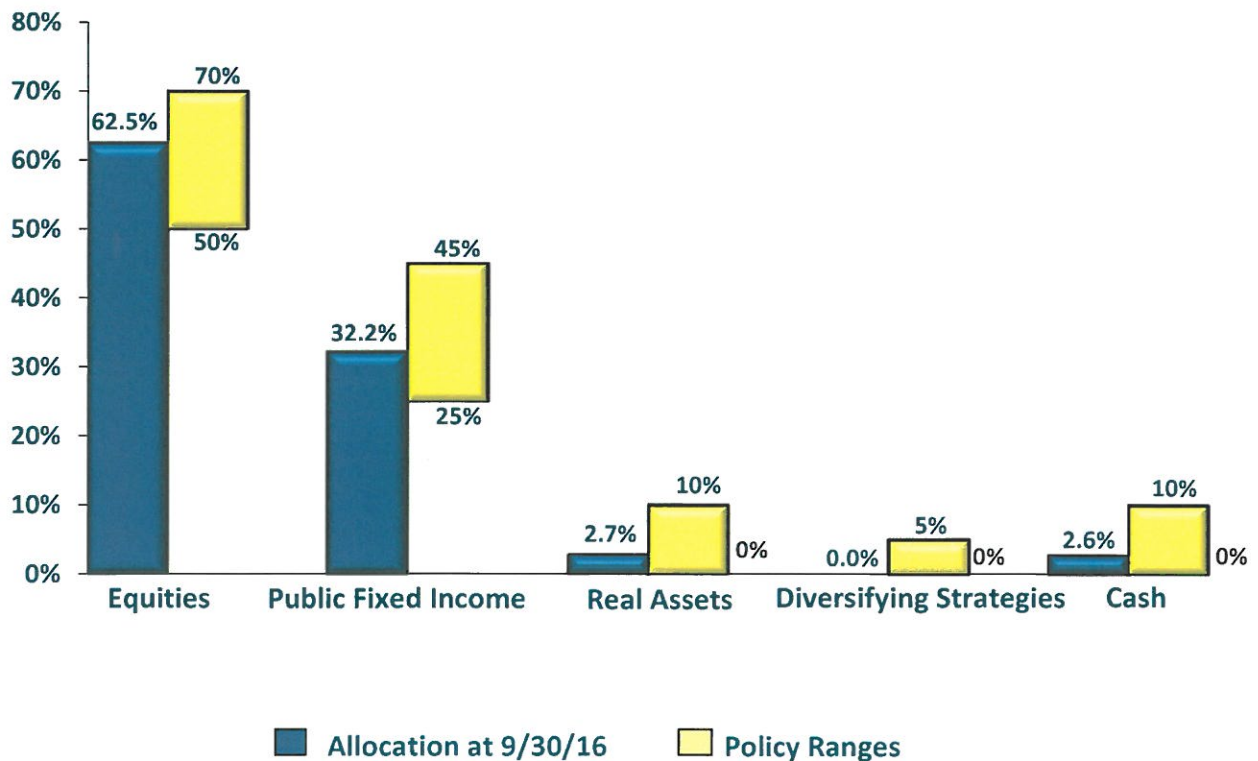
WVU Investment Funds Portfolio Review

Investment Assets under Management: At September 30, 2016 the value of the Investment Funds' portfolio was \$60.5 million. The portfolio had a net gain of \$6.1 million during the twelve month period. The portfolio has produced net earnings of \$9.2 million for the 3-year period ending September 30, 2016.

Asset Allocation: The Investment Funds' asset allocation policy is reviewed annually with the Investment Committee. In March 2016, a 5% target allocation to private equity was added within the equity allocation, but no changes were made to the main asset class targets or ranges.

At September 30, 2016, 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, 2016



Performance Summary as of September 30, 2016

For the 12 months ended September 30, 2016, the Investment Funds returned 11.0% for the year, resulting in a gain of \$6.1 million. The Investment Funds outperformed their custom blended benchmark by nearly 130 basis points. Public Equities returns were strong for the year, returning 14.9% for domestic and 12.6% for international. Our developed international managers, MFS International Value and Oppenheimer International Growth, performed particularly well, outperforming their respective benchmarks. MFS returned 16.6% vs. 3.5% for the MSCI EAFE Value index. Oppenheimer returned 9.1% vs. 6.5% for the MSCI EAFE index. The Fixed Income portion of the portfolio returned 5.7%, outperforming the Barclays Aggregate Bond Index return of 5.2%. The Real Assets space bounced back from previous negative periods with a 23.3% return. Since inception of the Investment Funds' program in November 2006, the program has generated an annualized return of 4.9%, as compared to its Custom Benchmark return of 4.6%.

Performance Returns as of September 30, 2016

	<u>1 YR</u>	<u>3 YR</u>	<u>ITD*</u>
WVU Unrestricted Investment Funds	11.0	5.5	4.9
<i>Custom Benchmark**</i>	<i>9.7</i>	<i>5.0</i>	<i>4.6</i>
<i>S&P 500</i>	<i>15.4</i>	<i>11.2</i>	<i>6.8</i>
<i>MSCI EAFE</i>	<i>6.5</i>	<i>0.5</i>	<i>1.2</i>
<i>Barclays Aggregate Bond Index</i>	<i>5.2</i>	<i>4.0</i>	<i>4.7</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 indexes.*

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, 2016, 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, 2016

	10/1/15 Balance	Deposits	Interest	Withdrawals	9/30/16 Balance
ICS Savings	55,520,338	294,107,432	125,281	(323,906,139)	25,846,912
4 Week CDARS	9,500,000	144,000,000	41,836	(123,525,723)	30,016,113
13 Week CDARS	23,000,000	20,500,000	35,212	(43,535,212)	-
Total	88,020,338	458,607,432	202,329	(490,967,074)	55,863,025

ICS Savings interest rates: 0.25% - 0.70%

4 Week CDARS interest rates: 0.25% - 0.70%

13 Week CDARS interest rates: 0.30% - 0.35%
(not used since April 2016)