



West Virginia University

Division of Planning and Treasury Operations

December 21, 2015

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, 2014 – September 30, 2015.

The September 30, 2015 values of the WVU unrestricted investment and operating investment portfolios managed by the WVU Foundation were \$54,737,907 and \$88,028,201, respectively. The asset allocation ranges for these funds as well as the actual allocations as of September 30, 2015 may be found in the attached report from the WVU Foundation on pages 4 and 6.

The 12-month return for the unrestricted investments can be found on page 5. The WVU unrestricted portfolio achieved a 12-month return during the investment reporting period of -3.4%. As a point of comparison, during the same period of time the S&P 500 returned -0.6% and the Barclay's Aggregate bond index returned 2.9%. WVU uses a blended benchmark to assess performance of the unrestricted investment portfolio. The benchmark blended rate for the period was -3.5%. This portfolio outperformed its blended benchmark by 10 basis points and has also outperformed the blended benchmark for the 3-year period and since inception.

As mentioned on page 4 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 2 of the WVU Foundation report demonstrates solid growth of the S&P over the past several years but negative returns for the past year mainly due to international turmoil. We continue to view the comparative performance of our portfolio detailed on page 5 as evidence that this investment program and the prudent investment strategies allowed within the program can generate positive results.

During the last legislative session, the limit on the amount of money that WVU can invest with its Foundation was removed. WVU has 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 6. 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,



Elizabeth P. Reynolds  
Associate Vice President for Planning and  
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 18, 2015

Mr. Narvel 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") for the 12-month period ending September 30, 2015 and the WVU Operating Investments (the "Operating Investments") for the period ending September 30, 2015.

The Operating Investments were added to the assets that the WVU Foundation manages for WVU as of August 25, 2015, upon approval of the State Treasurer. These funds must be available to meet the current obligations of the University thus the investment of these funds is short term in nature. Due to significant differences from the Investment Funds, the Operating Funds are invested separately and their returns are tracked separately from the Investment Funds. Both investment pools were made available pursuant to West Virginia Code §12-1-12d.

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,



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



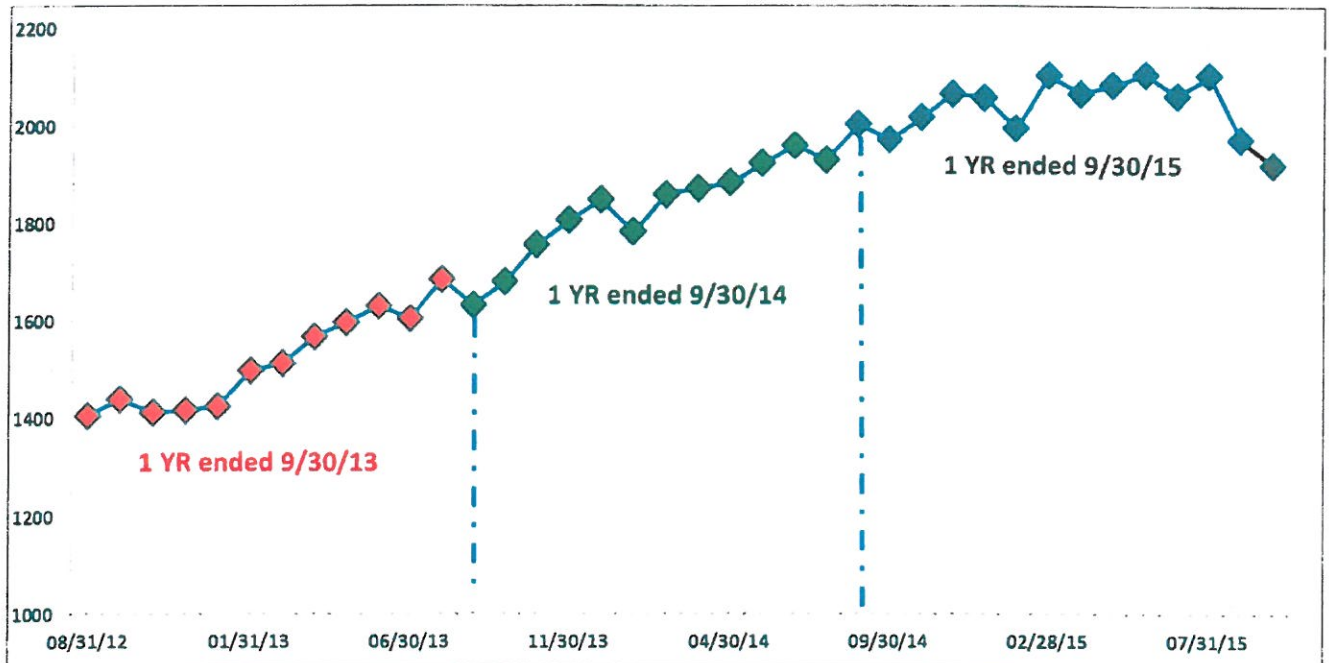
## Market Overview

The U.S. equity markets sputtered during the year due to uneven economic data in housing, employment, consumer spending and GDP, resulting in false starts by the Fed and their continued wariness to raise rates. The S&P 500 returned -0.6% while the Russell 3000 returned -0.5%. Small cap stocks fared only slightly better over the past 12 months, returning 1.3% for the Russell 2000. International developed equity and emerging markets suffered deep negative returns, mostly in the 3<sup>rd</sup> quarter of 2015, with geopolitical turmoil and falling commodity prices driving down performance. The Morgan Stanley Capital International EAFE Index returned -8.7% and the Morgan Stanley Capital International Emerging Markets index returned -19.3% for the 12-month period.

The Barclays Aggregate Bond Index returned 2.9% during the one year period ended September 30, 2015 as investors found very few places to hide from the struggling equity markets. The Citigroup World Government Bond Index posted a negative return for the year at -3.8% and emerging markets bond returns, while negative, fared better at -0.6% for the JP Morgan Emerging Markets Bond Index. Commodities suffered deep losses this year, returning -41.7% for the S&P Goldman Sachs Commodity Index, due to ample supply and weak demand for all commodities, but particularly for oil.

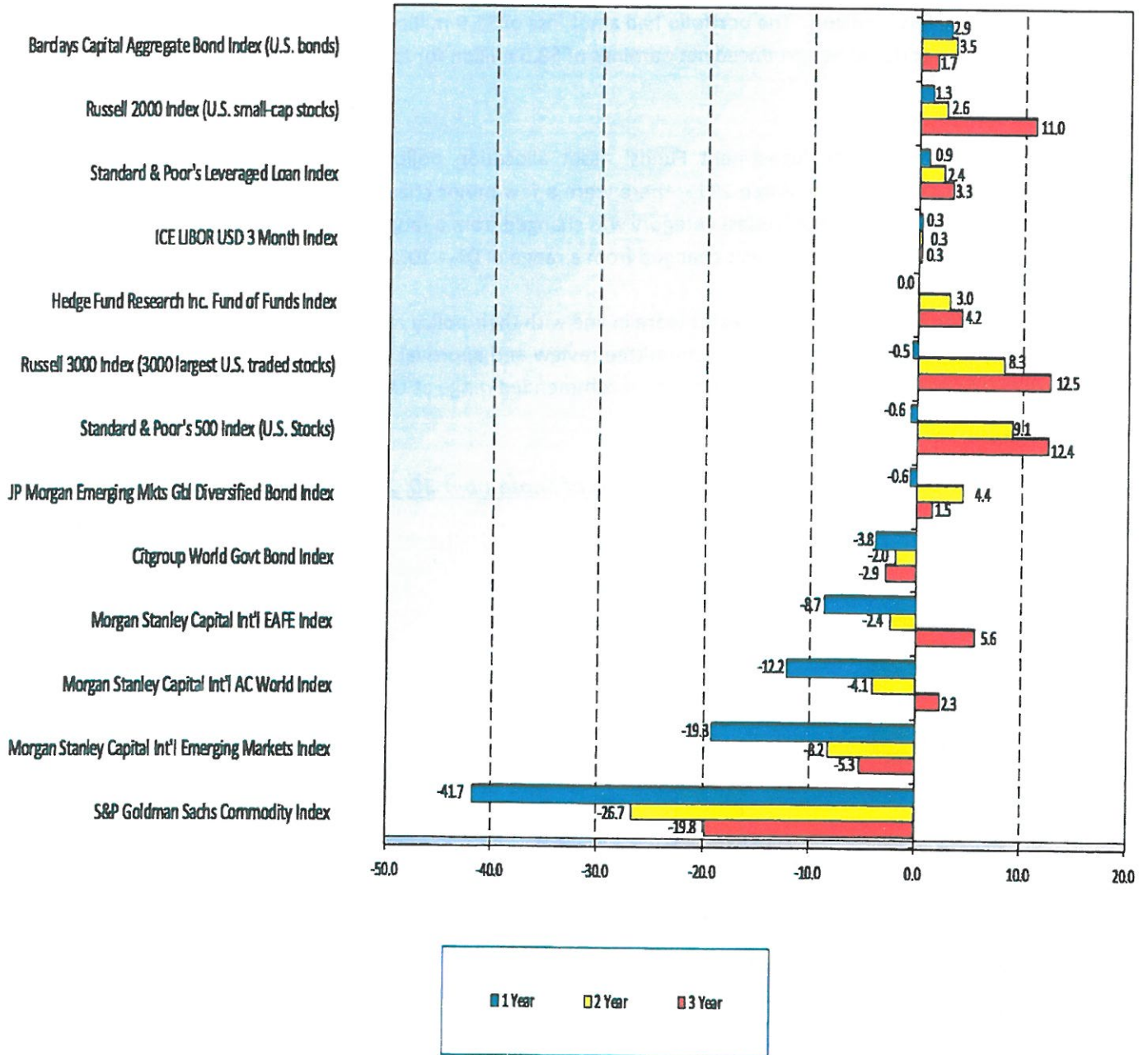
The following charts display (i) the change in value of the S&P 500 over the most recent 3-year period, and (ii) the performance of key market indices for the 1-, 2-, and 3-year periods ended September 30, 2015. The first chart illustrates the S&P 500 monthly values over the last 3 years. The Market 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, 2015



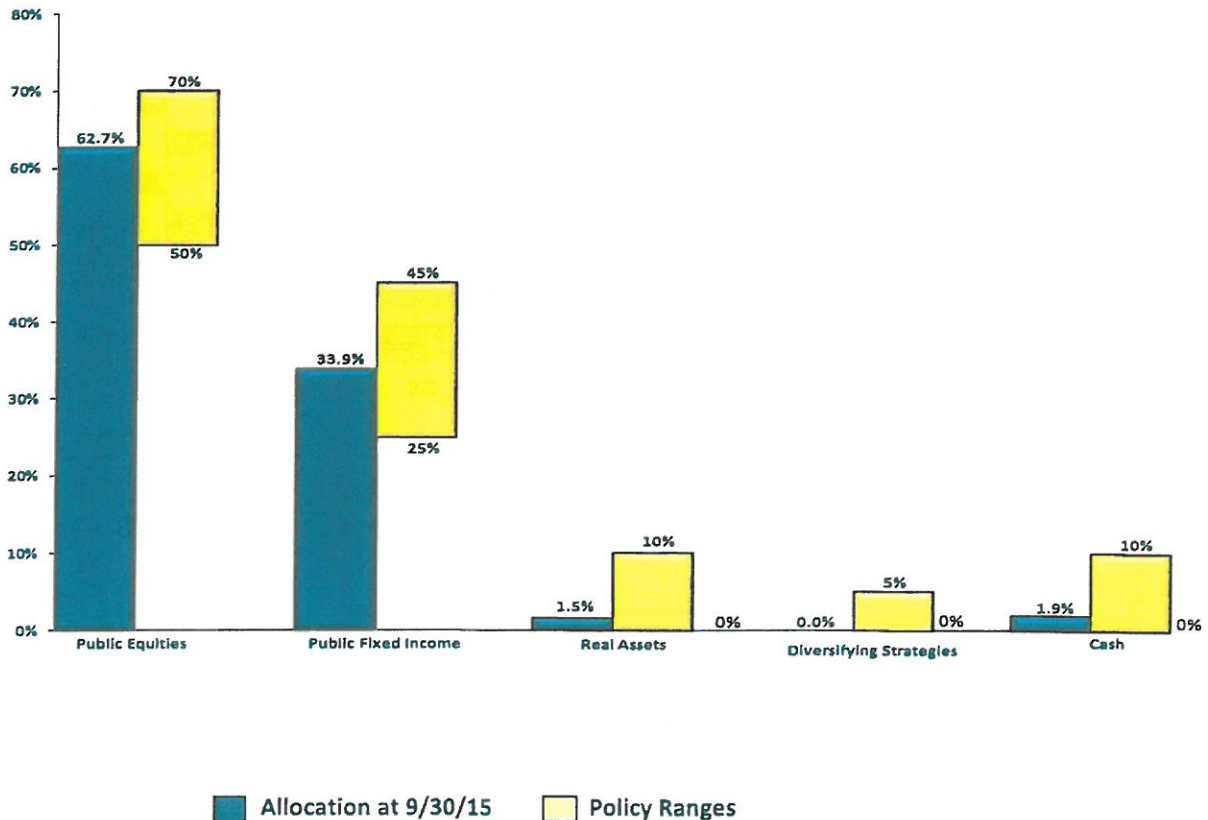
## WVU Investment Funds Portfolio Review

**Investment Assets under Management:** At September 30, 2015 the value of the Investment Funds' portfolio was \$54.7 million. The portfolio had a net loss of \$1.9 million during the twelve month period. However, the portfolio has produced net earnings of \$8.5 million for the 3-year period ending September 30, 2015.

**Asset Allocation:** The Investment Funds' asset allocation policy is reviewed annually with the Investment Committee. In March 2015, there were a few minor changes recommended and approved for the coming year. The Real Assets category was changed from a range of 0% - 15% to 0% - 10% and the Diversifying Strategies category was changed from a range of 0% - 10% to 0% - 5%.

At September 30, 2015, 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, 2015





**Performance:** For the 12 months ended September 30, 2015, the Investment Funds returned -3.4% for the year, resulting in a loss of \$1.9 million. The Investment Funds narrowly outperformed their custom blended benchmark by 6 basis points. Public Equities returns disappointed, returning -2.3% for Domestic and -7.0% for International. However, our developed international managers MFS International Value and Oppenheimer International Growth fared far better than their benchmarks due to an underweight in energy, which was a huge detractor for the year, and they also had strong stock selection. MFS returned 1.1% vs. -12.6% for the MSCI EAFE Value index. Oppenheimer returned -3.2% vs. -8.7% for the MSCI EAFE index. The Fixed Income portion of the portfolio struggled for the year, returning 0.1%, underperforming the Barclays Aggregate Bond Index return of 2.9%. The Real Assets space was hit hard with a -44.0% return. Since inception of the Investment Funds' program in November 2006, the program has generated an annualized return of 4.2%, as compared to its Custom Benchmark return of 4.0%.

**Performance**

	<b><u>1 YR</u></b>	<b><u>3 YR</u></b>	<b><u>ITD*</u></b>
<b>WVU Unrestricted Investment Funds</b>	<b>-3.4</b>	<b>5.6</b>	<b>4.2</b>
<i>Custom Benchmark**</i>	<i>-3.5</i>	<i>5.1</i>	<i>4.0</i>
<i>S&amp;P 500</i>	<i>-0.6</i>	<i>12.4</i>	<i>5.9</i>
<i>MSCI EAFE</i>	<i>-8.7</i>	<i>5.6</i>	<i>0.6</i>
<i>Barclays Aggregate Bond Index</i>	<i>2.9</i>	<i>1.7</i>	<i>4.6</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. At September 30, 2015, the Operating Investments utilized an ICS savings account and a CDARS program using 4-week and 13-week maturities through United Bank. This investment was initiated after receiving the State Treasurer's Office approval on August 25, 2015.

### Activity as of September 30, 2015 (program began in August 2015)

	Deposits	Interest	Transfers	Withdrawals	Current Balance	Interest Rate
ICS Savings	75,000,000	16,982	17,503,356	(37,000,000)	<b>55,520,338</b>	0.25%
4 Week CDARS	27,000,000	5,178	(17,503,356)	-	<b>9,501,822</b>	0.25%
13 Week CDARS	23,000,000	6,041	-	-	<b>23,006,041</b>	0.30%
<b>Total</b>	<b>125,000,000</b>	<b>28,201</b>	<b>-</b>	<b>(37,000,000)</b>	<b>88,028,201</b>	