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STATE OF VERMONT
OFFICE OF THE STATE TREASURER

TO: Kristin Clouser, Secretary of Administration, and the
Higher Education Subcommittee of the Prekindergarten-16 Council

FROM: Michael S. Pieciak, State Treasurer

RE: Annual Report on the Higher Education Trust Fund

DATE: September 30, 2023

Executive Summary

The General Assembly established the Fund in the Office of the State Treasurer in 1999 to provide non-loan financial aid to Vermont students attending the University of Vermont, the Vermont State Colleges, and other Vermont post-secondary institutions (16 V.S.A. § 2885). The annual distribution amount is dependent on the investment gains or losses during the prior fiscal year.

The Fund's portfolio posted a gain of 8.6% during FY2023, which allows for a total distribution of \$920,823. Accordingly, each institution will receive the following specific distribution for non-loan financial aid to Vermont students:

1. **University of Vermont:** \$306,941
2. **Vermont State Colleges:** \$306,941
3. **Vermont Student Assistant Corporation:** \$306,941

Performance Summary

The Fund's portfolio posted an overall gain of 8.6% for twelve months ending June 30, 2023, allowing it to recover most of the ground lost in the previous fiscal year.

The Fund's international and domestic stock holdings posted double digit gains (16.6% and 19.5% respectively). These robust gains occurred despite rising interest rates, the collapse of Silicon Valley Bank and First Republic bank, geopolitical concerns relating to the war in Ukraine, a potential slowdown in the Chinese economy, and frequent predictions of a looming U.S. recession. The labor market remained strong over the period, leading some commentators to speculate about a soft landing for the American economy.

The Fund's emerging markets stock holdings were up slightly with a 1.1% gain, and its bond holdings down similarly with a 1% loss. Together these two holdings had minimal impact on the performance of the Fund's portfolio.

5% Distribution Based on Fiscal Year 2023 Balances

The statute provides that in each fiscal year, the State Treasurer is to distribute up to 5% of the 12-quarter moving average of the Fund's assets equally between the University of Vermont, the Vermont State Colleges, and the Vermont Student Assistance Corporation (VSAC); however, the amount distributed cannot exceed the sum that would bring the fund balance below total contributions made to the principal balance.

Principal contributions through June 30, 2023, totaled \$33,237,369. Subtracting this from the fund balance of \$34,158,192 leaves \$920,823 for distribution. This is roughly 3% of the balance. Each institution will receive \$306,941. **Chart #1** displays the principal contributions to date.

2% Distribution based on Available Fiscal Year 2023 Balances

Vermont statutes (16 V.S.A. § 2885) provides the Secretary of Administration and the Council may authorize the State Treasurer to make an additional distribution of up to 2% of the Fund's 12-quarter moving average of assets if the Fund balance allows for it. This distribution is contingent on meeting two criteria. First, the amount distributed cannot exceed an amount that, in addition to the 5% distribution, would bring the fund balance below the total accumulated contributions to principal. Second, the distribution is contingent upon the institution's match of private donations of at least twice the 2% amount and certification to the Commissioner of Finance and Management that the institution received private donations in the requisite amount, and that the funds will indeed be used to create or increase a permanent endowment.

No distribution is available under the additional 2% threshold based on the Fund's balance.

As the first criteria has not been met, the second does not come into play. **Chart #2** provides a history of authorized distributions.

Fund Distributions

Chart #3 of this report presents the components of the entire Trust Investment Account (TIA), of which the Higher Education Trust Fund, with a balance of \$31.3 million accounts for 66% of the total. Note that all discussions of investment performance and the TIA balance include only the invested portion of the Higher Education Trust Fund. In addition to invested amounts, the fund holds roughly \$2.9 million in cash, and this amount is included when calculating the amount available for distribution. The current 3% distribution will be paid from this cash balance, with the remainder deployed back into the fund's investment holdings as part of the TIA.

Note also that the Teacher and State Employees' Other Post-Employment Benefits (OPEB) funds formerly comprised the bulk of funds in the TIA. In fiscal 2022, OPEB funds were \$110.1 million,

or 70% of the total. In 2022 legislation was enacted to prefund the OPEBs, and these funds were separated from the TIA and are now held in accounts that are invested similar to pensions.

With this change the Fund makes up the lion's share of the TIA. The remainder is attributable to the ANR Stewardship fund, Fish and Wildlife trust funds, Veterans' Home trust funds, and other small trusts.

Fund Balances

The fund balance at the end of fiscal year 2023 totals \$34,158,192 (including cash and investments). An accounting of the fund balance is provided below:

Opening balance FY 2023	\$31,428,595
FY 2022 Distributions withdrawn in FY 2023	
5%: University of Vermont	\$0
Vermont State Colleges	\$0
Vermont Student Assistance Corp.	\$0
2%: University of Vermont	\$0
Vermont State Colleges	\$0
Income earned FY 2023	\$881,298
Appreciation (Depreciation) FY 2023	\$1,753,032
Fees and Other Charges FY 2023	(\$8,086)
Accrued Unclaimed Property	\$103,353.00
Accrued Estate Tax	\$0
Principal Balance June 30, 2023 ³	\$34,158,192
Statutory Distributions Potentially Available ¹	
5% of 12-Quarter Moving Average as of June 30, 2023	(\$1,670,440)
2% of 12-Quarter Moving Average as of June 30, 2023	(\$662,223)
Total Projected Statutory Distribution Potentially Available	(\$2,332,663)
Projected Balance After Potential Projected Distributions	\$31,825,529
Threshold for Distributions (Contributions Accrued as of June 30, 2023)	\$33,237,369
Difference After Potential Distributions compared to the Total Fund Contributions ⁴	(\$1,411,840)
Actual Distributions for FY2023	
5% Distribution	\$920,823
2% Distribution ²	\$0
	\$920,823
Principal Balance after distributions	\$33,237,368
Fundraising target for potential 2% distribution in 2025 (Contingent on an institutional match in FY 2024 and Principal Balance greater than the total Contributions)	Not Determined
<i>1 Assuming statutory levels (5% distribution & 2% distribution) without regard to statutory requirement to keep balance at or above the total principal contributions.</i>	
<i>2 Committee may elect to forego or match the 2% distribution in a given fiscal year. In 2023 no distribution is available.</i>	
<i>3 Numbers may not add due to rounding and include accruals</i>	
<i>4 This represents the amount after the statutory required levels are distributed from principal compared to the total contributions since inception.</i>	

Asset Allocation, Investment Managers, and Performance

The TIA's target asset allocation is 50% fixed income securities and 50% equities, with the equity allocation split between Large Cap US Equities (25%), International Equities (18.75%) and Emerging Market Equities (6.25%). As of June 30, 2023, the TIA's actual allocation was 53% fixed income and 47% equities. Given market volatility these are within a reasonable degree of tolerance and are rebalanced as needed.

TIA currently utilizes four Vanguard mutual funds: Institutional Index (VINIX), Developed Markets Index (VTMNX), Emerging Markets Stock Index (VEMAX) and Total Bond Market Index (VBTIX), creating exposures to three equity asset classes and a broad range of fixed income securities. Annual fees are 5 bps. The policy benchmark is 50% Bloomberg Aggregate Bond Index and 50% ACWI IMI Index. **Chart #4** presents a review of historical performance for TIA for each mutual fund.

While the fund's bond holdings are down a modest 1% in the current fiscal year, this is part of a larger downward trend. After peaking in July of 2020, the fund's bond holdings lost over 17% of their value, bottoming out in October of 2022. This period likely saw the steepest decline ever for the U.S. bond markets.

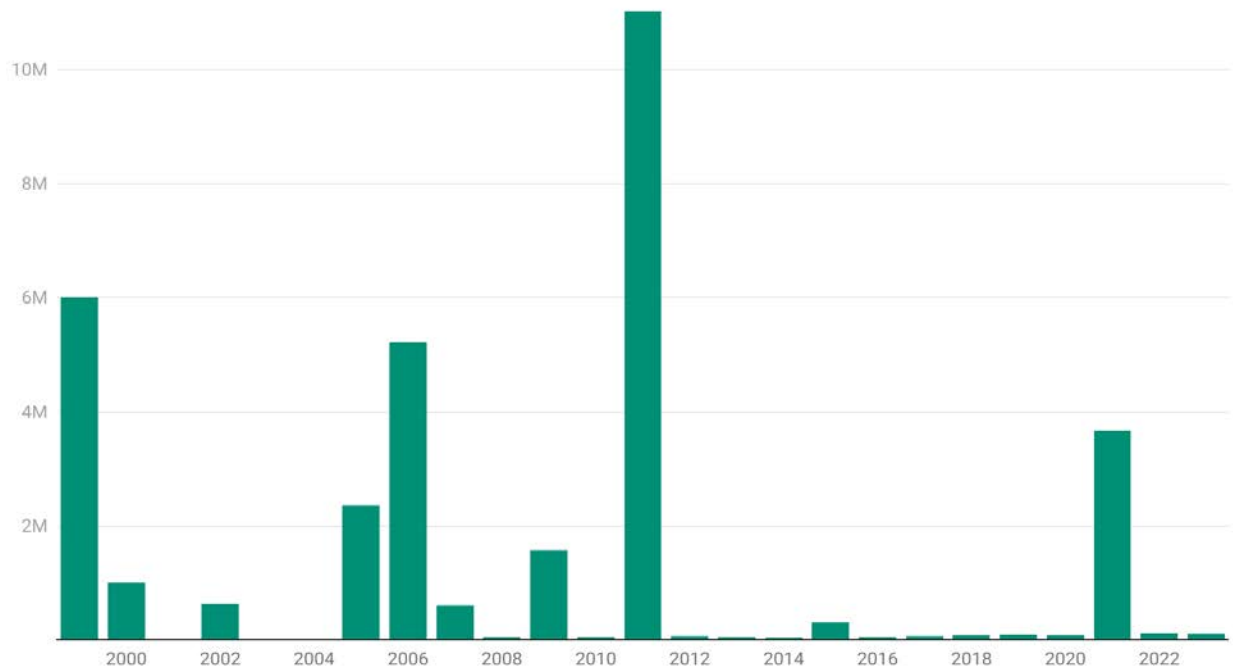
Despite this recent poor performance, bonds have historically provided stable income and a buffer against market volatility. The Treasurer's Office believes that bond index funds continue to bring value to a diversified portfolio such as the TIA, whose long time horizon allows it to weather the ups and downs of the market.

Fund Management Philosophy

The Treasurer's Office believes that a dependence upon manager performance relative to benchmarks, or alpha, is counterproductive, especially for established asset classes. We believe that investment effort is better spent analyzing optimal portfolio allocations using total return, standard deviation, correlation assumptions available from professional investment advisors, and expected cash flows or distributions. This is essential to constructing a portfolio with the lowest expected risk relative to the TIA's return objectives. This philosophy is reflected in TIA and the Fund by allocating to low-fee, highly liquid indexing vehicles.

cc: Adam Greshin, Commissioner of Finance & Management
Scott Giles, Chair, Higher Education Subcommittee of the PreK-16 Council
Mike Ferrant, Legislative Operations

Chart #1
Annual Contributions to The
Higher Education Trust Fund *



***Beginning with the 2021 report, contributions from prior year reports were realigned by fiscal year on an accrual basis to correspond to fund operating results and may vary from cash transaction dates in previous reports.**

Chart #2
Higher Education Trust Fund
Authorized Distributions by Year and Type

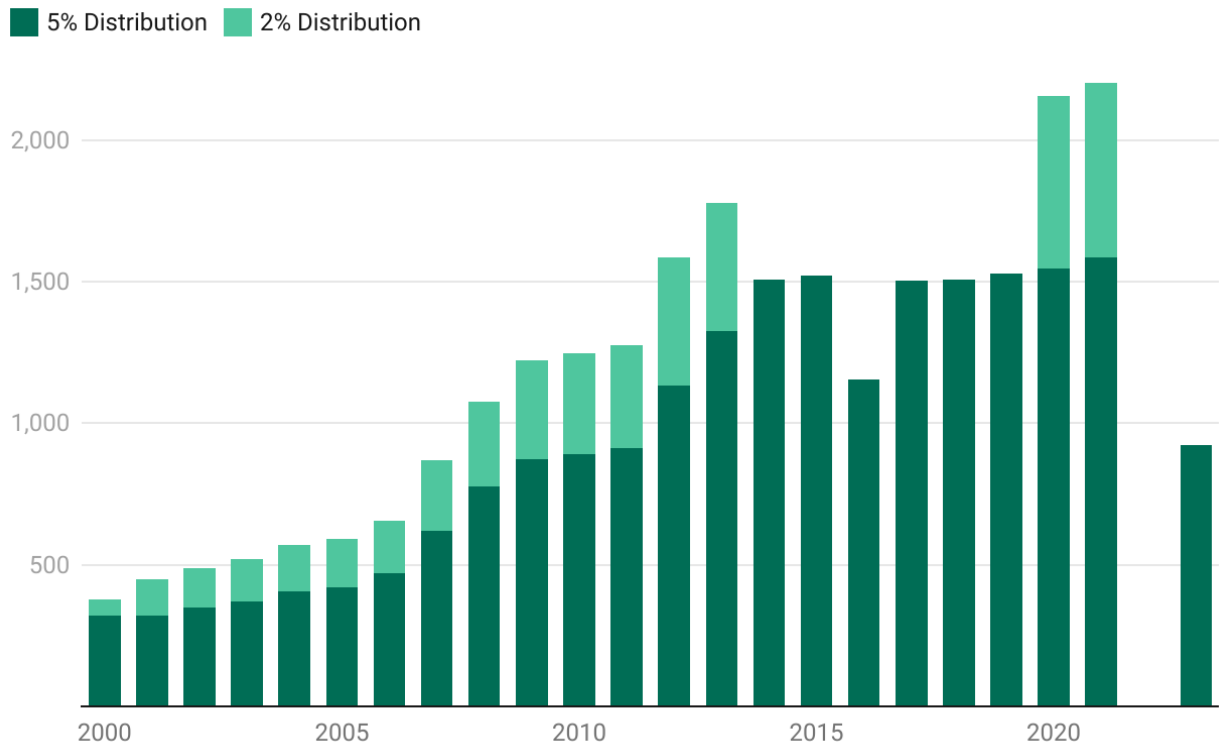
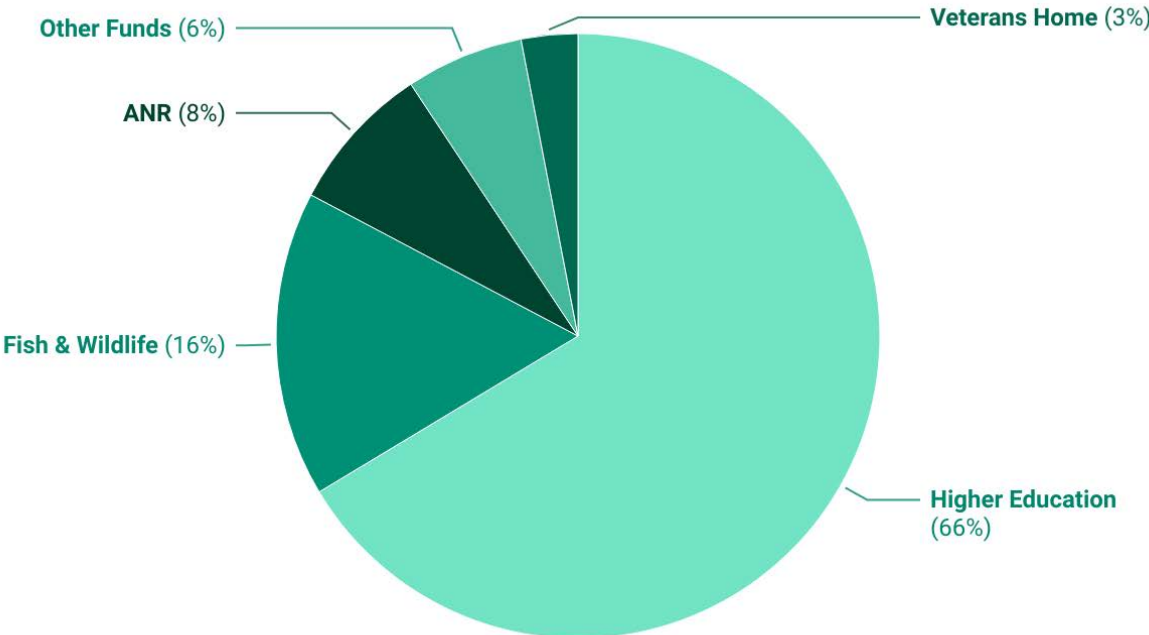


Chart #3
Trust Investment Account Fund Composition
As of June 30, 2023



Please note that chart totals may not sum to 100% due to rounding.

Chart #4 TRUST INVESTMENT ACCOUNT PERFORMANCE (as of June 30, 2023)

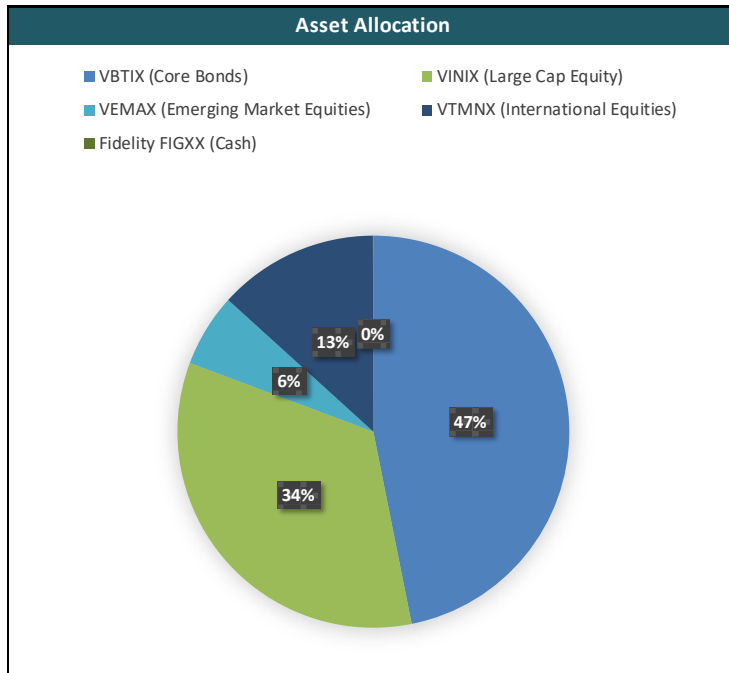
	Trailing Annualized Returns														
	MTD	Prev Qtr	Fiscal YTD	1 YR	3 YRS	5 YRS	7 YRS	10 YRS	Std Dev ⁺	2023	2022	2021	2020	2019	2018
Actual RT	2.8%	2.8%	-100.0%	8.6%	3.0%	4.4%	4.7%	4.7%	10.6%	8.6%	-12.5%	14.9%	6.2%	6.9%	4.1%
Vanguard Developed Markets Index	4.4%	3.2%	-100.0%	16.6%	9.0%	4.4%	6.7%	5.9%	18.7%	16.6%	-18.1%	35.8%	-4.2%	0.0%	7.3%
Vanguard Institutional Index	6.6%	8.7%	-100.0%	19.5%	14.6%	12.3%	13.4%	12.8%	17.9%	19.5%	-10.7%	40.8%	7.5%	10.4%	14.3%
Vanguard Emerging Markets Stock Index	4.3%	1.1%	-100.0%	1.1%	3.4%	2.1%	4.9%	3.2%	16.4%	1.1%	-21.1%	38.7%	-2.9%	3.2%	6.3%
Vanguard Total Bond Market Index	-0.4%	-0.9%	-100.0%	-1.0%	-4.0%	0.8%	0.4%	1.5%	6.1%	-1.0%	-10.4%	-0.4%	8.9%	7.9%	-0.5%

⁺ Past performance is no guarantee of future results

^{**} Net fiscal returns for Vanguard Funds

^{***} 10/2013 - 11/2013 were transitional periods during a TIA restructuring period

⁺ Standard Deviation calculated from trailing 36-month fund returns



Portfolio Characteristics

Net Assets	\$47,114,981
Fixed Income (\$)	\$22,079,468
Equities (\$)	\$25,017,931
Cash (\$)	\$17,582
Current Fee	0.05%
Rolling 12m Return	8.6%
Rolling 12m Std Dev	13.6%