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**STATE OF VERMONT  
OFFICE OF THE STATE TREASURER**

**TO:** Susanne Young, Secretary of Administration, and the  
Vermont Higher Education Endowment Trust Fund Council

**FROM:** Elizabeth Pearce, State Treasurer

**RE:** Annual Report on the Higher Education Endowment Trust Fund

**DATE:** October 6, 2021

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I am pleased to present the State Treasurer's annual report on the Higher Education Endowment Trust Fund ("the Fund") to the Secretary of Administration and the Vermont Higher Education Endowment Trust Fund Council ("Council").

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).

**Performance Summary**

During fiscal year 2021, the Fund's investment return was 14.9% net of fees.

**5% Distribution Based on Fiscal Year 2021 Balances**

The statute provides that in August of 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, 2021 totaled \$33,024,055. Since the balance after distribution exceeds that amount, the full 5% distribution of \$1,584,953 is available, and each of the three institutions will receive \$528,318. **Chart #1** shows principal contributions to date.

**2% Distribution based on Available Fiscal Year 2021 Balances**

Vermont statutes (16 V.S.A. § 2885) further provide that, 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 to the University of Vermont and the Vermont State Colleges. 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.

At the fall 2020 meeting, the Secretary and the Higher Education Subcommittee of the Prekindergarten-16 Council approved the 2% distribution for fiscal year 2021 to the University of Vermont and the Vermont State Colleges with the contingencies noted above.

**Fund Balances**

After payments of \$2,203,032, the fund balance at the end of fiscal year 2021 totals \$35,890,081.

An accounting of the fund balance is provided below:

<b>Ending balance Fiscal Year 2020</b>	<b>\$31,954,154</b>
Fiscal Year 2020 Contributions received in Fiscal Year 2021	\$76,853
<b>Opening balance Fiscal Year 2021</b>	<b>\$32,031,007</b>
Fiscal Year 2020 Distributions withdrawn in Fiscal Year 2021	
5%: <b>University of Vermont</b>	(\$515,066)
<b>Vermont State Colleges</b>	(\$515,066)
<b>Vermont Student Assistance Corp.</b>	(\$515,066)
2%: <b>University of Vermont</b>	(\$305,433)
<b>Vermont State Colleges</b>	(\$305,433)
Income earned Fiscal Year 2021	\$677,416
Appreciation (Depreciation) Fiscal Year 2021	\$3,866,867
Fees and Other Charges Fiscal Year 2021	(\$3,940)
Accrued Unclaimed Property	\$128,343
Accrued Estate Tax	\$3,549,486
<b>Principal Balance June 30, 2021 <sup>1</sup></b>	<b>\$38,093,113</b>
<b>Statutory Distributions Potentially Available <sup>2</sup></b>	
5% of 12-Quarter Moving Average as of June 30, 2021	(\$1,584,953)
2% of 12-Quarter Moving Average as of June 30, 2020	(\$618,079)
<b>Total Projected Statutory Distribution Potentially Available</b>	<b>(\$2,203,032)</b>
Projected Balance After Potential Projected Distributions	\$35,890,081
Threshold for Distributions (Contributions Accrued as of June 30, 2021)	\$33,024,055
<b>Difference After Potential Distributions compared to the Total Fund Contributions <sup>3</sup></b>	<b>\$2,866,026</b>
<b>Actual Distributions for Fiscal Year 2021</b>	
5% Distribution	<b>\$1,584,953</b>
2% Distribution <sup>4</sup>	\$618,079
	<b>\$2,203,032</b>
<b>Principal Balance after distributions</b>	<b>\$35,890,081</b>
Fundraising target for potential 2% distribution in 2023 (Contingent on an institutional match in Fiscal Year 2022 and Principal Balance greater than the total Contributions)	\$633,981

<sup>1</sup> Numbers may not add due to rounding and include accruals

<sup>2</sup> Assuming statutory levels (5% distribution & 2% distribution) without regard to statutory requirement to keep balance at or above the total principal contributions.

<sup>3</sup> This represents the amount after the statutory required levels are distributed from principal compared to the total contributions since inception.

<sup>4</sup> Committee may elect to forego or match the 2% distribution for the fiscal year. In Fiscal Year 2021, the Committee approved the 2%.

### **Potential 2% Distribution for Consideration for Fiscal Year 2022 Fundraising Based on Fiscal Year 2021 Balances**

All principal contributions to the Fund through June 30, 2021 total \$33,024,055, which represents the minimum balance that must be maintained in the Fund. In the event that the Council approves the 2% distribution in October 2021, the fundraising target for fiscal year 2022 would be \$633,981, contingent upon investment performance in 2022. If returns are sufficient, and if the Secretary and the Council authorize this distribution, the University of Vermont and the State Colleges would receive \$316,991 with a required match of \$633,981 to be raised by each institution in fiscal year 2022.

**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 Endowment Trust Fund, with a balance of \$34.0 million accounts for 31% of the total. The State Employees’ Other Post-Employment Benefits fund comprises 53% of the TIA, or \$59.4 million, and the remaining is made up of the ANR Stewardship fund, the Tobacco trust fund, Fish and Wildlife trust funds, Veterans’ Home trust funds, and other small trusts.

### **Asset Allocation, Investment Managers and Performance**

The TIA’s target asset allocation is 50% fixed income securities and 50% equities, with the equity allocation being comprised of Large Cap US Equities (25%), International Equities (18.75%) and Emerging Market Equities (6.25%). As of June 30, 2021, the TIA’s actual allocation was in line with this target.

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 was changed this past year from 40% equities and 60% fixed income to mirror a more global market index in fiscal year 2021 of 50% Bloomberg Aggregate Bond Index and 50% ACWI IMI Index. **Chart #4** presents a review of historical performance for TIA for each mutual fund.

The Treasurer’s Office is mindful of the need to balance the allocation of equities and fixed-income assets given the Fund’s expectation for annual distributions of 5-7% while maintaining an appropriate risk profile that preserves the principal balance.

In fiscal year 2021, the market experienced a steep recovery due to COVID-19 vaccine availability that eased the pandemic pressures on the global economies in late 2<sup>nd</sup> quarter fiscal year 2021. The market has experienced recovery as the global economy continue to reopen. The pandemic remains, however, the greatest risk to the economy and markets.

During fiscal year 2021, equities experienced a significant growth period and the ACWI IMI Index ended the fiscal year up 40.9% over the prior fiscal year. The 50% allocation to domestic fixed income lagged due to inflation concerns as rates rose from historical lows. The Bloomberg Aggregate Bond Index ended the fiscal year down -0.4%. Markets are, however, volatile, and a diversified portfolio provides some protection during economic cycles. The fixed income allocation provides downside protection.

### **Fund Management Philosophy**

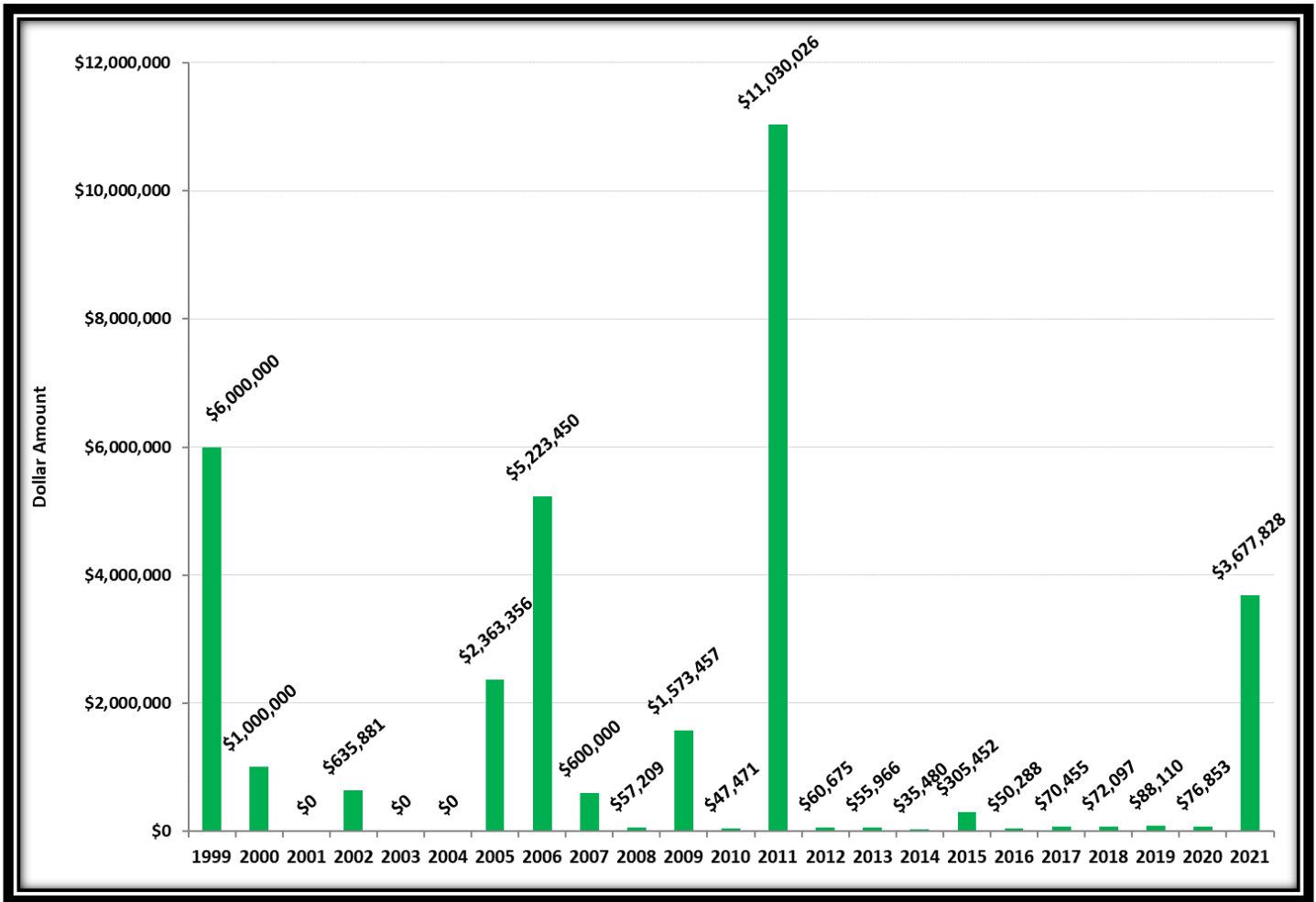
The Treasurer's Office believes that a dependence upon manager performance relative to benchmarks, or alpha, is counterproductive, especially for relatively established asset classes. We believe that investment effort is better spent analyzing optimal portfolio allocations using total return, standard 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.

A well-developed asset allocation strategy and its successful implementation has enabled TIA and the Fund to perform reasonably well in both up and down markets. The Treasurer's Office continues to apply rigorous metrics and macrotrends when evaluating these and other investment portfolios, maximizing value to trust recipients and taxpayers.

Please feel free to contact me if you have any questions or concerns regarding this report.

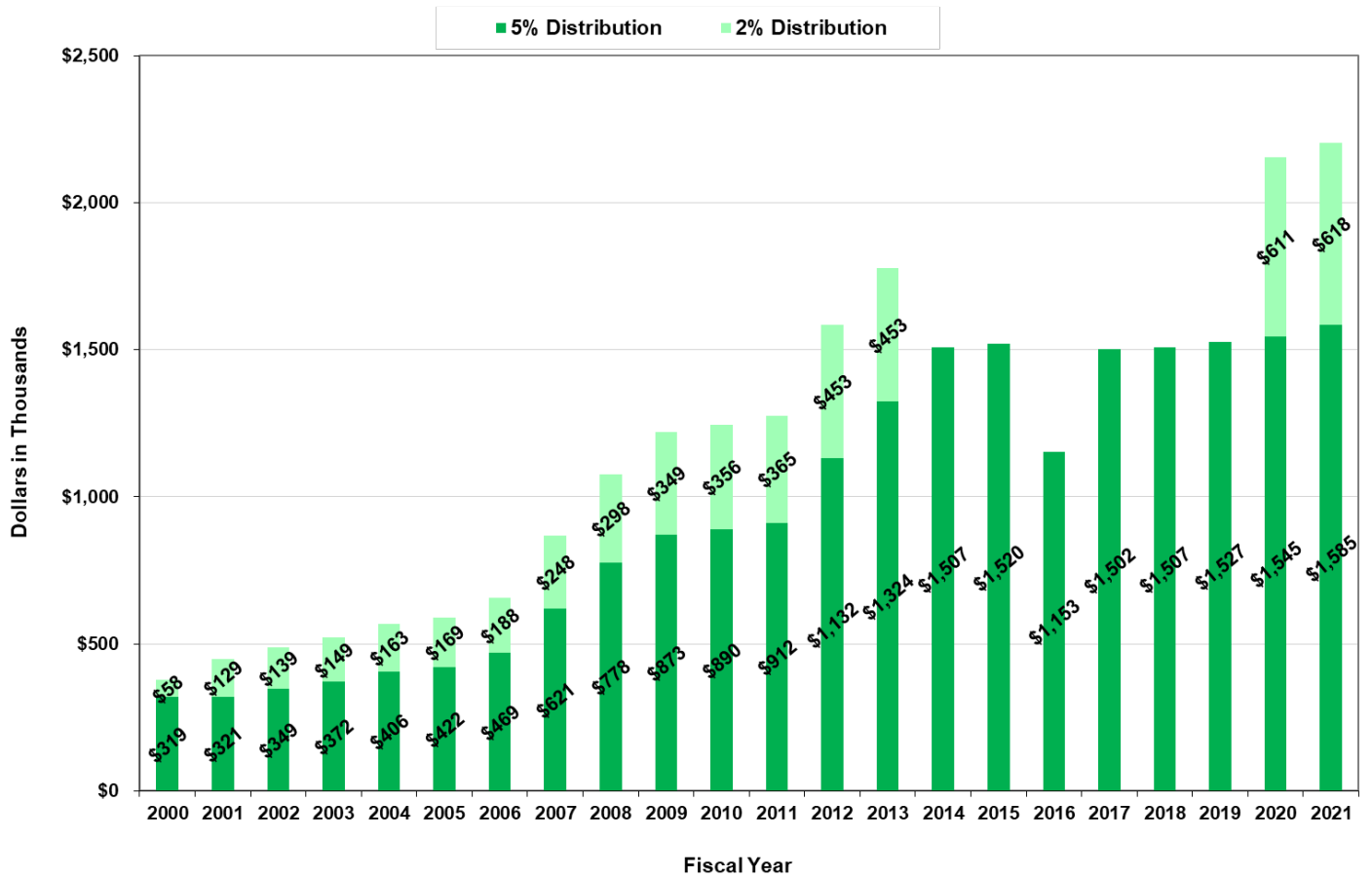
cc: Adam Greshin, Commissioner of Finance & Management  
Luke Martland, Director & Chief Legislative Counsel  
Rebecca Wasserman, Legislative Counsel

Chart #1  
**Higher Education Endowment Trust Fund  
Fund Contributions (fiscal years) \***



\* Amounts from prior year reports have been realigned by fiscal year on an accrual basis to correspond to fund operating results and may vary from cash transaction dates in previous reports.

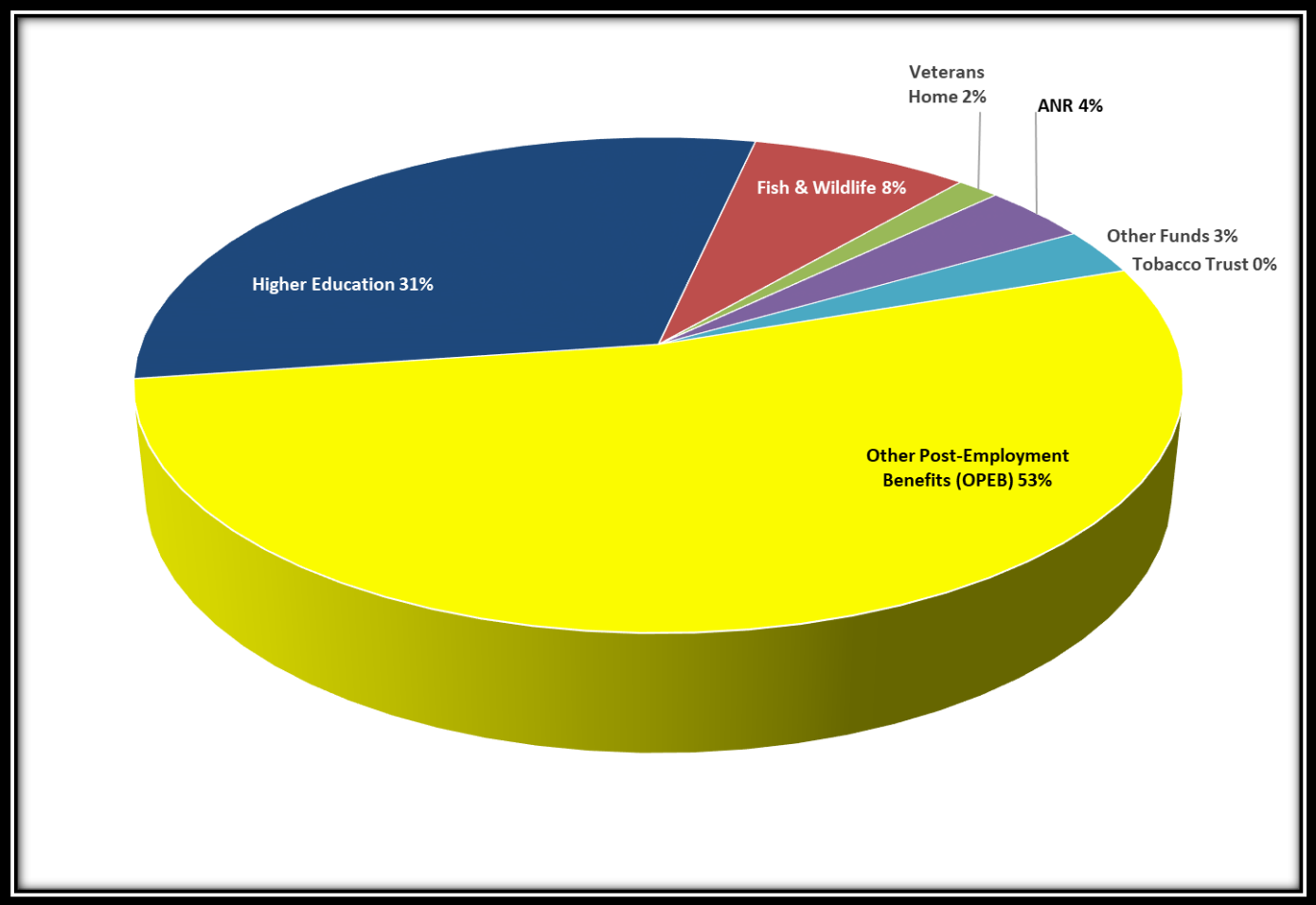
**Chart #2**  
**Higher Education Endowment Trust Fund**  
**Authorized Distributions by Year and Type**



<sup>1</sup> In 2008, the 2% distribution was reduced by \$12,737 to the amount listed to maintain the principal balance above the total contributions.

<sup>2</sup> Due to the expected low market return environment, in years 2014 – 2019 the Higher Education Subcommittee of the Prekindergarten-16 Council chose to withhold the 2% distribution and instead reinvest the funds into the principal balance to maintain a more consistent 5% distribution in the future.

**Chart #3**  
**Trust Investment Account Fund Compositions**  
**As of June 30, 2021**



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



Chart #4

Higher Education Endowment Trust Fund	Portfolio Value	Portfolio Allocation	QTD	1 Year	3 Year	5 Year	7 Year	10 Year	Fiscal Year End Returns				
									2020	2019	2018	2017	2016
<i>Fund Return</i>	34,415,285		4.5%	14.9%	9.3%	7.7%	6.2%	6.2%	6.2%	6.9%	4.1%	6.7%	2.5%
<i>Vanguard Institutional Index Fund (VINX)</i>	8,968,032	26%	8.5%	40.8%	18.7%	17.6%	14.1%	14.8%	7.5%	10.4%	14.3%	17.9%	4.0%
<i>Vanguard Developed Markets Index Fund (VTMNX)</i>	6,495,371	19%	5.7%	35.8%	9.2%	10.5%	6.0%	6.6%	-4.2%	0.0%	7.3%	18.0%	-8.5%
<i>Vanguard Emerging Markets Stock Index Fund (VEMAX)</i>	2,141,546	6%	5.2%	38.7%	11.6%	11.9%	6.0%	3.9%	-2.9%	3.2%	6.3%	18.9%	-12.1%
<i>Vanguard Total Bond Market Index Fund (VBTLX)</i>	16,808,478	49%	2.0%	-0.4%	5.4%	3.0%	3.3%	3.4%	8.9%	7.9%	-0.5%	-0.4%	6.1%

\* As of 06/30/2021

Totals may not sum to 100% due to rounding.