



MICHIGAN STATE UNIVERSITY | Investment Office

# Investment Office Overview

Philip Zecher, Ph.D.  
Chief Investment Officer

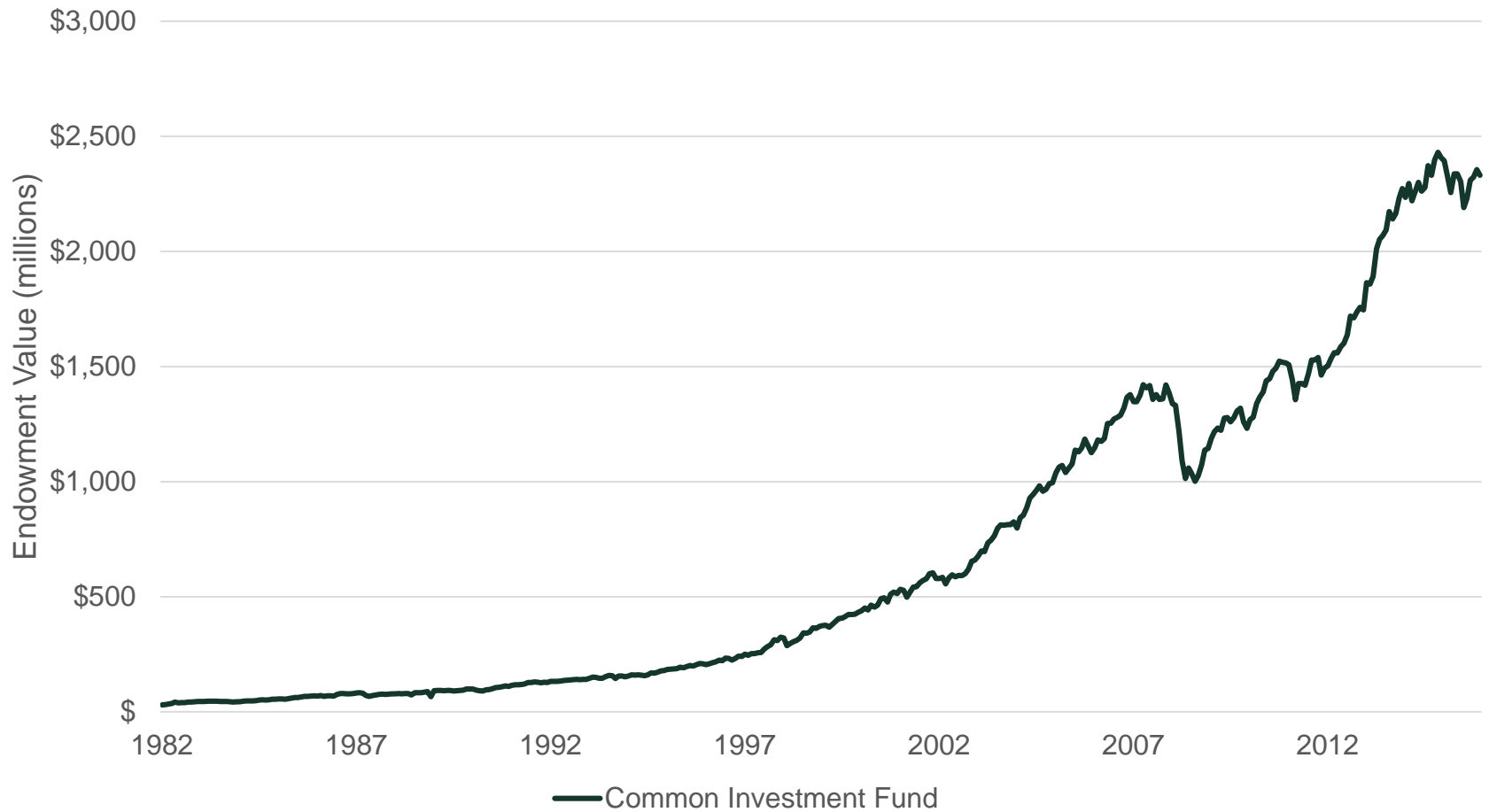
# Goals of Endowments

1. Fund Scholarships and Programs ~ \$119 million per year
2. Preserve and Sustain Purchasing Power of Original Gifts
3. Requires Annual Real Return Equal to Spending Rate

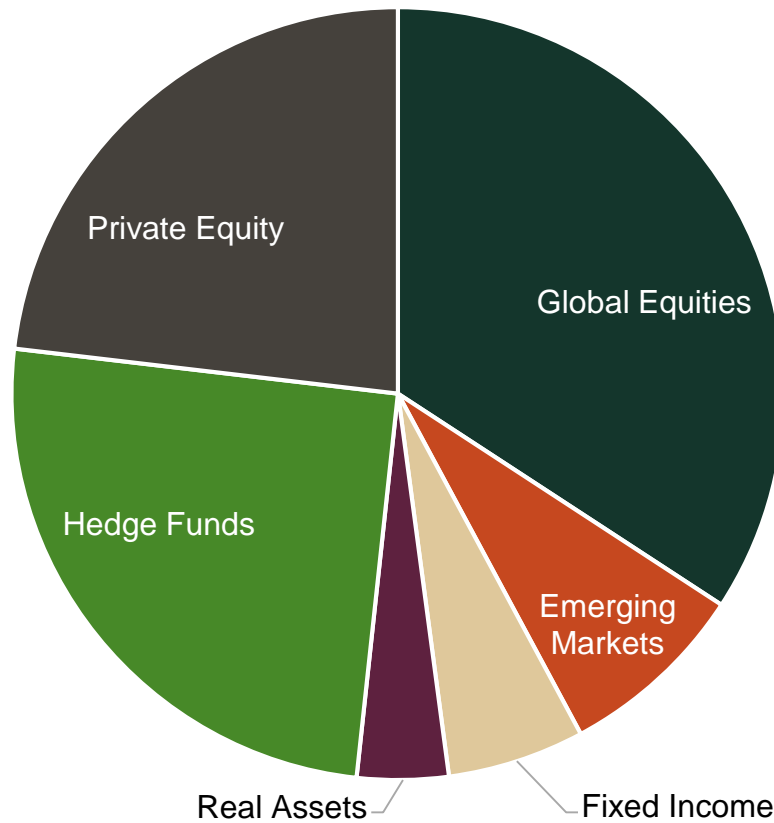
# Confidence – Why Investment with MSU?

1. Strong Financial Stewardship Strategy
2. Competitive Long-Term Investment Returns
3. Professional Investment Staff
4. Tax Advantage (MSU Nonprofit)
5. Low Administration Expenses – Reduced Stewardship Fee From 59 to 55 bps Effective July 1, 2016

# Common Investment Fund Size



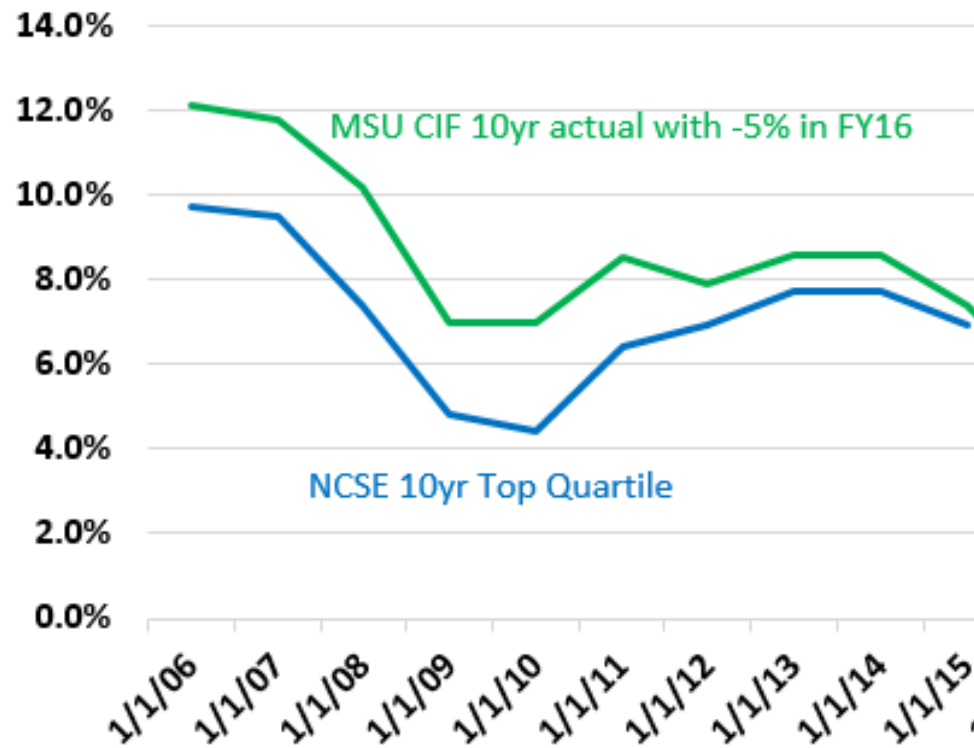
# Asset Allocation



# Performance

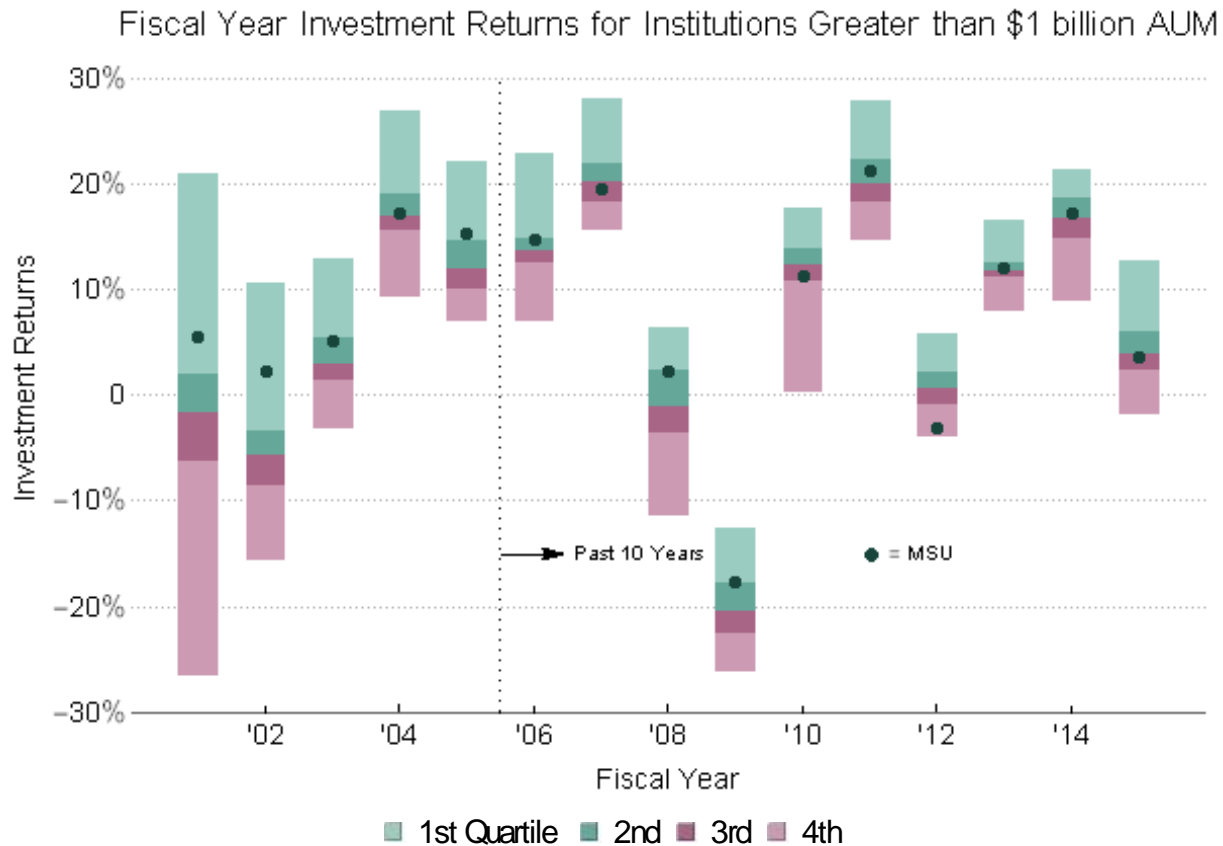
1. Sound Investment Strategy
2. Steady Hand – Income Average  
In/Average Out of Markets
3. Above Median Long-Term Investment  
Returns

# Investment Returns Trending Lower, both for MSU and Peers



10-Year Investment Returns.

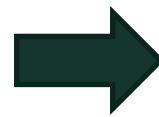
# Institutional Performance has Narrowed in Recent Years





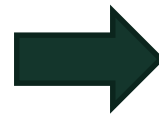
# Near-term markets conditions suggest we plan for lower investment returns

Low Interest Rates



Lower low-risk investment returns

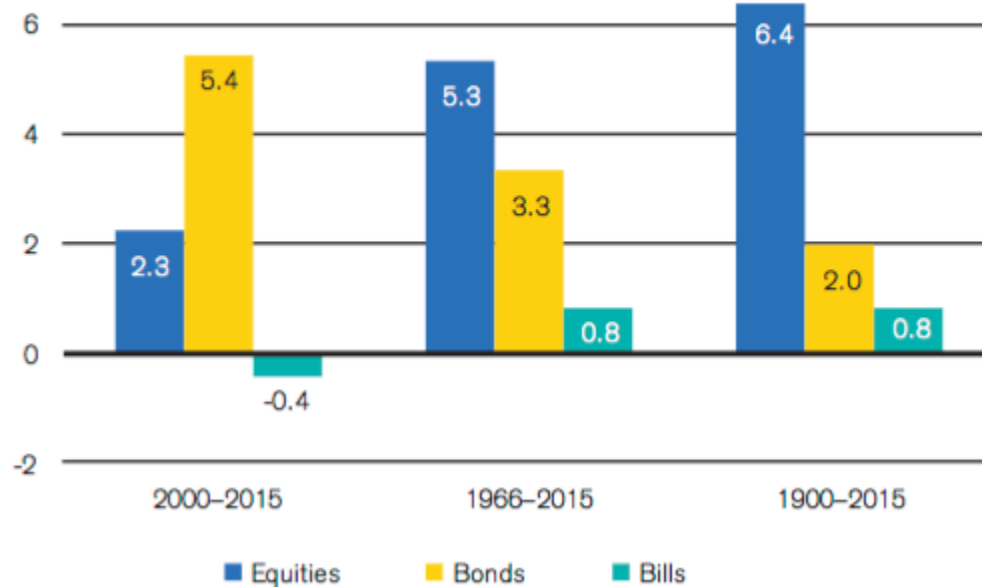
Low GDP growth



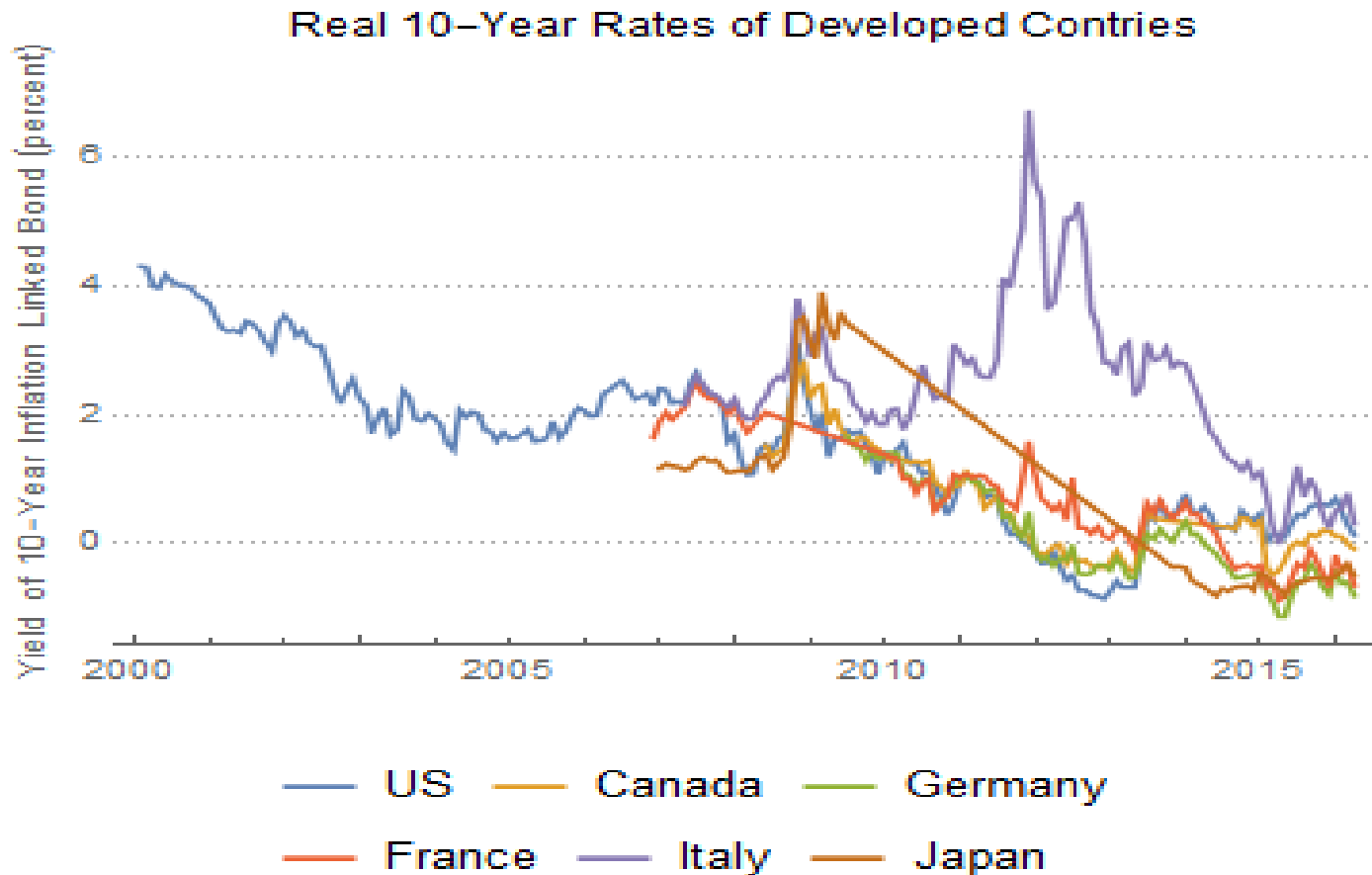
Slower growth in equities

# Why Do We Expect to Earn 5% Real

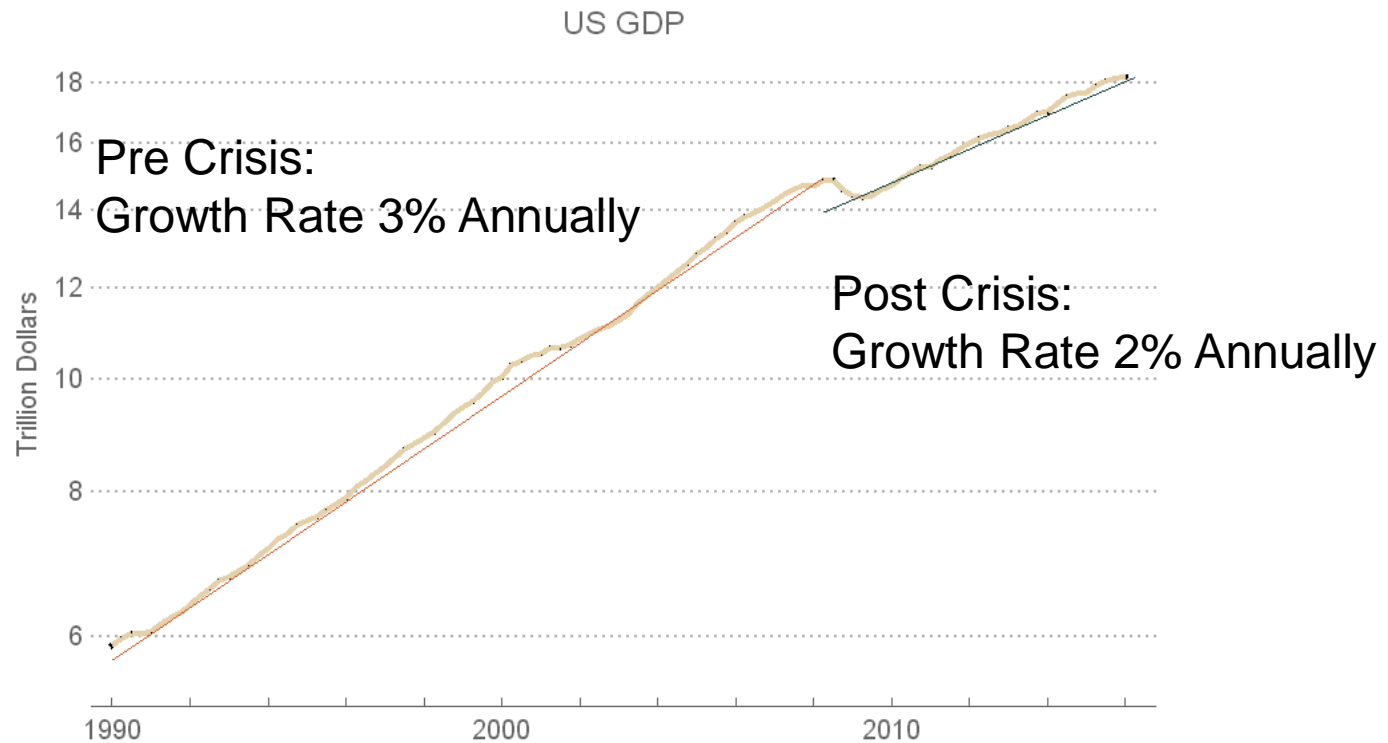
**Annualized real returns on major asset classes (%)**



# Long-Term Real Rates are Historically Low in the Developed World



# Equity Returns Come from Economic Growth – Why the Fed is reluctant to raise rates.



# Next Ten-Year Average Investment Growth Lower

Actual CIF Returns		Long Term Projected Returns
1996-2016	2006-2016	2016-2026
9.1%	6.4%	4.0% to 7.0%

# Pressures on Investment Offices

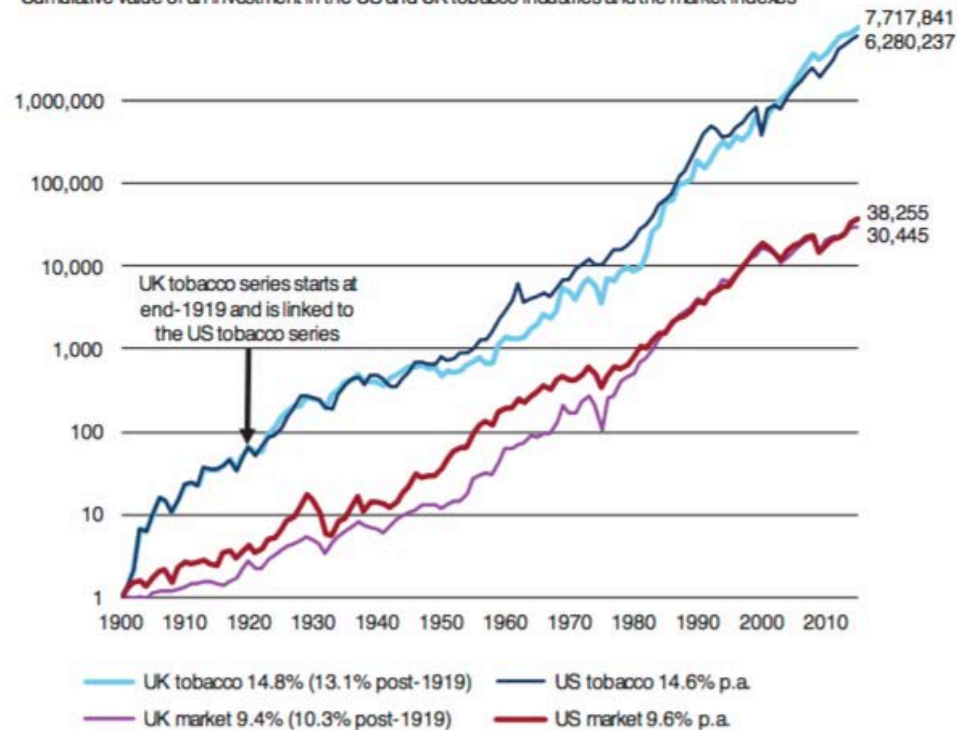
- Fees
- Transparency
- Investor Activism
- ESG (environmental, social, and governance) and Divestment pressures
- Populist discontent with endowments
  - US Congress inquiry into endowment
  - Various state and local governments looking to tax endowments

# Divestment has real costs to performance

## Cumulative returns on tobacco and on equities, 1900–2014

Source: Eroy Dimson, Paul Marsh and Mike Staunton. Currencies are nominal USD and nominal GBP

Cumulative value of an investment in the US and UK tobacco industries and the market indexes



# Questions?