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**TO:** Sarah Clark, Interim 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 – Fiscal Year 2024

**DATE:** September 30, 2024

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**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 10.2% during FY2024, which allows for a base distribution of \$1,702,704, representing 5% of the Fund's rolling 12-quarter balance. Accordingly, each institution will receive the following distribution for non-loan financial aid to Vermont students:

1. **University of Vermont:** \$567,568
2. **Vermont State Colleges:** \$567,568
3. **Vermont Student Assistant Corporation:** \$567,568

## **Performance Summary**

The Fund's portfolio posted an overall gain of 10.2% for twelve months ended June 30, 2024, driven by robust gains in equities, especially domestically, and modest gains in fixed income holdings.

The fund saw double digit returns among all equity classes with domestic equities up 24.5%, international equities up 10.6%, and emerging markets up 11.8%. Early in the fiscal year financial markets fixated on the potential economic impact of elevated interest rates, including a slowdown in the US economy, stress in the banking sector, and possible contagion after the collapse of Silicon Valley Bank. These impacts failed to materialize, and inflation gradually cooled leading to hopes for a "goldilocks economy." Equity returns were led by the so called "Magnificent Seven," and their subset "the 10 trillion-dollar Trio," a small group of tech stocks that saw impressive gains based in part on advances in artificial intelligence.

Fixed income markets rose in the first half of the fiscal year on expectations of imminent interest rate cuts from the Federal Reserve. Subsequently bonds fell when it became apparent rates would stay higher for longer as inflation slowly moderated. Accordingly, the Fund's fixed income investments saw a modest 2.8% gain for the fiscal year.

## **5% Distribution Based on Fiscal Year 2024 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, 2024, totaled \$33,372,116. Subtracting this from the fund balance of \$36,767,647 leaves \$2,703,564 available for distribution, more than sufficient for a 5% distribution of \$1,702,704. **Chart #1** displays the principal contributions to date.

## **2% Distribution based on Available Fiscal Year 2024 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. Any disbursement under the 2% provision must be authorized by the Secretary of Administration and the Higher Education Trust Fund Council. 16 V.S.A. § 2885(d).

While sufficient funds are available to allow for an extra 2% distribution, the base 5% distribution will be made this year. This will allow the fund to grow and increase the chances of a sustainable 5% distribution in the future, and likely decrease the number of years where no distribution (as in 2022) or only partial distributions (less than 5%, as in 2023) are available.

The Fund's balance is currently just slightly higher than the principal amount. Distributing the additional 2% in addition to the 5% would have left a balance of \$34,373,861 versus a principal balance of \$33,372,116. This would be a difference of \$1,001,746, or roughly 3% of the balance. **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 \$36.6 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 \$170 thousand in cash, and this amount is included when calculating the amount available for distribution.

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 pre-fund 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 2024 totals \$36,757,647 (including cash and investments). An accounting of the fund balance is provided below:

<b>Ending balance FY 2023</b>	<b>\$34,158,192</b>
FY 2023 Contributions received in FY 2024	\$0
<b>Opening balance FY 2024</b>	<b>\$34,158,192</b>
FY 2023 Distributions withdrawn in FY 2023	
5%: <b>University of Vermont</b>	(\$306,941)
<b>Vermont State Colleges</b>	(\$306,941)
<b>Vermont Student Assistance Corp.</b>	(\$306,941)
2%: <b>University of Vermont</b>	\$0
<b>Vermont State Colleges</b>	\$0
Income earned FY 2024	\$947,236
Appreciation (Depreciation) FY 2024	\$2,443,461
Fees and Other Charges FY 2024	(\$5,165)
Accrued Unclaimed Property	\$134,747.37
Accrued Estate Tax	\$0.00
<b>Principal Balance June 30, 2024 <sup>3</sup></b>	<b>\$36,757,647</b>
<b>Statutory Distributions Potentially Available <sup>1</sup></b>	
5% of 12-Quarter Moving Average as of June 30, 2024	(\$1,702,704)
2% of 12-Quarter Moving Average as of June 30, 2024	\$0
<b>Total Projected Statutory Distribution Potentially Available</b>	<b>(\$1,702,704)</b>
Projected Balance After Potential Projected Distributions	\$35,054,943
Threshold for Distributions (Contributions Accrued as of June 30, 2024)	\$33,372,116
<b>Difference</b>	<b>\$1,682,827</b>
<b>Actual Distributions for FY2024</b>	
5% Distribution	(\$1,702,704)
2% Distribution <sup>2</sup>	\$0
	<b>(\$1,702,704)</b>
<b>Principal Balance after distributions</b>	<b>\$35,054,943</b>
Fundraising target for potential 2% distribution in 2026 (Contingent on an institutional match in FY 2025 and Principal Balance greater than the total Contributions)	Not Determined
<sup>1</sup> Assuming statutory levels (5% distribution & 2% distribution) without regard to statutory requirement to keep balance at or above the total principal contributions.	
<sup>2</sup> Committee may elect to forego or match the 2% distribution for the fiscal year. In FY 2021, the Committee approved the 2%.	
<sup>3</sup> Numbers may not add due to rounding and include accruals	
<sup>4</sup> This represents the amount after the statutory required levels are distributed from principal compared to the total contributions since inception.	

## 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, 2024, the TIA's actual allocation was 49% fixed income and 51% 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.

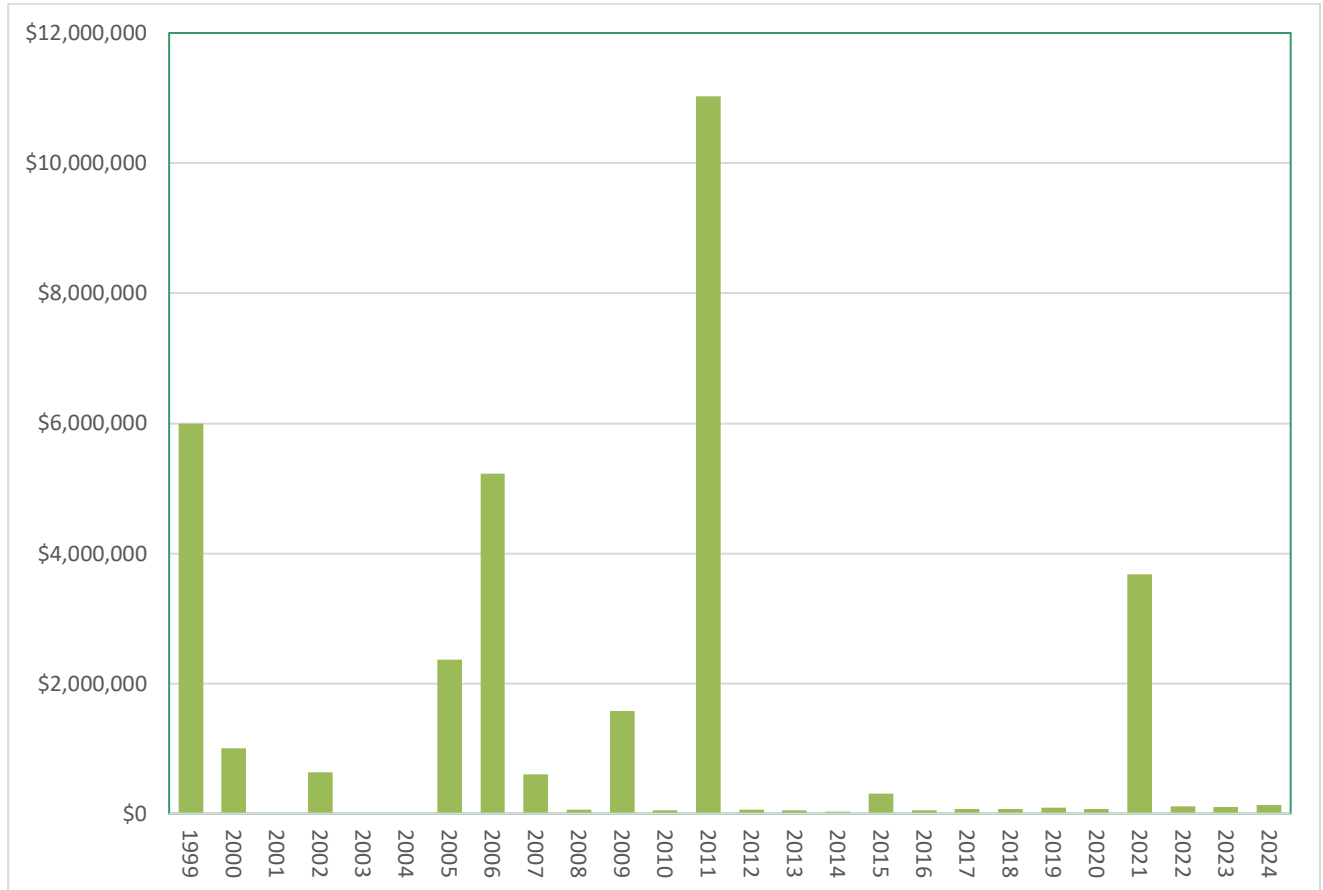
A 2024 a portfolio invested in 100% equities would have seen returns even greater than those posted by the TIA. However, bonds have historically provided stable income and a buffer against market volatility. The Treasurer's Office believes that bond index funds continue to bring value to a diversified portfolio such as the TIA, providing ballast in downturns and allowing the portfolio to weather the ups and downs of the market. A roughly 50-50 balance is reasonable and prudent for trust funds such as these.

### **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, and correlation assumptions available from professional investment advisors, along with 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.

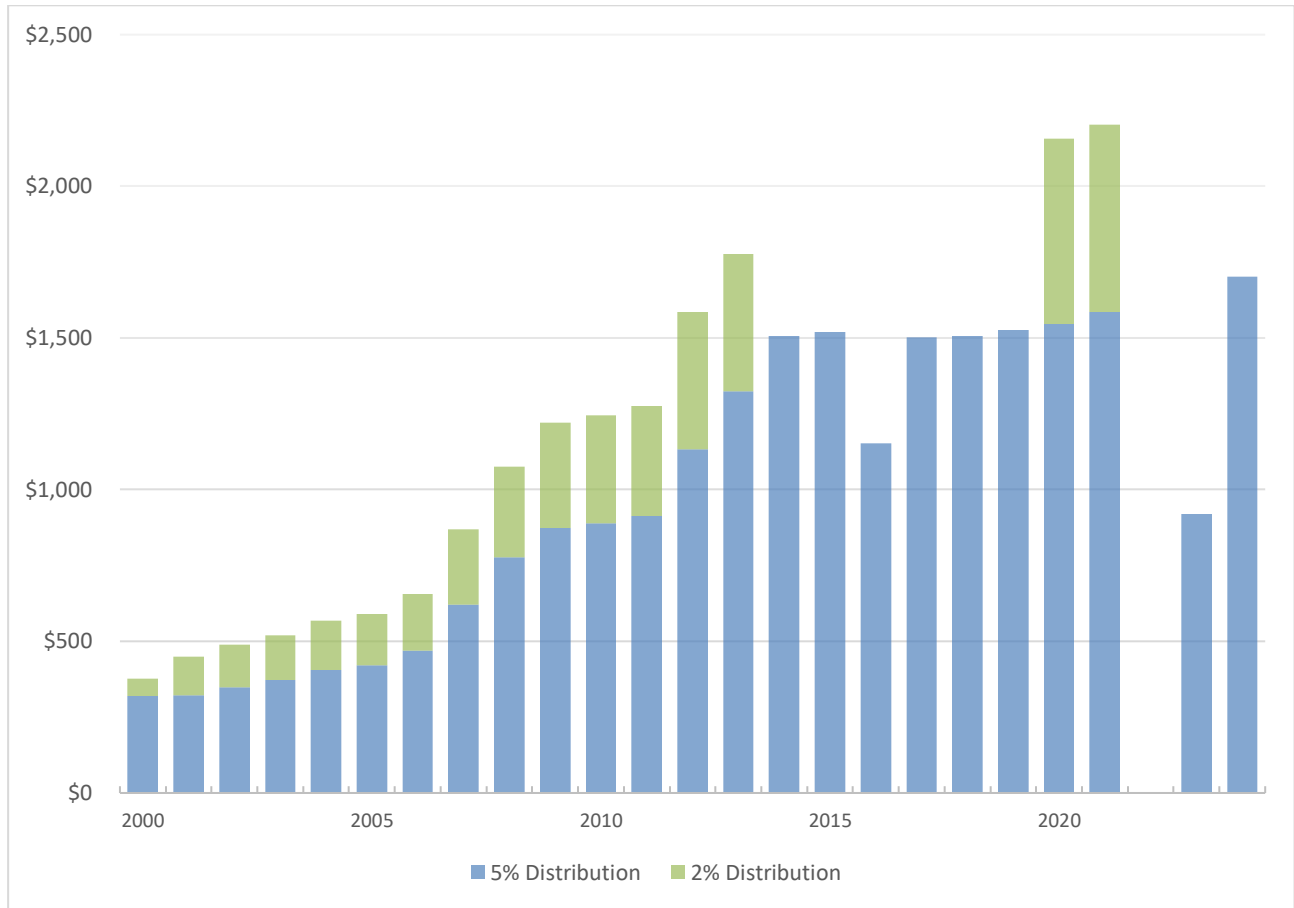
cc: Adam Greshin, Commissioner of Finance & Management  
Scott Giles, Chair, Higher Education Subcommittee of the PreK-16 Council  
Mike Ferrant, Legislative Operations

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

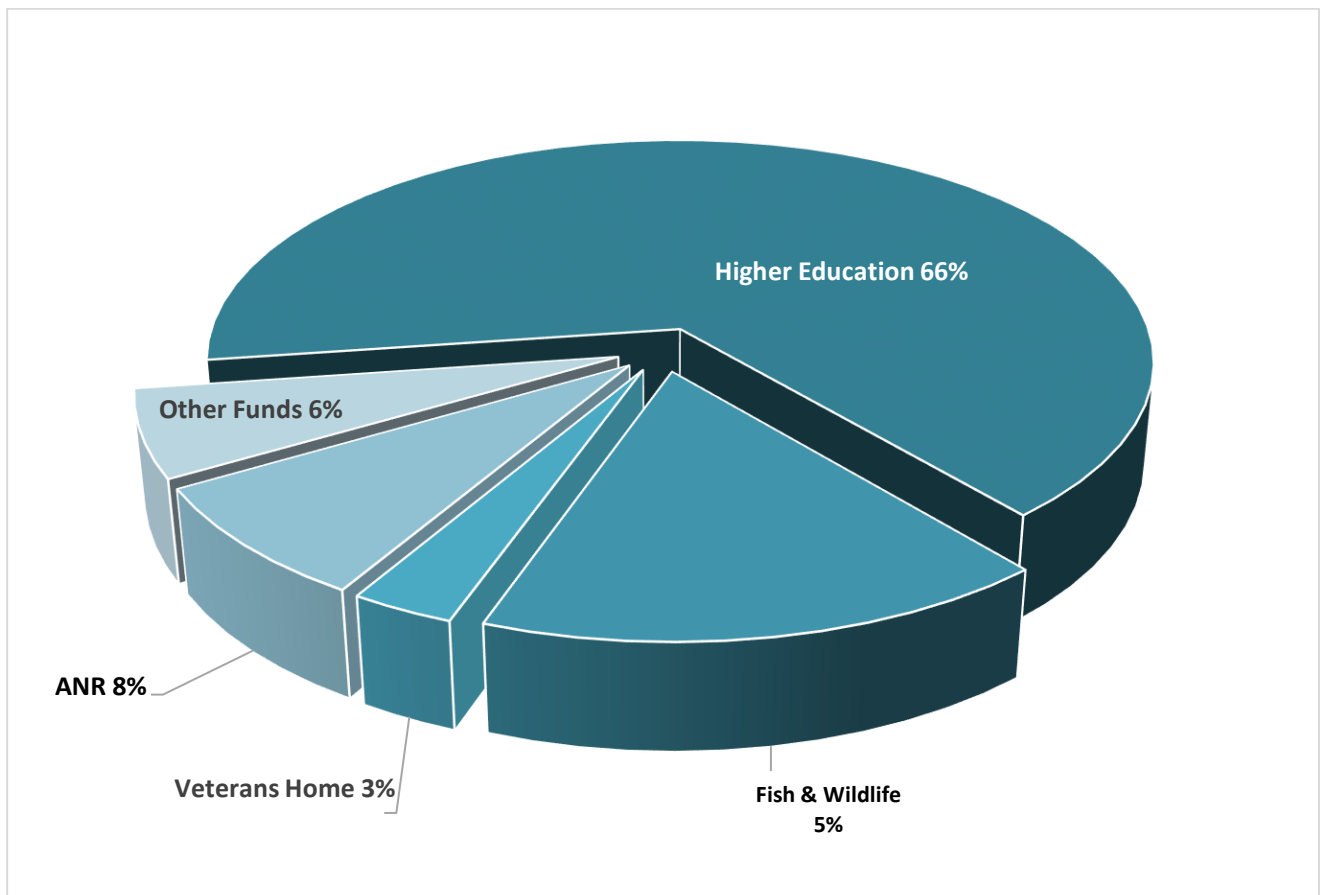


**\*Beginning with the 2021 report, contributions from prior year reports were realigned by fiscal year on an accrual basis to correspond to fund operating results and may vary from cash transaction dates in previous reports.**

**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, 2024)

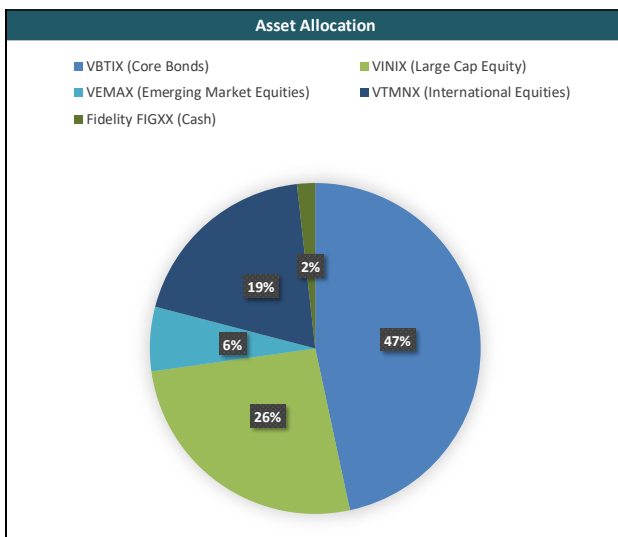
		Trailing Annualized Returns													
Actual_RT	MTD	Prev Qtr	Fiscal YTD	1 YR	3 YRS	5 YRS	7 YRS	10 YRS	Std Dev +	2024	2023	2022	2021	2020	2019
Vanguard Developed Markets Index	1.1%	1.4%	-100.0%	10.2%	1.5%	5.0%	5.1%	4.8%	11.4%	10.2%	8.6%	-12.5%	14.9%	6.2%	6.9%
VTMNX Vanguard Institutional Index	-1.9%	-0.8%	-100.0%	10.6%	1.8%	6.5%	5.7%	4.7%	17.8%	10.6%	16.6%	-18.1%	35.8%	-4.2%	0.0%
VINIX Vanguard Emerging Markets Stock Index	3.6%	4.3%	-100.0%	24.5%	10.0%	15.0%	14.2%	12.8%	17.6%	24.5%	19.5%	-10.7%	40.8%	7.5%	10.4%
VEMAX Vanguard Total Bond Market Index	2.2%	5.3%	-100.0%	11.8%	-3.8%	3.7%	4.0%	3.0%	16.2%	11.8%	1.1%	-21.1%	38.7%	-2.9%	3.2%
VBTIX	0.9%	0.2%	-100.0%	2.8%	-3.0%	-0.2%	0.9%	1.3%	7.3%	2.8%	-1.0%	-10.4%	-0.4%	8.9%	7.9%

\* 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	\$55,383,007
Fixed Income (\$)	\$25,827,224
Equities (\$)	\$28,574,147
Cash (\$)	\$981,635
Current Fee	0.05%
Rolling 12m Return	10.2%
Rolling 12m Std Dev	10.1%