
Summary

Distribution Analysis

At the May board meeting the board requested that Staff and Callan explore the possibility of retaining the income and dividends received from the various portfolios to utilize for the quarterly distributions.

Currently, dividends and interest income are re-invested by the respective portfolio managers and cash is raised as needed for quarterly distribution payments.

The amount of dividends and interest income received on an annual basis is not sufficient to cover the annual distribution and not all the portfolios pay dividends and/or receive interest income.

The current policy allows for rebalancing of the total portfolio as well as rebalancing within each asset class. Managers are typically requested to raise less than 5% of their portfolio for quarterly distribution purposes.

Dividends and Interest

Schedule and Amounts

The dividend and interest income that the Trust Fund receives is approximately \$61 mm annually.

Annual distributions have been in the range of \$140 million to \$151 million over the last four years.

Dividends and interest are received on a monthly basis while the frequency of distribution payments is quarterly. Third quarter distributions represent ~ 40% of the annual distributions with the other 60% distributed evenly over the remaining three quarters.

Not all the manager accounts receive dividends and/or interest payments. In fact, the amount of dividends and interest payments received is not proportionate to the asset class allocations. For example, roughly 66% of the income received come from the fixed-income portfolio which only represents 35% of the overall portfolio.

The recent asset allocation policy change which adds a 10% allocation to hedge funds and multi-asset class strategies will further reduce the amount of dividends and interest payments received going forward.

Asset Class	Dividends and Income Received (1 Year Ending May 31st, 2019)
Domestic Equity	~ \$8.3 mm
International Equity	~ \$11.9 mm
Fixed-Income	~ \$40.5 mm

Cash flow policies

Considerations

Current policy: have managers raise cash as needed to meet quarterly distributions.

Considerations:

- Allows for rebalancing the total portfolio on a regular basis (locking in gains)
- Allows managers to rebalance the individual portfolios they manage (locking in gains)
- Cash can be requested from any manager (liquid portfolios) not just those that generate interest income and/or dividends
- Cash is only raised when necessary (i.e. no assets are held in idle cash)
- Can result in managers having to sell assets/securities that they planned on retaining
- Incurs trading costs

Alternative policy: Retain dividends and interest payments throughout the year and raise any additional cash as needed to meet quarterly distributions.

Considerations:

- Reduces the amount of cash that needs to be raised
- Retained dividends and interest payments would be temporarily invested in the STIF account until the assets are ready to be distributed. Current rate is ~2.25% annualized
- Somewhat of a mismatch between timing of the dividends and interest payments received (monthly) and disbursement of quarterly distributions (quarterly).
- Somewhat reduces the rebalancing opportunity as not all the underlying portfolios pay out dividends and/or interest income
- Reduces trading costs