

December 17, 2018

The Honorable James C. Justice, II
Governor of West Virginia
State Capitol 1900 Kanawha Blvd., East
Charleston, WV 25305

Dear Governor Justice,

In accordance with the requirements of WV State Code 12-1-12d(f), I respectfully submit the enclosed report on behalf of the West Virginia University Board of Governors. This report provides information about the University's unrestricted investment fund and the operating investments for the period October 1, 2017 – September 30, 2018.

The September 30, 2018 values of the WVU unrestricted investment and operating investment portfolios managed by the WVU Foundation were \$64,747,092 and \$72,648,403, respectively. The asset allocation ranges for these funds as well as the actual allocations as of September 30, 2018 may be found in the attached report from the WVU Foundation on Pages 3 and 5.

The 12-month return for the unrestricted investments can be found on Page 4. The WVU unrestricted portfolio achieved a 12-month return during the investment reporting period of 7.0%. As a point of comparison, during the same period of time the S&P 500 returned 17.9% and the Barclay's Aggregate bond index returned -1.2%. WVU uses a blended benchmark to assess performance of the unrestricted investment portfolio. The benchmark blended rate for the period was 7.8%. This portfolio underperformed its blended benchmark by only 80 basis points and has outperformed the blended benchmark for the 3-year period and since inception.

As mentioned on Page 3 of the WVU Foundation report, WVU reviews its asset allocation of these portfolios at least annually. Over the past few years, upon recommendation of the WVU Foundation based on WVU's expressed risk tolerance, WVU has modestly increased its equity allocation of the unrestricted investment portfolio to more closely reflect the long term nature of the assets being managed.

WVU and the WVU Foundation are proud that the unrestricted investment portfolio has performed well in volatile equity and challenging fixed income market conditions. The graph on Page 1 of the WVU Foundation report demonstrates solid growth of the S&P during the past year after a somewhat down period about midway through the reporting year. We continue to view the comparative performance of our portfolio detailed on Page 4 as evidence that this investment program and the prudent investment strategies allowed within the program can generate positive results.

During the 2015 legislative session, the limit on the amount of money that WVU can invest with its Foundation was removed. WVU elected to place its available operating dollars with the WVU Foundation for investment in short term, federally guaranteed investments. WVU made its first investment of such money on August 25, 2015. The returns on these investments as well as additional detail about how the money has been shifted between the various investment vehicles can be found on Page 5. Funds are removed from these investments as they are needed to meet the current obligations of the University throughout the year.

Should you desire additional information regarding WVU's investments managed by the WVU Foundation, please contact me directly at 304-293-4008.

Sincerely,



David R. Kosslow
Assistant Vice President for Finance

Enclosure

cc: Aaron Allred, Legislative Services
William D. Wilmoth, WVU Board of Governors Chair
J. Thomas Jones, WVU Board of Governors Finance Chair
E. Gordon Gee, President
Rob Alsop, Vice President for Strategic Initiatives

December 11, 2018

Rob Alsop
Vice President for Strategic Initiatives
West Virginia University
Stewart Hall
Post Office Box 6205
Morgantown, WV 26506

Paula Congelio
Vice President and CFO
West Virginia University
Post Office Box 9000 Suite 1000
Morgantown, WV 26506

Re: Annual Report to West Virginia University
Regarding the Unrestricted Investment Funds and the Operating Investments

The West Virginia University Foundation, Incorporated, in its capacity as Investment Agent, has prepared the enclosed annual report on the Unrestricted Investment Funds (the "Investment Funds") and the WVU Operating Investments (the "Operating Investments") for the 12-month period ending September 30, 2018.

Included herein is a Market Overview and a Portfolio Review for the 12-month period, detailing the investment assets under management, asset allocation, and annual performance.

We are honored to serve as Investment Agent on behalf of West Virginia University and look forward to serving your needs as they relate to the Investment and Operating Funds. If you have any questions or would like any additional information, please do not hesitate to contact us.

Sincerely,



Richard S. Kraich, CFA
Vice President & Chief Investment Officer

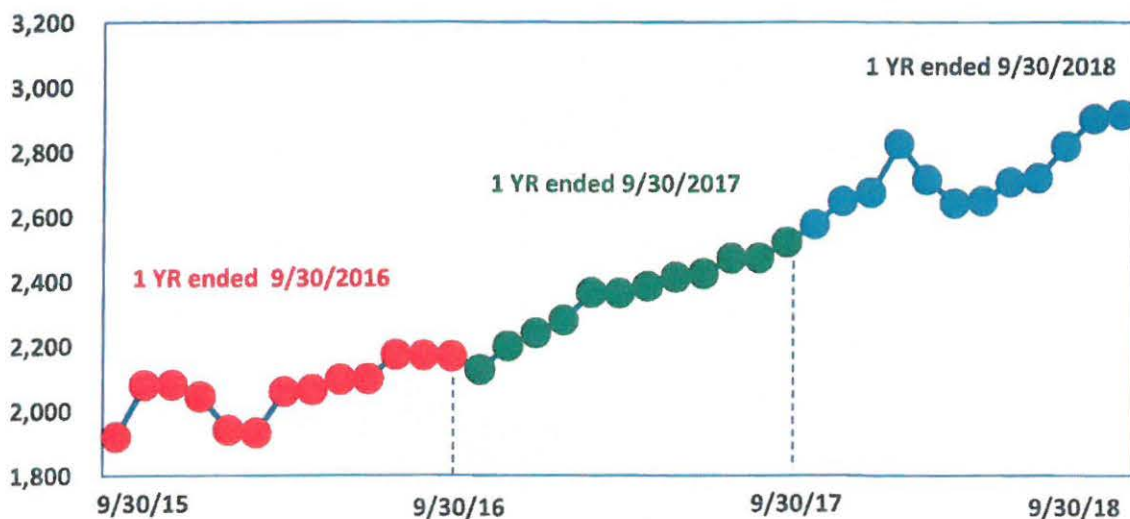
Market Overview

The U.S. equity markets recorded strong gains with the S&P 500 returning 17.9% and the Russell 3000 climbing 17.6% for the year, driven mostly by the Consumer Discretionary and Information Technology sectors. The economy enjoyed solid GDP growth, increased corporate profits and an unemployment rate near a 50-year low at 3.7%. Developed international equity lagged the U.S. market due to the strong U.S. economic data, a strong U.S. dollar and trade tensions between the U.S and China. The Morgan Stanley Capital International EAFE Index returned 2.7% while the Morgan Stanley Capital International Emerging Markets index fell -0.8% for the 12-month period.

The Federal Reserve raised the federal funds rate by 25 bps in September, on the heels of two previous rate hikes in 2018 with one more expected in December and three expected in 2019. As a result, fixed income managers struggled to keep pace as evidenced by the 1-year return of -1.2% for the Barclays Aggregate Bond Index. The FTSE World Government Bond Index had a negative return of -1.5% for the year. The JP Morgan Emerging Markets Bond Index returned -1.9% for the 12 months. Higher crude oil and energy returns contributed to the 22.9% gain for the S&P Goldman Sachs Commodity Index for the 12-month period.

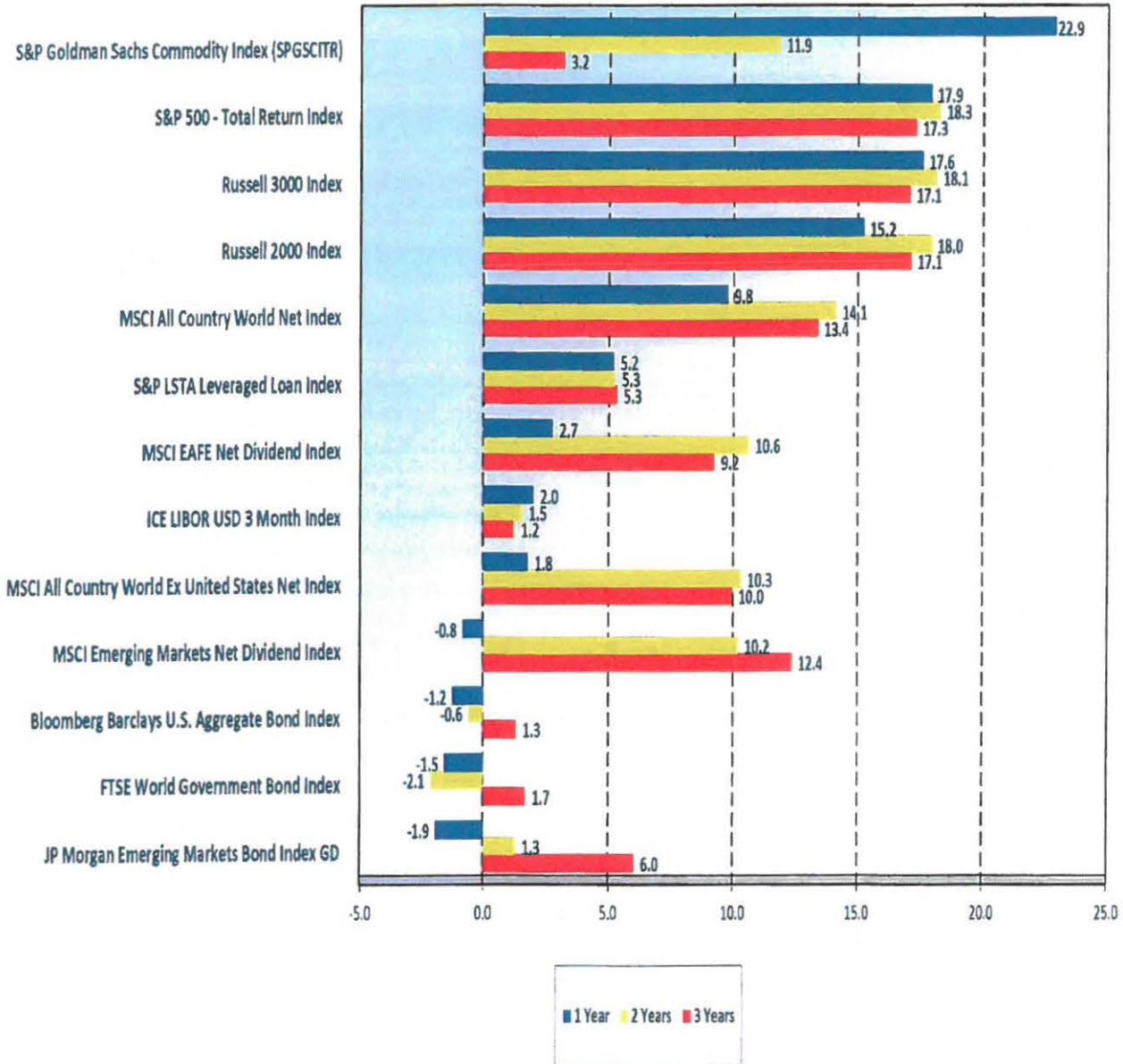
The following charts display (i) the change in value of the S&P 500 over the most recent 3-year period, and (ii) the performance of key market indices for the 1-, 2-, and 3-year periods ended September 30, 2018. The first chart illustrates the S&P 500 monthly values over the last 3 years. The Market Performance chart illustrates the strong performance of U.S. equities over most time periods and negative returns for all three major bond indices over the last 12 months.

S&P 500 Values



*S&P 500 values shown do not include dividends.

Market Performance Periods Ended September 30, 2018



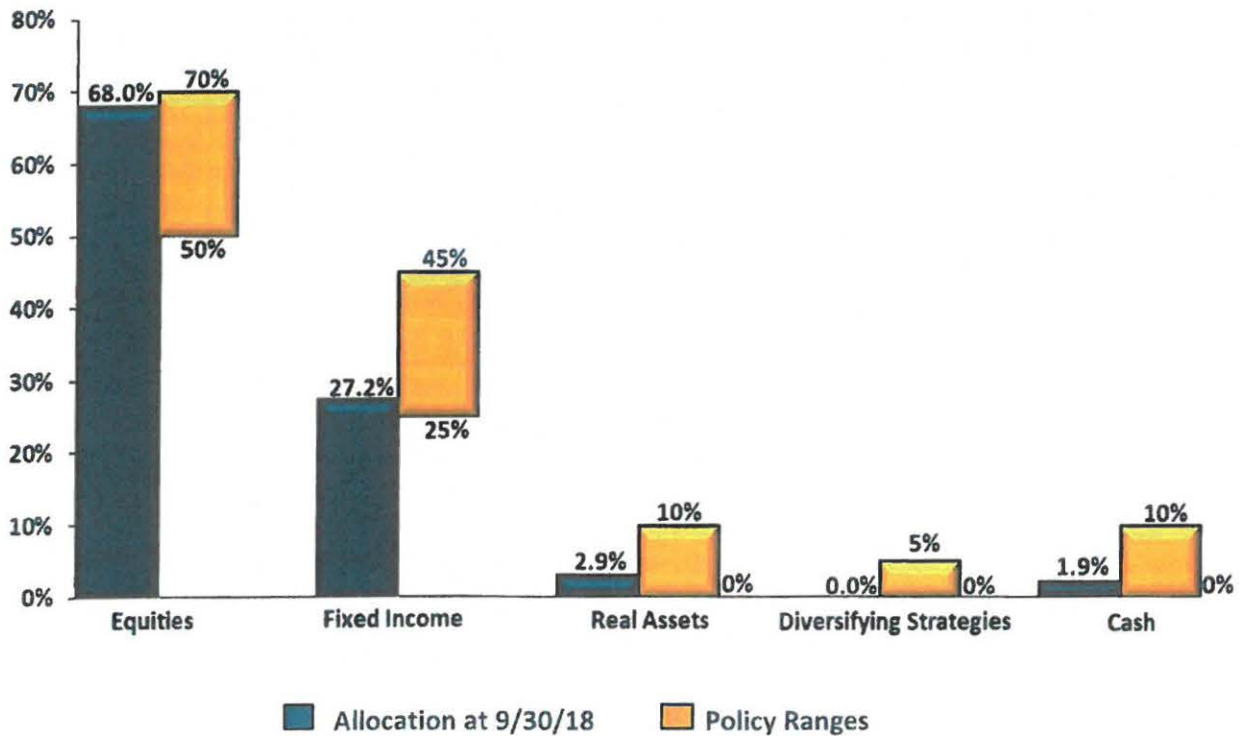
WVU Investment Funds Portfolio Review

Investment Assets under Management: At September 30, 2018 the value of the Investment Funds' portfolio was \$64.7 million. Transfers out of the pool during the period totaled \$6.8 million. The portfolio produced \$4.5 million in earnings during the 1-year period and \$17.7 million for the 3-year period ending September 30, 2018.

Asset Allocation: The Investment Funds' asset allocation policy is reviewed annually with the WVU Investment Committee. In May 2018, the asset allocation target for Equities was increased from 62% to 65% and the Fixed Income target was decreased from 31% to 28%. No changes were made to any of the ranges.

At September 30, 2018, all asset classes were in line with their policy ranges. This portfolio is rebalanced quarterly to policy ranges subject to Committee review and approval. The Investment Policy allows for flexibility to maintain allocations outside the recommended range at the Committee's discretion.

Asset Allocation as of September 30, 2018



Performance Summary as of September 30, 2018

For the 12 months ended September 30, 2018, the Investment Funds returned 7.0% for the year, resulting in a gain of \$4.5 million. Domestic Equity returns were strong for the year, returning 16.7%. An overweight position to U.S. Equities benefited the portfolio. International Equities were the major detractor for the portfolio overall, returning -1.5% for the year even though one manager, MFS International Value, returned 8.1% versus the -0.4% return of the MSCI EAFE Value benchmark. Detractors from performance included Dodge & Cox International and Aberdeen Emerging Markets, both of which were terminated during the one-year period ending on September 30, 2018. Fixed Income returned -0.7%, but still outperformed the Barclays Aggregate Bond Index return of -1.2%. Real Assets had a 0.0% return for the period. For the year, the Investment Funds underperformed the Custom Benchmark return of 7.8%. Since inception of the Investment Funds' program in November 2006, the program has generated an annualized return of 5.6%, as compared to its Custom Benchmark return of 5.5%.

Performance Returns as of September 30, 2018

	<u>1 YR</u>	<u>3 YR</u>	<u>ITD*</u>
WVU Unrestricted Investment Funds	7.0	9.9	5.6
<i>Custom Benchmark**</i>	<i>7.8</i>	<i>9.8</i>	<i>5.5</i>
<i>S&P 500</i>	<i>17.9</i>	<i>17.3</i>	<i>8.7</i>
<i>MSCI EAFE</i>	<i>2.7</i>	<i>9.2</i>	<i>2.7</i>
<i>Barclays Aggregate Bond Index</i>	<i>-1.2</i>	<i>1.3</i>	<i>3.8</i>

**The inception date of the portfolio for performance tracking purposes is 12/1/2006.*

***Custom Benchmark calculated by BNY Mellon. Benchmark is a dynamic blend based upon the average monthly balances of all WVU Unrestricted investment accounts and the returns of their corresponding benchmark indices.*

WVU Operating Investments Portfolio Review

The objective of managing the WVU Operating Investments is to generate interest with very limited, if any, risk to capital using short duration investment strategies. For the 12-month period ending September 30, 2018, the Operating Investments utilized an ICS savings account and a CDARS program using 4-week and 13-week maturities through United Bank. This program was initiated after receiving the State Treasurer’s Office approval on August 25, 2015.

Activity as of September 30, 2018

	9/30/17 Balance	Deposits	Interest	Transfers	Withdrawals	9/30/18 Balance
ICS Savings	17,611,455	157,500,000	486,753	77,709,767	(210,712,779)	42,595,197
4 Week CDARS	22,517,801	72,500,000	200,677	(65,165,271)	-	30,053,207
13 Week CDARS	12,500,000	-	44,496	(12,544,496)	-	-
Total	52,629,256	230,000,000	731,926	-	(210,712,779)	72,648,403

Interest Rate Range 9/30/17 - 9/30/18
ICS Savings: 1.26% - 2.46%
4 Week CDARS: 1.32% - 2.38%
13 Week CDARS: 1.42% - 2.43%