



Business Affairs and Finance
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January 20, 2016

TO: The Board of Regents of Midwestern State University, and
Dr. Suzanne Shipley, President

SUBJECT: Quarterly Investment Reports

Attached are the quarterly investment reports for the first quarter ended
November 30, 2015, as required by the amended Public Funds Investment Act.

The investment portfolio is in compliance with Midwestern State University's
investment policies. The portfolio is in compliance with the provisions of the
Public Funds Investment Act as amended by the 82nd Legislature. (HB 2226)

Chris Stovall
Controller

Dr. Marilyn Fowle'
Vice President, Business Affairs
and Finance

**Midwestern State University
Wichita Falls, Texas**

**Quarterly Investment Report
(Unaudited)
For the First Quarter Ended November 30, 2015**

Midwestern State University
Summary of Investments
(Pooled Investments)
At November 30, 2015

	<u>Book Value</u>	<u>%</u>	<u>Market Value</u>	<u>%</u>
Long-term Securities:				
Equity Securities:				
U.S. Common Stock	<u>\$70,260</u>	<u>0.23%</u>	<u>\$183,245</u>	<u>0.61%</u>
Debt Securities:				
U.S. Government Agencies (Non-Guaranteed):				
Mortgage-Backed	34	0.00%	35	0.00%
Other	<u>2,094,767</u>	<u>6.99%</u>	<u>2,059,757</u>	<u>6.89%</u>
Total U.S. Government Agencies	<u>2,094,801</u>	<u>6.99%</u>	<u>2,059,791</u>	<u>6.89%</u>
Long-term Investment Pools				
Texas A&M System Investment Pool	<u>23,083,164</u>	<u>77.00%</u>	<u>22,906,072</u>	<u>76.67%</u>
Total Long-term Securities	<u>25,248,225</u>	<u>84.23%</u>	<u>25,149,109</u>	<u>84.17%</u>
Short-term Securities:				
TexPool	501,846	1.67%	501,846	1.68%
Logic	505,313	1.69%	505,313	1.69%
Wells Fargo MM Savings	<u>3,008,045</u>	<u>10.03%</u>	<u>3,008,045</u>	<u>10.07%</u>
Total Short-term Securities	<u>4,015,204</u>	<u>13.39%</u>	<u>4,015,204</u>	<u>13.44%</u>
Total Investment Assets	<u>29,263,429</u>	<u>97.62%</u>	<u>29,164,313</u>	<u>97.61%</u>
Cash and Cash Equivalents:				
Cash Held at State Treasury	<u>713,142</u>	<u>2.38%</u>	<u>713,142</u>	<u>2.39%</u>
Total Cash and Cash Equivalents				
Total Cash and Investments	<u><u>\$29,976,571</u></u>	<u><u>100.00%</u></u>	<u><u>\$29,877,455</u></u>	<u><u>100.00%</u></u>
Total Rate of Return	1.21%			

Unaudited

Midwestern State University
Statement of Changes in Investment Assets
(Pooled Investments)
For the First Quarter Ended November 30, 2015

	<u>Book</u> <u>Value</u>	<u>Market</u> <u>Value</u>
Investment Assets - 08-31-15	\$33,164,791	\$32,976,734
Principal Payments received	(8,000,016)	(8,000,016)
Investment Income	110,981	110,981
Realized Gain (Loss)		
Distributions and Other	(12,327)	(12,327)
Securities Purchased	4,000,000	4,000,000
Changes in Net Unrealized Appreciation/(Depreciation)	<u> </u>	<u>88,941</u>
Investment Assets - 11-30-15	<u><u>\$29,263,429</u></u>	<u><u>\$29,164,313</u></u>

Unaudited

Midwestern State University
Summary of Investments
(MSU Endowments at American Natl. Bank Trust Dept.)
At November 30, 2015

	<u>Book Value</u>	<u>%</u>	<u>Market Value</u>	<u>%</u>
Long-term Securities:				
Equity Securities:				
Common Stock, Mutual Funds and ETFs	\$4,734,000	62.60%	\$5,432,461	65.12%
Total Equity Securities	<u>4,734,000</u>	<u>62.60%</u>	<u>5,432,461</u>	<u>65.12%</u>
Other Securities:				
U.S. Government Agencies	14,853	0.20%	15,380	0.18%
Corporate Bonds & Notes	2,468,311	32.64%	2,495,812	29.92%
Real Estate Investment Trusts (REIT)	242,599	3.21%	296,053	3.55%
Total Fixed Income Securities	<u>2,725,762</u>	<u>36.05%</u>	<u>2,807,244</u>	<u>30.10%</u>
Total Long-term Securities	<u>7,459,762</u>	<u>98.64%</u>	<u>8,239,705</u>	<u>98.77%</u>
Cash and Cash Equivalents:				
U.S. Dollars	-191	0.00%	-191	0.00%
Goldman Sachs - Cash Equivalent	103,208	1.36%	103,208	1.24%
Total Cash and Cash Equivalents	<u>103,017</u>	<u>1.36%</u>	<u>103,017</u>	<u>1.23%</u>
Total Cash and Investments	<u>\$7,562,779</u>	<u>100.00%</u>	<u>\$8,342,722</u>	<u>100.00%</u>

Unaudited

Midwestern State University
Statement of Changes in Investment Assets
(MSU Endowments at American Natl. Bank Trust Dept.)
For the First Quarter Ended November 30, 2015

	<u>Book</u> <u>Value</u>	<u>Market</u> <u>Value</u>
Investment Assets - 08-31-15	\$7,404,166	\$8,139,428
Principal Payments Received	(1,593,826)	(1,593,826)
Investment Income	46,355	46,355
Realized Gain (Loss)	150,274	150,274
Management Fees	(9,950)	(9,950)
Distributions and Other	(193,133)	(193,133)
Securities Purchased	1,758,893	1,758,893
Changes in Net Unrealized Appreciation/(Depreciation)	<u> </u>	<u>44,682</u>
Investment Assets - 11-30-15	<u><u>\$7,562,779</u></u>	<u><u>\$8,342,722</u></u>

Unaudited

Midwestern State University
Summary of Investments
(MSU Endowments Invested with the Texas A&M University System)
At November 30, 2015

	<u>Book</u> <u>Value</u>	<u>%</u>	<u>Market</u> <u>Value</u>	<u>%</u>
Long-term Investment Pools:				
Texas A&M System Endowment Pool	<u>\$399,092</u>	<u>100.00%</u>	<u>\$387,354</u>	<u>100.00%</u>
Total Long-term Investments	<u>399,092</u>	<u>100.00%</u>	<u>387,354</u>	<u>100.00%</u>
 Total Investments	 <u><u>\$399,092</u></u>	 <u><u>100.00%</u></u>	 <u><u>\$387,354</u></u>	 <u><u>100.00%</u></u>

Unaudited

Midwestern State University
Statement of Changes in Investment Assets
(MSU Endowments Invested with the Texas A&M University System)
For the First Quarter Ended November 30, 2015

	<u>Book</u> <u>Value</u>	<u>Market</u> <u>Value</u>
Investment Assets - 08-31-15	\$389,092	\$381,335
Principal Payments Received		
Investment Income	1,776	1,776
Realized Gain (Loss)	3,644	
Management Fees	(473)	(473)
Distributions and Other	(4,947)	(4,947)
Securities Purchased and Funds Transferred	10,000	10,000
Changes in Net Unrealized Appreciation/(Depreciation)	<u> </u>	<u> (338) </u>
Investment Assets - 11-30-15	<u> \$399,092 </u>	<u> \$387,354 </u>

Unaudited

Midwestern State University
Summary of Investments
(Redwine Quasi-Endowment Invested with the Texas A&M University System)
At November 30, 2015

	<u>Book</u> <u>Value</u>	<u>%</u>	<u>Market</u> <u>Value</u>	<u>%</u>
Long-term Investment Pools:				
Texas A&M System Endowment Pool	<u>\$11,516,586</u>	<u>100.00%</u>	<u>\$11,202,959</u>	<u>100.00%</u>
Total Long-term Investments	<u>11,516,586</u>	<u>100.00%</u>	<u>11,202,959</u>	<u>100.00%</u>
 Total Investments	 <u><u>\$11,516,586</u></u>	 <u><u>100.00%</u></u>	 <u><u>\$11,202,959</u></u>	 <u><u>100.00%</u></u>

Unaudited

Midwestern State University
Statement of Changes in Investment Assets
(Redwine Quasi-Endowment Invested with the Texas A&M University System)
For the First Quarter Ended November 30, 2015

	<u>Book</u> <u>Value</u>	<u>Market</u> <u>Value</u>
Investment Assets - 08-31-15	\$11,516,586	\$11,318,098
Principal Payments Received		
Investment Income	51,369	51,369
Realized Gain (Loss)	105,389	105,389
Management Fees	(13,682)	(13,682)
Distributions and Other	(143,076)	(143,076)
Securities Purchased and Funds Transferred		
Changes in Net Unrealized Appreciation/(Depreciation)	<u> </u>	<u>(115,139)</u>
Investment Assets - 11-30-15	<u><u>\$11,516,586</u></u>	<u><u>\$11,202,959</u></u>

"POOLED" INVESTMENTS
FOR THE FIRST QUARTER ENDED NOVEMBER 30, 2015

	<u>Coupon</u>	<u>Stated Maturity</u>	<u>Book Value 08-31-15</u>	<u>Market Value 08-31-15</u>	<u>Unrealized Gain (Loss)</u>	<u>Purchases</u>	<u>Principal Payments Received/ Matured</u>	<u>Realized Gain (Loss)</u>	<u>Interest/ Dividends Earned For the Qtr.</u>	<u>Amortization/ Accretion of Prem./Disc.</u>	<u>Book Value 11-30-15</u>	<u>Market Value 11-30-15</u>	<u>Unrealized Gain (Loss)</u>
U.S. Government Agencies:													
FNMA Fixed Note - callable	1.50	11-27-20	595,636.77	587,538.00	(8,098.77)				2,250.00	203.80	\$595,840.57	\$586,923.00	(\$8,917.57)
FNMA Step Up	2.00	07-16-21	499,819.41	498,300.00	(1,519.41)				2,500.00	6.67	499,826.08	492,092.50	(7,733.58)
FNMA	2.25-6.5	09-27-27	499,689.17	496,607.50	(3,081.67)				2,812.50	37.50	499,726.67	491,343.00	(8,383.67)
FHLMC	3.00	09-28-27	499,363.96	489,602.00	(9,761.96)				3,750.00	9.85	499,373.81	489,398.00	(9,975.81)
Total Agency Notes			2,094,509.31	2,072,047.50	(22,461.81)				11,312.50	257.82	2,094,767.13	2,059,756.50	(35,010.63)
U.S. Government Mortgage Backed Securities:													
FHLMC Pool #170177	9.500	07-01-16	16.85	17.51	0.66		5.41		0.31	0.02	11.46	11.81	0.35
FHLMC Pool #170177	9.500	07-01-16	32.71	33.90	1.19		10.47		0.59	0.04	22.28	22.88	0.60
Total Mortgage-Backed			49.56	51.41	1.85		15.88		0.90	0.06	33.74	34.69	0.95
U.S. Common Stock: (Donated)													
1,000 shares - Chesapeake Utilities (CPK)			18,200.00	49,270.00	31,070.00				431.25		18,200.00	53,290.00	35,090.00
10 shares - Citigroup (C) - reverse split			1,310.00	534.80	(775.20)						1,310.00	540.90	(769.10)
45 shares Calamos Conv. & High Inc. (CHY)			619.65	511.65	(108.00)				13.50		619.65	495.00	(124.65)
1,200 shares - CSX Corp. (CSX)			5,566.00	32,856.00	27,290.00				216.00		5,566.00	34,116.00	28,550.00
252 shares - Conoco Phillips - (COP)			4,957.82	12,385.80	7,427.98				186.48		4,957.82	13,620.60	8,662.78
126 shares - Phillips 66 (PSX)			2,479.68	9,962.82	7,483.14				70.56		2,479.68	11,532.78	9,053.10
125 shares Berkshire (BRK-B)			2,631.05	16,755.00	14,123.95						2,631.05	16,761.25	14,130.20
856 shares - Wells Fargo (WFC)			24,824.00	45,650.48	20,826.48				321.00		24,824.00	47,165.60	22,341.60
124 shares-Manulife (MFC)			4,216.36	2,012.52	(2,203.84)						4,216.36	271.26	(3,945.10)
60 shares - Natl. Oil Well (NOV)			4,342.80	2,539.80	(1,803.00)				27.60		4,342.80	2,240.40	(2,102.40)
70 shares - Southwest Airlines (LUV)			1,112.30	2,569.00	1,456.70				5.25		1,112.30	3,211.60	2,099.30
Total Common Stock			70,259.66	175,047.87	104,788.21				1,271.64		70,259.66	183,245.39	112,985.73
Sub-Total - Securities			2,164,818.53	2,247,146.78	82,328.25		15.88		12,585.04	257.88	2,165,060.53	2,243,036.58	77,976.05
Wells Fargo MM Savings													
TEXPOOL Investment Pool (1)	0.11	* Daily	501,723.91	501,723.91		\$4,000,000.00	8,000,000.00		4,368.24		3,008,045.42	3,008,045.42	
LOGIC Investment Pool (1)	0.16	* Daily	505,118.88	505,118.88					121.80		501,845.71	501,845.71	
TX A&M System Pool	(1.71)	* Variable	22,989,452.56	22,719,066.89	(270,385.67)				194.30		505,313.18	505,313.18	
Total Investment Pool Cash			30,999,972.53	30,729,586.86	(270,385.67)	4,000,000.00	8,000,000.00		98,395.92		27,098,368.45	26,921,276.64	(177,091.81)
Total Investments			\$33,164,791.06	\$32,976,733.64	(\$188,057.42)	\$4,000,000.00	\$8,000,015.88		\$110,980.96	\$257.88	\$29,263,428.98	\$29,164,313.22	(\$99,115.76)

*As of November 30, 2015

(1) These investment pools are structured to maintain a constant dollar value

<u>Comparison to U.S. and State Treasuries</u>	<u>Book Accounting Yield</u>	<u>Average Three-Month U.S. Treasury Bill</u>	<u>State Treasury Yield</u>	<u>Basis Point Spread to U.S. Treasury</u>	<u>Basis Point Spread to State Treasury</u>
September, 2015	2.24	0.02	0.51	2.22	1.73
October, 2015	2.57	0.02	0.55	2.55	2.02
November, 2015	(1.18)	0.19	0.60	(1.31)	(1.79)

MIDWESTERN STATE UNIVERSITY
INVESTMENT PORTFOLIO ACTIVITY
REVENUE FINANCING SYSTEM REVENUE & REFUNDING BONDS - SERIES 2015A
FOR THE FIRST QUARTER ENDED NOVEMBER 30, 2015

	<u>Coupon</u>	<u>Stated Maturity</u>	<u>Book Value</u> <u>08-31-15</u>	<u>Market Value</u> <u>08-31-15</u>	<u>Unrealized Gain</u> <u>(Loss)</u>	<u>Purchases</u>	<u>Principal Payments Received/Matured</u>	<u>Realized Gain</u> <u>(Loss)</u>	<u>Interest Earned</u> <u>For the Qtr.</u>	<u>Amortization/ Accretion of Prem./Disc.</u>	<u>Book Value</u> <u>11-30-15</u>	<u>Market Value</u> <u>11-30-15</u>	<u>Unrealized Gain</u> <u>(Loss)</u>
LOGIC Investment Pool	0.16	* Daily	\$ 1,352.23	\$ 1,352.23		\$3,907,202.28	\$3,908,565.35		\$17.77		\$6.93	\$6.93	
BLB Flexible Repo Agreement	0.49	Monthly	37,887,368.86	37,887,368.86			4,529,138.77		44,096.61		33,402,326.70	33,402,326.70	
Total Bond Investments			<u>\$37,888,721.09</u>	<u>\$37,888,721.09</u>		<u>\$3,907,202.28</u>	<u>\$8,437,704.12</u>		<u>\$44,114.38</u>		<u>\$33,402,333.63</u>	<u>\$33,402,333.63</u>	

* As of November 30, 2015

Interest Rate on Bonds Issued 3.00% - 5.00%

**MIDWESTERN STATE UNIVERSITY
INVESTMENT PORTFOLIO ACTIVITY
MSU ENDOWMENT INVESTMENTS - AMERICAN NATL. BANK TRUST DEPT. MANAGERS
FOR THE FIRST QUARTER ENDED NOVEMBER 30, 2015**

	Book Value 08-31-15	Market Value 09-31-15	Unrealized Gain (Loss)	Purchases	Principal Payments Received/ Matured	Realized Gain (Loss)	Interest/ Dividends Received (Fees Paid) In the Qtr.	Amortization/ Accretion of Prem./Disc.	Book Value 11-30-15	Market Value 11-30-15	Unrealized Gain (Loss)	Market Value Percentage Of Total
AMERICAN NATL. BANK TRUST DEPT.												
Cash and Cash Equivalents:												
Cash												
American Natl. Bank Fees							(\$9,949.98)					
U.S. Dollars				\$122,830.60	\$123,021.64				(\$191.04)	(\$191.04)		
Goldman Sachs	\$569,336.46	\$569,336.46		497,133.30	\$963,261.40		13.41		\$103,208.36	\$103,208.36		1.24%
Total Cash and Cash Equivalents	569,336.46	569,336.46		619,963.90	1,086,283.04		(9,936.57)		103,017.32	103,017.32		1.23%
Purchased Interest Receivable												
Fixed Income:												
U.S. Government Agencies	15,871.29	16,555.52	\$684.23		1,010.31	(\$17.40)	191.77	(\$8.06)	14,852.92	15,379.75	\$526.83	0.18%
Municipal Bonds												
Corporate Bonds & Notes	2,473,206.96	2,509,823.31	36,616.35	1,549.47			20,585.72	(6,445.78)	2,468,310.65	2,495,811.77	27,501.12	29.92%
Devonshire - REIT	247,039.46	296,052.57	49,013.11		4,440.81				242,598.65	296,052.57	53,453.92	3.55%
Total Fixed Income Securities	2,736,117.71	2,822,431.40	86,313.69	1,549.47	5,451.12	(17.40)	20,777.49	(6,453.84)	2,725,762.22	2,807,244.09	81,481.87	33.65%
Common Stock - Equities:												
U.S. Equities	3,083,044.03	3,672,474.45	589,430.42	1,058,847.74	491,484.66	140,285.01	19,753.31		3,650,407.11	4,266,926.53	616,519.42	51.15%
Foreign Equities	128,182.60	154,531.59	26,348.99	78,531.74	10,607.63	10,004.92	1,077.83		196,106.71	238,256.74	42,150.03	2.86%
Equity ETFs	709,599.62	757,697.08	48,097.46				4,733.11		709,599.62	764,892.24	55,292.62	9.17%
Mutual Funds - Equities	177,886.07	162,956.71	(14,929.36)						177,886.07	162,385.28	(15,500.79)	1.95%
Total Equities	4,098,712.32	4,747,659.83	648,947.51	1,137,379.48	502,092.29	150,290.93	25,564.25		4,733,999.51	5,432,460.79	698,461.28	65.12%
Total Endowment Investments at American National Bank Trust	\$7,404,166.49	\$8,139,427.69	\$735,261.20	\$1,758,892.85	\$1,593,826.45	\$150,273.53	\$36,405.17	(\$6,453.84)	\$7,562,779.05	\$8,342,722.20	\$779,943.15	100.00%
Sep, Oct, and Nov activity	Simple yield excluding mkt.value change: (Realized gain + Int.Div.Recvd. + Amort./Accr.) / (Average Book Value) =						9.63%	180,224.86	Market Value gain =	779,943.15	10.31%	
							(Annualized)	7,483,472.77		7,562,779.05		

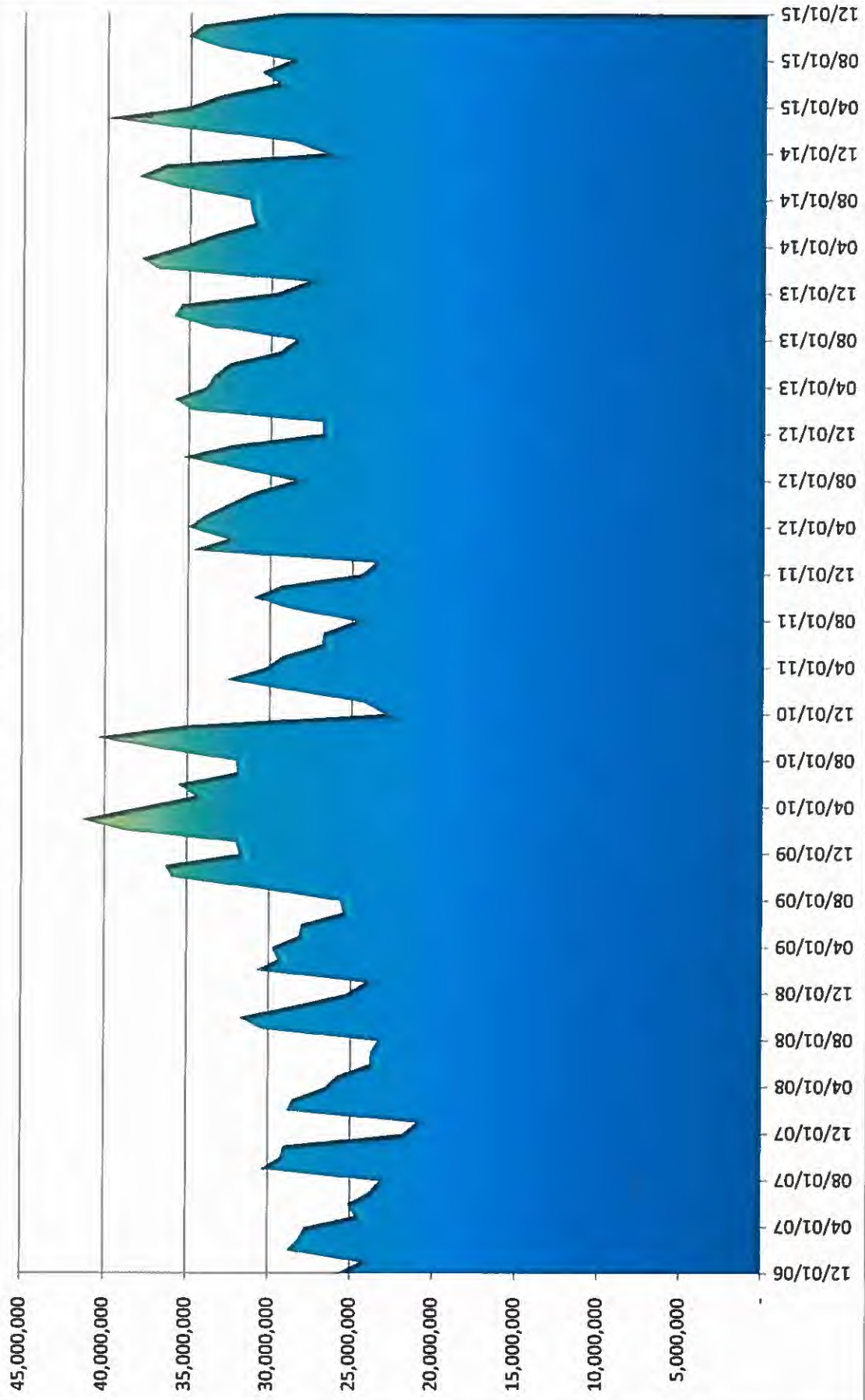
**MSU ENDOWMENT INVESTMENTS - TEXAS A&M UNIVERSITY SYSTEM ENDOWMENT POOL
FOR THE FIRST QUARTER ENDED NOVEMBER 30, 2015**

	Book Value <u>08-31-15</u>	Market Value <u>08-31-15</u>	Unrealized Gain (Loss)	Purchases	Principal Payments Received/ Matured	Realized Gain (Loss)	Interest/ Dividends Received (Fees Paid) In the Qtr.	Amortization/ Accretion of Prem./Disc.	Book Value <u>11-30-15</u>	Market Value <u>11-30-15</u>	Unrealized Gain (Loss)	Market Value Percentage Of Total
TEXAS A&M INVESTMENT MGMT FEE							(\$473.08)					
Long-term Investment Pools:												
Texas A&M System Endowment Pool	\$389,091.99	\$381,335.48	(\$7,756.51)	\$10,000.00	\$3,643.94	\$3,643.94	1,303.05		\$399,091.99	\$387,354.42	(\$11,737.57)	100.00%
Total Long-term Investments	389,091.99	381,335.48	(7,756.51)	10,000.00	3,643.94	3,643.94	829.97		399,091.99	387,354.42	(11,737.57)	100.00%
Total Endowment Assets												
at Texas A&M University System	\$389,091.99	\$381,335.48	(\$7,756.51)	\$10,000.00	\$3,643.94	\$3,643.94	\$829.97		\$399,091.99	\$387,354.42	(\$11,737.57)	100.00%
Sep, Oct, and Nov activity	Simple yield excluding mkt.value change: (Realized gain + Int.Div.Recvd. + Amort./Accr.) / (Average Book Value) =						4.54%	4,473.91	Market Value gain =	(11,737.57)	-2.94%	
							(Annualized)	394,091.99		399,091.99		

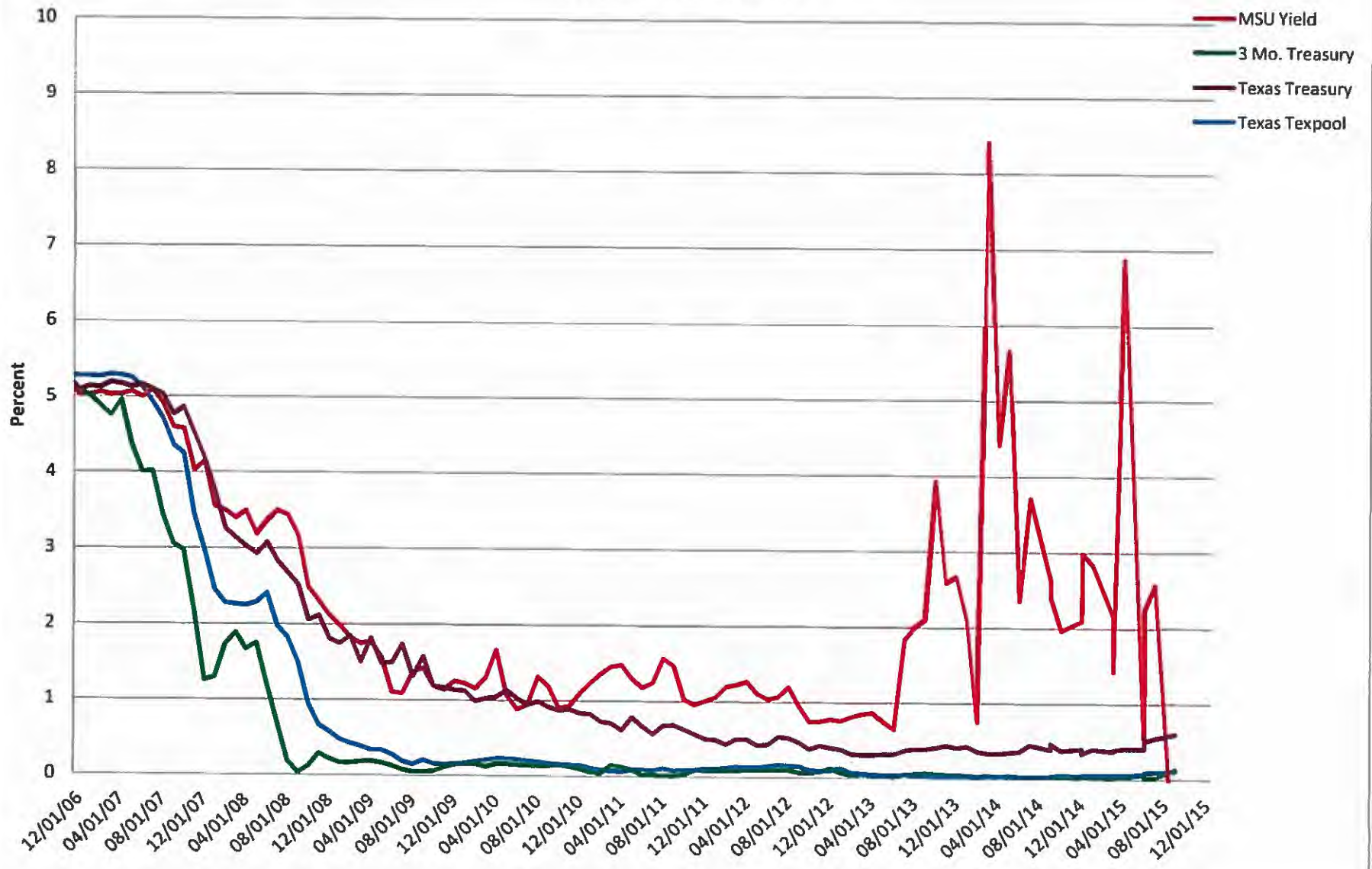
**REDWINE QUASI ENDOWMENT INVESTMENTS - TEXAS A&M UNIVERSITY SYSTEM ENDOWMENT POOL
FOR THE FIRST QUARTER ENDED NOVEMBER 30, 2015**

	Book Value <u>08-31-15</u>	Market Value <u>08-31-15</u>	Unrealized Gain (Loss)	Purchases	Principal Payments Received/ Matured	Realized Gain (Loss)	Interest/ Dividends Received (Fees Paid) In the Qtr.	Amortization/ Accretion of Prem./Disc.	Book Value <u>11-30-15</u>	Market Value <u>11-30-15</u>	Unrealized Gain (Loss)	Market Value Percentage Of Total
TEXAS A&M INVESTMENT MGMT FEE							(\$13,682.44)					
Long-term Investment Pools:												
U.S. Dollars												
Texas A&M System Endowment Pool	\$11,516,585.66	\$11,318,098.33	(198,487.33)		\$105,389.17	\$105,389.17	\$37,686.72		\$11,516,585.66	\$11,202,959.12	(\$313,626.54)	100.00%
Total Long-term Investments	11,516,585.66	11,318,098.33	(198,487.33)	0.00	105,389.17	105,389.17	24,004.28		11,516,585.66	11,202,959.12	(313,626.54)	100.00%
Total Endowment Assets												
at Texas A&M University System	\$11,516,585.66	\$11,318,098.33	(\$198,487.33)	\$0.00	\$105,389.17	\$105,389.17	\$24,004.28		\$11,516,585.66	\$11,202,959.12	(\$313,626.54)	100.00%
Sep, Oct, and Nov activity	Simple yield excluding mkt.value change: (Realized gain + Int.Div.Recvd. + Amort./Accr.) / (Average Book Value) =						4.49%	129,393.45	Market Value gain =	(313,626.54)	-2.72%	
							(Annualized)	11,516,585.66		11,516,585.66		

Midwestern State University Pooled Investments Total Invested



Midwestern State University Historical Yields



Texas A&M University System Cash Concentration Pool



FISCAL YEAR 2016

1ST QUARTER – NOVEMBER 30, 2015

Effective Rates for FY 2016 YTD:

Cash Portfolio: 0.17%

Long-Term
Portfolio: 2.03%

Total Pool: 1.66%

Capital Markets & Rates

The yield on 2-year Treasuries rose to 0.94% in November from 0.74% at the end of August. Despite fluctuating throughout the period, the yield on 10-year Treasuries remained flat at 2.21%. The S&P 500 Index returned 6.1% during the quarter and 2.7% for the one-year ending November 30, 2015.

The unemployment rate declined to 5.0% in November. The economy added 624,000 jobs during the three month period.

Economic data was positively revised, as the economy grew at a 2.1% annual rate during the quarter ending September 30, 2015. This comes after a 3.9% growth rate during the previous quarter. Due to the strengthening economy and employment picture, the Federal Open Market Committee increased the Fed Funds rate as expected in December.

CCP Estimated Distribution Rate for FY 2016

Total Pool: 2.75%

<http://www.tamug.edu/finance/treasury-services/>

Pool Valuation

As of November 30, 2015, the Pool had a market value of approximately \$3.3 billion. For the 1st quarter of FY 2016, the Pool positions had \$684 million in cash inflows and \$670 million in cash outflows, increasing the book value of the Pool by \$14 million. The Pool earned investment income during this quarter of \$12 million and realized gains on investments of \$3 million.

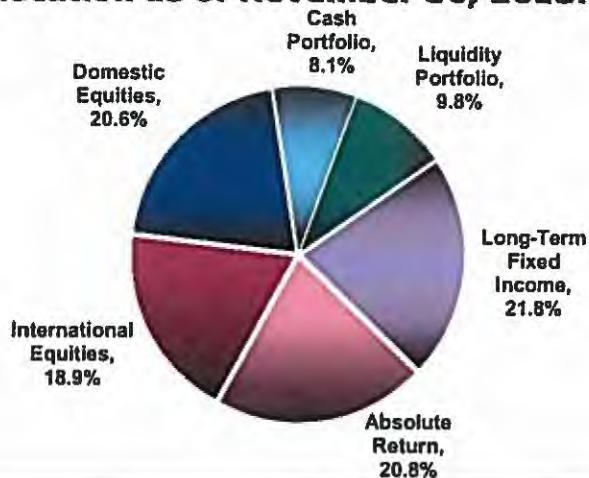
The Cash Portfolio distributes all interest, dividends, and realized gains/(losses), net of external management fees, to the participants based on their average short-term balance for each month. The Long-Term Pool distributes all interest, dividends, and realized gains/(losses), net of external management fees, to the participants based on their ownership of Long-Term Pool units for each month.

Investment Allocation and Performance

As of November 30, 2015, the Cash Concentration Pool had a market value of approximately \$2.9 billion (excluding debt proceeds and pending transfers) with 8.1% of the Pool's assets invested in the Cash Portfolio and 91.9% of the assets invested in the Long-Term Portfolio. The Cash Portfolio and the Long-Term Portfolio are managed by external investment managers. The comparative returns for the Pool for the one, three, five, ten and fifteen-year periods ending November 30, 2015 are as follows:

	<u>1-Year</u>	<u>3-Year</u>	<u>5-Year</u>	<u>10-Year</u>	<u>15-Year</u>
Total Pool	0.1%	5.3%	5.0%	4.6%	5.0%
Balanced Index	-0.3%	5.2%	5.1%	4.4%	4.7%

Asset Allocation as of November 30, 2015:



Texas A&M University System System Endowment Fund



FISCAL YEAR 2016

1ST QUARTER – NOVEMBER 30, 2015

Capital Market Update

As measured by the Russell 3000 Index, the US stock market returned 5.3% over the quarter and 2.6% during the one-year period. Large cap stocks outperformed small cap stocks by 1.8% for the quarter, but trailed them by 1.0% for the one-year period. Growth stocks outperformed value stocks by 1.5% during the quarter and 7.2% for the year.

Developed International equity markets returned 0.8% (in US dollars) during the quarter and -2.9% for the one-year period. Emerging markets returned -0.1% (in US dollars) during the quarter and -17.0% for the one-year period. Much of the decline was driven by economic and capital market fears in China.

Fixed income markets generated marginally negative returns during the quarter, returning -0.1%. For the one-year period, Fixed Income markets appreciated 1.2%.

Absolute Return generally delivered somewhat muted returns given the volatile environment. Absolute Return, on an aggregate basis, returned -0.2% and 1.0% for the quarter and one-year period respectively.

Endowment Valuation

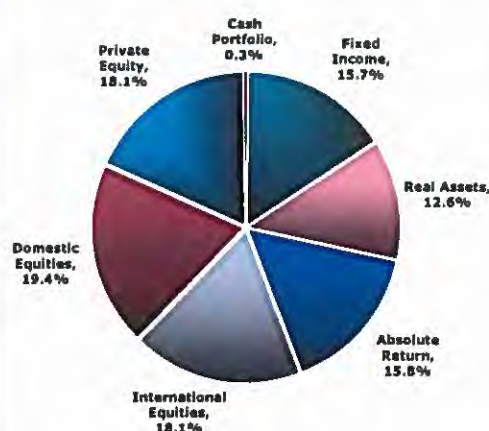
As of November 30, 2015, the SEF had a market value of approximately \$1.0 billion, including new deposits and net the income distribution for the 1st Quarter. The SEF is accounted for on a unitized basis and the per unit market value as of November 30, 2015 was \$6.08.

Investment Allocation and Performance

As of November 30, 2015, the SEF asset allocation consisted of 37.5% equities, 15.8% absolute return, 15.7% fixed income, 12.6% real assets (timber, real estate and energy), 18.1% private equity and 0.3% cash. The comparative returns for the SEF for the one, three, five, ten and fifteen-year periods ending November 30, 2015 are as follows:

	<u>1-Year</u>	<u>3-Year</u>	<u>5-Year</u>	<u>10-Year</u>	<u>15-Year</u>
SEF - Total	1.7%	8.9%	7.8%	5.8%	5.9%
Balanced Index	1.3%	6.4%	5.8%	4.7%	4.5%

Asset Allocation as of November 30, 2015



Asset Allocation (\$M) Prior to Distribution and New Deposits

Domestic Equities	\$200.3
International Equities	\$186.9
Fixed Income	\$161.8
Absolute Return	\$161.9
Private Equity	\$188.0
Real Assets	\$127.2
Cash Portfolio	\$ 2.7

The units and market value summary is available online for each endowment account at the Treasury web page:

<http://www.tamus.edu/finance/treasury-services/system-endowment-fund/>

Quarterly Endowment Spending Rate

FY 2016: \$0.070265 per unit

We Have Liftoff

December 17, 2015

Economic data released since early November point to moderate U.S. economic growth in the fourth quarter. An upward revision to third-quarter real gross domestic product (GDP), coupled with several generally positive reports on October and November economic activity, implied that growth has picked up in the fourth quarter. Evidently, the Federal Open Market Committee (FOMC) has seen enough improvement in the labor market and is reasonably confident that inflation will move up to its 2 percent target over the medium term to raise the federal funds rate for the first time in nearly a decade.

Output Growth Revised Upward

U.S. real GDP expanded at a 2.1 percent pace in the third quarter (*Chart 1*). The second estimate of GDP growth marked an upward revision from the original estimate of 1.5 percent. The revision was mostly due to a 0.8 percentage point increase in the contribution from private inventories—a volatile component.

Recent data from the Institute for Supply Management suggest that the service sector continued to expand in October and November, while the manufacturing sector dipped into contractionary territory in November (*Chart 2*).

Oil prices fell below \$40 per barrel after the Organization of Petroleum Exporting Countries' (OPEC) decision on Dec. 4 to maintain current production levels. The drop in oil prices will likely stall oil-related investments, putting downward pressure on the nonresidential fixed investment component of GDP, while boosting private consumption due to increased disposable income (*Chart 3*). The strong dollar and the slowdown in global growth will continue to weigh negatively on U.S. manufacturing and net exports.

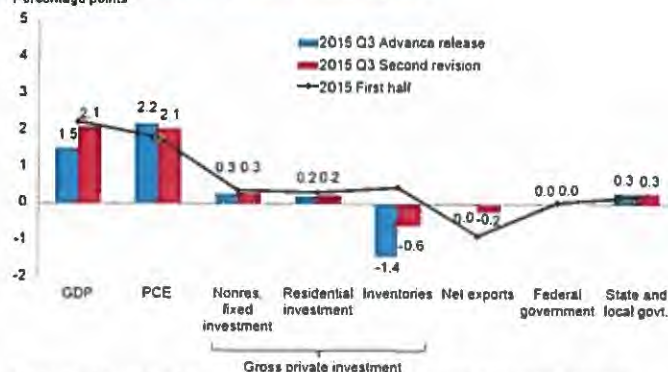
Labor Market Rebounds in Fourth Quarter

Recent reports from the Bureau of Labor Statistics indicate a pickup in job growth in the fourth quarter. In 2015, nonfarm payroll growth has averaged 210,000 per month (*Chart 4*). Nonfarm payrolls rose a strong 298,000 in October and 211,000 in November after slow payroll gains in August and September. In addition, the establishment survey reported slight increases in average weekly hours and average hourly earnings of production and nonsupervisory workers since September. The headline unemployment rate fell 0.1 percentage points from September to 5.0 percent in November.

Consumer Price Index Inflation Firming

In contrast with the strong employment data, inflation readings have been more mixed on the progress toward the Federal Reserve's 2 percent objective. Core measures of inflation continued to show varying degrees of stability in the personal consumption expenditures (PCE) price index but modest acceleration in the consumer price index (CPI). *Chart 5* plots the conventional ex-food-and-energy core measure, along with alternatives produced by the Federal Reserve Banks of Cleveland and Atlanta and the Dallas Fed's Trimmed Mean PCE. Core and trimmed mean measures of PCE inflation over 12 months were 1.3 and 1.7

Chart 1
Third-Quarter Real GDP Growth Revised Upward
Percentage points*



*Contribution to percent change in real gross domestic product growth, quarter/quarter, seasonally adjusted annualized rate.
SOURCE: Bureau of Economic Analysis.

Chart 2
Manufacturing and Service Sectors Continue to Diverge
Diffusion index*



*50+ = economic expansion.
NOTE: Shaded areas indicate recession.
SOURCES: Institute for Supply Management; National Bureau of Economic Research.

percent, respectively, while core measures of CPI inflation range from 2.0 to 2.5 percent. The acceleration present in the CPI-based measures, but absent in the PCE-based measures, reflects the greater weight CPI places on shelter costs, which have increased noticeably over the past year.

The headline unemployment rate has dipped below the Congressional Budget Office's 5.1 percent estimate of nonaccelerating inflation rate of unemployment (NAIRU). While slack in the labor market may remain, an unemployment rate persistently below the NAIRU should, in theory, result in a pickup in inflation.

Forecasters Today Disagree Less on Path of Federal Funds Rate than in Previous Liftoffs

The target range for the federal funds rate has been raised to 0.25–0.5 percent after nearly seven years of being kept around

Chart 3
Recent Drop in Oil Prices May Subdue Oil-Related Investment Again



*Three-month percent change of the three-month moving average, annualized rate.
**Contribution to percent change in real gross domestic product growth, quarter/quarter, seasonally adjusted annualized rate.
NOTE: The December average is as of Dec. 11, 2015.
SOURCES: Baker Hughes; Bureau of Economic Analysis; author's calculations.

Chart 4
Nonfarm Job Growth Picks Up



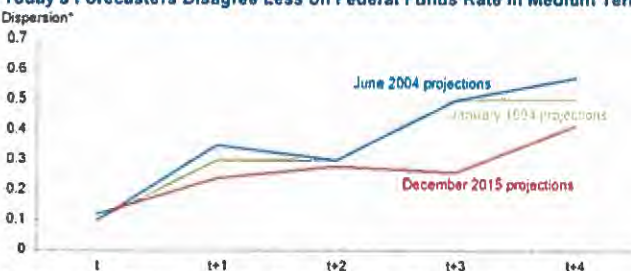
*Seasonally adjusted month-over-month growth.
SOURCE: Bureau of Labor Statistics.

Chart 5
Core Inflation Gauges Range from Steady to Accelerating



*Seasonally adjusted, 12-month percent change.
NOTE: Shaded area indicates recession.
SOURCES: Bureau of Economic Analysis; Bureau of Labor Statistics; Federal Reserve Banks of Atlanta, Cleveland and Dallas; National Bureau of Economic Research.

Chart 6
Today's Forecasters Disagree Less on Federal Funds Rate in Medium Term



*Dispersion is the difference between the 75th percentile and the 25th percentile of the projections.
NOTES: The projections are from the issue of the Blue Chip Financial Forecasts published right before the first lift-off of the federal funds target rate following a recession. Time t is Q3 2004 for June 2004 projections, Q1 2016 for December 2015 projections, and Q1 1994 for January 1994 projections.
SOURCES: Blue Chip Financial Forecasts; author's calculations.

0–0.25 percent. The Federal Reserve reduced this short-term interest rate to near zero following the 2007 financial crisis to help households and businesses finance new spending. In its statement released on Dec. 16, the Federal Reserve “judges that there has been considerable improvement in labor market conditions this year, and it is reasonably confident that inflation will rise, over the medium term, to its 2 percent objective.”

In recent years, the Federal Reserve has actively utilized forward guidance as a policy tool to signal households, businesses and investors about future monetary policy. In short, forward guidance relays to the public what the Federal Reserve intends to do and what conditions will lead to a change in its approach. In an exercise, I compare the level of disagreement regarding the path of the federal funds rate among private sector forecasters right before the Federal Reserve raised rates following the last three recessions (Chart 6).¹ Private-sector forecasters share similar levels of disagreement for the quarter that follows a federal funds rate hike in all three instances; however, in the medium term, forecasters in December 2015 have less disagreement about the future movement of the federal funds rate than they did in 1994 and 2004. A similar trend appears in the levels of disagreement in the Survey of Professional Forecaster’s projections on three-month treasury bills, which should closely follow expectations for the federal funds rate.

There are several possible reasons for less disagreement. Professional forecasters in second quarter 2004 and fourth quarter 2015 shared similar levels of disagreement about the future of the economy (as indicated by projections of unemployment rate). Despite this, today’s forecasters have less disagreement about the federal funds rate in a similar forward-looking economic environment. This may be due to the Federal Reserve being more effective in its forward guidance and clearer in its communication to the public on expectations of future monetary policy. Another possibility is that the private sector today may have a better understanding of the models the Federal Reserve uses to guide its policies since the last two recessions. Though forecasters may have less disagreement about the path of the federal funds rate, exiting a zero interest rate environment is still uncharted territory in U.S. monetary policy.

—Daniel Lin

Note

1. The past three recessions lasted from July 1990 to March 1991, March 2001 to November 2001, and December 2007 to June 2009. The first federal funds rate hike after each recession occurred in February 1994, June 2004 and December 2015.

About the Author

Lin is a research analyst in the Research Department at the Federal Reserve Bank of Dallas.