



Office of the President
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To: MSU Board of Regents
Mr. Samuel M. Sanchez, Chair
Mr. Warren Ayres
Ms. Tiffany Burks
Mr. R. Caven Crosnoe
Dr. Lynwood Givens
Mr. Jeff Gregg
Mr. Shawn Hessing
Ms. Nancy Marks
Dr. Shelley Sweatt
Ms. Shayla Owens, Student Regent

From: Suzanne Shipley
President 

Date: April 19, 2018

Subject: Quarterly Investment Reports

Attached are the Quarterly Investment Reports for the second quarter ended February 28, 2018. Please feel free to contact me if you have any questions.

enclosures

C: Debbie Barrow



Administration and Finance
3410 Taft Boulevard Wichita Falls, Texas 76308-2099
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April 19, 2018

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 second quarter ended February 28, 2018, 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, TX. Gov't Code, Ch. 2556, as amended by the 85th Legislature. (HB 1003, 1701, 2647, 2928, and SB 253)

Chris Stovall
Controller

Dr. Marilyn Fowle
Vice President, Administration
and Finance

**Midwestern State University
Wichita Falls, Texas**

**Quarterly Investment Report
(Unaudited)
For the Second Quarter Ended February 28, 2018**

Unaudited

Midwestern State University
Summary of Investments
(Pooled Investments)
At February 28, 2018

	<u>Book Value</u>	<u>%</u>	<u>Market Value</u>	<u>%</u>
Long-term Securities:				
Equity Securities:				
U.S. Common Stock	<u>\$70,774</u>	<u>0.16%</u>	<u>\$241,699</u>	<u>0.52%</u>
Long-term Investment Pools				
Texas A&M System Investment Pool	<u>24,700,694</u>	<u>56.73%</u>	<u>27,737,738</u>	<u>59.33%</u>
Total Long-term Securities	<u>24,771,468</u>	<u>56.89%</u>	<u>27,979,436</u>	<u>59.84%</u>
Short-term Securities:				
TexPool	5,537,072	12.72%	5,537,072	11.84%
Logic	5,565,109	12.78%	5,565,109	11.90%
TX Class	<u>6,071,967</u>	<u>13.95%</u>	<u>6,071,967</u>	<u>12.99%</u>
Total Short-term Securities	<u>17,174,148</u>	<u>39.45%</u>	<u>17,174,148</u>	<u>36.75%</u>
Total Investment Assets	<u>41,945,617</u>	<u>96.34%</u>	<u>45,153,585</u>	<u>96.59%</u>
Cash and Cash Equivalents:				
Cash Held at State Treasury	<u>1,595,583</u>	<u>3.66%</u>	<u>1,595,583</u>	<u>3.41%</u>
Total Cash and Cash Equivalents				
Total Cash and Investments	<u>\$43,541,199</u>	<u>100.00%</u>	<u>\$46,749,167</u>	<u>100.00%</u>
Total Rate of Return	3.76%			

Unaudited

Midwestern State University
Statement of Changes in Investment Assets
(Pooled Investments)
For the Second Quarter Ended February 28, 2018

	<u>Book</u> <u>Value</u>	<u>Market</u> <u>Value</u>
Investment Assets - 11-30-17	\$30,045,867	\$32,818,927
Principal Payments received	(1,000,000)	(1,000,000)
Investment Income	401,006	401,006
Realized Gain (Loss)		
Distributions and Other	(1,256)	(1,256)
Securities Purchased	12,500,000	12,500,000
Changes in Net Unrealized Appreciation/(Depreciation)	<u> </u>	<u>434,908</u>
Investment Assets - 02-28-18	<u><u>\$41,945,617</u></u>	<u><u>\$45,153,585</u></u>

Unaudited

Midwestern State University
Summary of Investments
(MSU Endowments at American Natl. Bank Trust Dept.)
At February 28, 2018

	<u>Book</u> <u>Value</u>	<u>%</u>	<u>Market</u> <u>Value</u>	<u>%</u>
Long-term Securities:				
Equity Securities:				
Common Stock, Mutual Funds and ETFs	\$4,506,331	55.01%	\$5,936,598	62.14%
Total Equity Securities	<u>4,506,331</u>	<u>55.01%</u>	<u>5,936,598</u>	<u>62.14%</u>
Other Securities:				
U.S. Government Agencies	219,824	2.68%	212,262	2.22%
Corporate Bonds & Notes	2,190,003	26.74%	2,157,942	22.59%
Real Estate Investment Trusts (REIT)	197,379	2.41%	168,421	1.76%
Total Fixed Income Securities	<u>2,607,206</u>	<u>31.83%</u>	<u>2,538,624</u>	<u>24.81%</u>
Total Long-term Securities	<u>7,113,536</u>	<u>86.84%</u>	<u>8,475,223</u>	<u>88.72%</u>
Cash and Cash Equivalents:				
U.S. Dollars		0.00%		0.00%
Goldman Sachs - Cash Equivalent	1,077,748	13.16%	1,077,748	11.28%
Total Cash and Cash Equivalents	<u>1,077,748</u>	<u>13.16%</u>	<u>1,077,748</u>	<u>11.28%</u>
Total Cash and Investments	<u><u>\$8,191,284</u></u>	<u><u>100.00%</u></u>	<u><u>\$9,552,971</u></u>	<u><u>100.00%</u></u>

Unaudited

Midwestern State University
Statement of Changes in Investment Assets
(MSU Endowments at American Natl. Bank Trust Dept.)
For the Second Quarter Ended February 28, 2018

	<u>Book</u> <u>Value</u>	<u>Market</u> <u>Value</u>
Investment Assets - 11-30-17	\$7,684,489	\$9,271,965
Principal Payments Received	(689,894)	(689,894)
Investment Income	61,620	61,620
Realized Gain (Loss)	404,326	404,326
Management Fees	(11,145)	(11,145)
Distributions and Other	(460,694)	(460,694)
Securities Purchased	1,202,581	1,202,581
Changes in Net Unrealized Appreciation/(Depreciation)	<u> </u>	<u>(225,789)</u>
Investment Assets - 02-28-18	<u><u>\$8,191,284</u></u>	<u><u>\$9,552,971</u></u>

Unaudited

Midwestern State University
Summary of Investments

(MSU Endowments Invested with the Texas A&M University System)

At February 28, 2018

	<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>\$611,842</u>	<u>100.00%</u>	<u>\$639,972</u>	<u>100.00%</u>
Total Long-term Investments	<u>611,842</u>	<u>100.00%</u>	<u>639,972</u>	<u>100.00%</u>
Total Investments	<u><u>\$611,842</u></u>	<u><u>100.00%</u></u>	<u><u>\$639,972</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 Second Quarter Ended February 28, 2018

	<u>Book</u> <u>Value</u>	<u>Market</u> <u>Value</u>
Investment Assets - 11-30-17	\$511,042	\$530,312
Principal Payments Received		
Investment Income	2,261	2,261
Realized Gain (Loss)	4,807	4,807
Management Fees	(1,218)	(1,218)
Distributions and Other	(5,850)	(5,850)
Securities Purchased and Funds Transferred	100,800	100,800
Changes in Net Unrealized Appreciation/(Depreciation)	<u> </u>	<u>8,860</u>
Investment Assets - 02-28-18	<u><u>\$611,842</u></u>	<u><u>\$639,972</u></u>

Unaudited

**Midwestern State University
Summary of Investments**

(Redwine Quasi-Endowment Invested with the Texas A&M University System)

At February 28, 2018

	<u>Book</u>		<u>Market</u>	
	<u>Value</u>	<u>%</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>\$12,138,245</u>	<u>100.00%</u>
Total Long-term Investments	<u>11,516,586</u>	<u>100.00%</u>	<u>12,138,245</u>	<u>100.00%</u>
 Total Investments	 <u><u>\$11,516,586</u></u>	 <u><u>100.00%</u></u>	 <u><u>\$12,138,245</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 Second Quarter Ended February 28, 2018

	<u>Book</u> <u>Value</u>	<u>Market</u> <u>Value</u>
Investment Assets - 11-30-17	\$11,516,586	\$11,938,783
Principal Payments Received		
Investment Income	50,900	50,900
Realized Gain (Loss)	108,220	108,220
Management Fees	(27,422)	(27,422)
Distributions and Other	(131,697)	(131,697)
Changes in Net Unrealized Appreciation/(Depreciation)	<u>199,462</u>	<u>199,462</u>
Investment Assets - 02-28-18	<u><u>\$11,516,586</u></u>	<u><u>\$12,138,245</u></u>

INVESTMENT PORTFOLIO ACTIVITY
"POOLED" INVESTMENTS
FOR THE SECOND QUARTER ENDED FEBRUARY 28, 2018

	Coupon	Stated Maturity	Book Value	Market Value	Unrealized Gain (Loss)	Purchases	Principal Payments Received/Matured	Realized Gain (Loss)	Interest/Dividends Earned For the Qtr.	Amortization/Accretion of Prem./Disc.	Book Value	Market Value	Unrealized Gain (Loss)
			11-30-17	11-30-17							02-28-18	02-28-18	
U.S. Common Stock - (Donated)													
1,000 shares - Chesapeake Utilities (CPK)			18,200.00	85,210.00	67,010.00				487.50		18,200.00	66,340.00	48,140.00
10 shares - Citigroup (C) - reverse split			1,310.00	755.00	(555.00)				13.50		1,310.00	754.90	(555.10)
45 shares Calamos Corp. & High Inc. (CHY)			619.65	527.85	(91.80)				254.77		5,566.00	64,464.00	58,898.00
1,200 shares - CSX Corp. (CSX)			5,566.00	66,900.00	61,334.00				66.78		4,957.82	13,686.12	8,728.30
252 shares - Conoco Phillips - (COP)			4,957.82	12,821.76	7,863.94				88.20		2,479.68	11,386.62	8,906.94
126 shares - Phillips 66 (PSX)			2,479.68	12,292.56	9,812.88						2,631.05	25,900.00	23,268.95
125 shares Berkshire (BRK-B)			2,631.05	24,126.25	21,495.20				333.84		24,824.00	49,998.96	25,174.96
856 shares - Wells Fargo (WFC)			24,824.00	48,338.32	23,514.32				3.00		4,216.36	2,360.96	(1,855.40)
124 shares-Manulife (MFC)			4,216.36	2,608.96	(1,607.40)						4,342.80	2,102.40	(2,240.40)
60 shares - Natl. Oil Well (NOV)			4,342.80	2,010.00	(2,332.80)						514.20	142.35	(371.85)
15 shares - NOW Inc. (DNOW) - split/spin off			514.20	154.80	(359.40)				8.75		1,112.30	4,040.40	2,928.10
Total Common Stock			1,112.30	4,238.50	3,126.20				1,256.34		70,773.86	241,698.71	170,924.85
Sub-Total - Securities			70,773.86	259,984.00	189,210.14				1,256.34		70,773.86	241,698.71	170,924.85
TEXPOL Investment Pool (1)	1.34	*	1,525,315.46	1,525,315.46		4,500,000.00	500,000.00		11,756.42		5,537,071.88	5,537,071.88	
LOGIC Investment Pool (1)	1.59	*	2,050,720.18	2,050,720.18		4,000,000.00	500,000.00		14,388.83		5,565,109.01	5,565,109.01	
TX CLASS Investment Pool (1)	1.62	*	2,056,131.39	2,056,131.39		4,000,000.00			15,836.03		6,071,967.42	6,071,967.42	
TX A&M System Pool	2.59	*	24,342,925.66	26,926,775.57	2,583,849.91				357,768.78		24,700,694.44	27,737,737.73	3,037,043.29
Total Investment Pool Cash			29,975,092.69	32,558,942.60	2,583,849.91	12,500,000.00	1,000,000.00		399,750.06		41,874,842.75	44,911,886.04	3,037,043.29
Total Investments			\$30,045,866.55	\$32,818,926.60	\$2,773,060.05	\$12,500,000.00	\$1,000,000.00		\$401,006.40		\$41,945,616.61	\$45,153,584.75	\$3,207,968.14

*As of February 28, 2018

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

Comparison to U.S. and State Treasuries	Book Accounting Yield	Average Three-Month U.S. Treasury Bill	State Treasury Yield	Basis Point Spread to U.S. Treasury	Basis Point Spread to State Treasury
December, 2017	4.35	1.34	1.43	3.01	2.92
January, 2018	4.28	1.43	1.50	2.85	2.78
February, 2018	2.65	1.59	1.64	1.06	1.01

MIDWESTERN STATE UNIVERSITY
INVESTMENT PORTFOLIO ACTIVITY
REVENUE FINANCING SYSTEM REVENUE & REFUNDING BONDS, AND TUITION REVENUE BONDS - SERIES 2016A
FOR THE SECOND QUARTER ENDED FEBRUARY 28, 2018

		Book Value	Market Value	Unrealized Gain (Loss)	Purchases	Principal Payments Received/Matured	Realized Gain (Loss)	Interest Earned For the Qtr.	Amortization/ Accretion of Prem./Disc.	Book Value	Market Value	Unrealized Gain (Loss)
	Coupon	Stated Maturity	11-30-17	11-30-17						02-28-18	02-28-18	
LOGIC Investment Pool	1.59	* Daily	\$24.72	\$24.72	\$1,009,806.90	\$1,009,844.09		\$41.55		\$29.08	\$29.08	
BLB Flexible Repo Agreement	0.96	Monthly	55,934,129.77	55,934,129.77		1,009,806.90		133,858.66		55,058,181.53	55,058,181.53	
Total Bond Investments			\$55,934,154.49	\$55,934,154.49	\$1,009,806.90	\$2,019,650.99		\$133,900.21		\$55,058,210.61	\$55,058,210.61	

* As of February 28, 2018

Interest Rate on Bonds Issued 2.00% - 5.00%

This report is prepared in conformity with Midwestern State University Investment Policy and state statutes and guidelines including the Public Funds Investment Act (Tx. Gov't Code, Ch. 2256).

MIDWESTERN STATE UNIVERSITY
INVESTMENT PORTFOLIO ACTIVITY
MSU ENDOWMENT INVESTMENTS - AMERICAN NATL. BANK TRUST DEPT. MANAGERS
FOR THE SECOND QUARTER ENDED FEBRUARY 28, 2018

AMERICAN NATL. BANK TRUST DEPT.											
Cash and Cash Equivalents:											
Cash	Book Value	Market Value	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	Market Value	Unrealized Gain (Loss)
11-30-17	11-30-17	11-30-17	(Loss)			(Loss)			02-28-18	02-28-18	(Loss)
AMERICAN NATL. BANK TRUST DEPT.											
Cash and Cash Equivalents:											
Cash											
American Natl. Bank Fees											
U.S. Dollars											
Goldman Sachs	\$60,206.77	\$60,206.77		\$1,067,925.48	\$50,384.33		1,068.96		\$1,077,747.92	\$1,077,747.92	
Total Cash and Cash Equivalents	60,206.77	60,206.77		1,067,925.48	50,384.33		(10,075.30)		1,077,747.92	1,077,747.92	
Purchased Interest Receivable											
Fixed Income:											
U.S. Government Agencies	229,382.07	226,303.78	(\$3,078.29)		9,394.24	(298.21)	1,679.34	(\$223.82)	219,824.01	212,261.62	(\$7,562.39)
Municipal Bonds											
Corporate Bonds & Notes	2,195,671.63	2,199,264.01	3,592.38		2,611.83		26,817.50	(5,668.64)	2,190,002.99	2,157,941.83	(32,061.16)
Devonshire - REIT	199,990.43	164,473.66	(35,516.77)		11,946.07	(298.21)	28,496.84	(5,892.46)	197,378.60	168,421.02	(28,957.58)
Total Fixed Income Securities	2,625,044.13	2,590,041.45	(35,002.68)						2,607,205.60	2,538,624.47	(68,581.13)
Common Stock - Equities:											
U.S. Equities	4,043,108.14	5,490,918.91	1,447,810.77		572,560.28	363,510.52	22,786.66		3,605,203.68	4,910,756.90	1,305,553.22
Foreign Equities	114,663.44	78,397.33	(36,266.11)				252.56		114,663.44	69,553.22	(45,110.22)
Equity ETFs	841,466.51	1,052,400.89	210,934.38		55,003.09	41,113.98	9,012.34		786,463.42	956,288.03	169,824.61
Mutual Funds - Equities											
Total Equities	4,999,238.09	6,621,717.13	1,622,479.04	134,655.82	627,563.37	404,624.50	32,053.56		4,506,330.54	5,936,598.15	1,430,267.61
Total Endowment Investments at American National Bank Trust	\$7,684,488.99	\$9,271,965.35	\$1,587,476.36	\$1,202,581.30	\$689,893.77	\$404,326.29	\$50,475.10	(\$5,892.46)	\$8,191,284.06	\$9,552,970.54	\$1,361,686.48
Dec, Jan, and Feb activity							22.62%	448,908.93	Market Value gain =	1,361,686.48	16.62%
							(Annualized)	7,937,866.53	8,191,284.06		

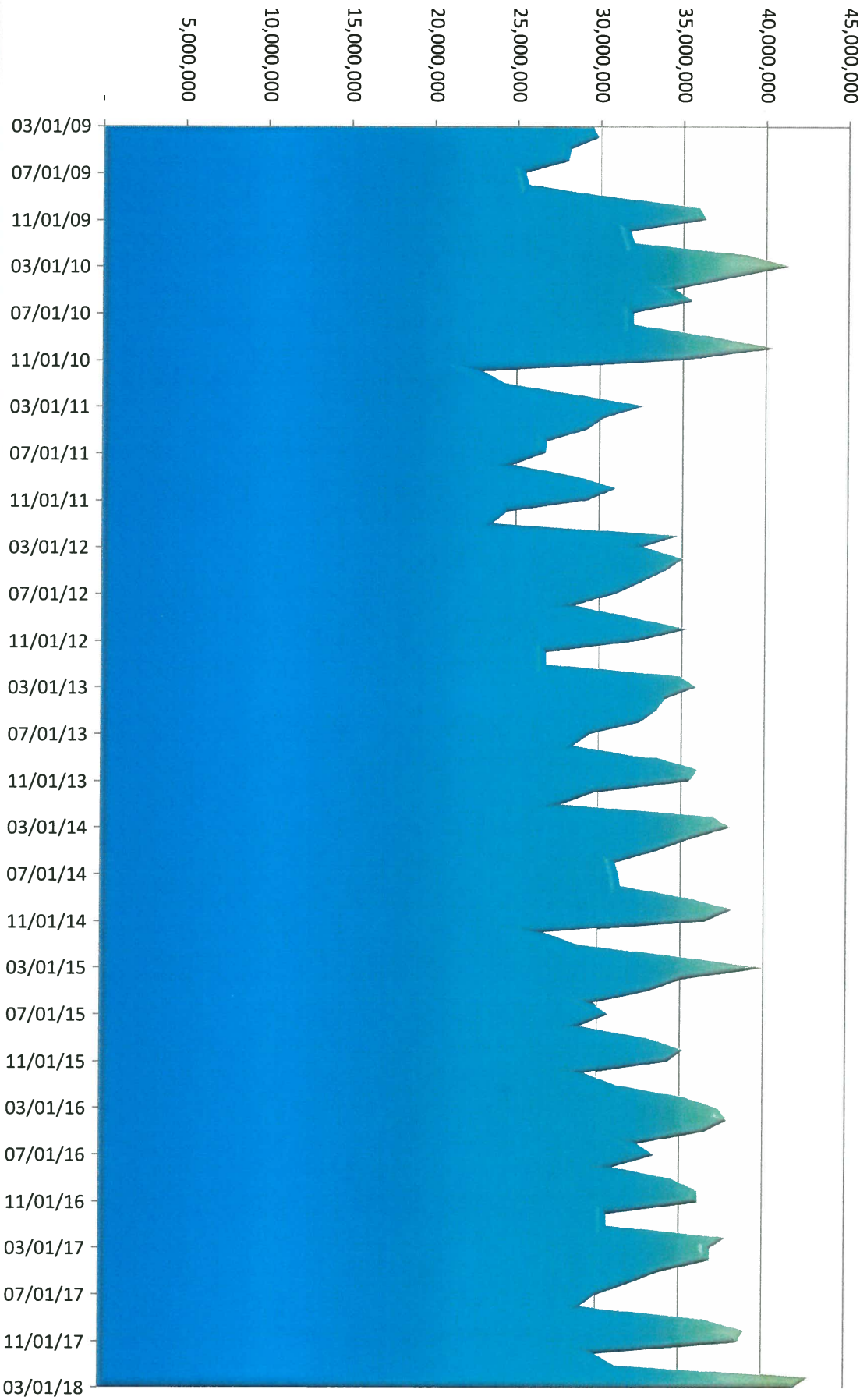
MSU ENDOWMENT INVESTMENTS - TEXAS A&M UNIVERSITY SYSTEM ENDOWMENT POOL
FOR THE SECOND QUARTER ENDED FEBRUARY 28, 2018

	Book Value 11-30-17	Market Value 11-30-17	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 02-28-18	Market Value 02-28-18	Unrealized Gain (Loss)	Market Value Percentage Of Total
TEXAS A&M INVESTMENT MGMT FEE												
Long-term Investment Pools:												
Texas A&M System Endowment Pool	\$511,041.99	\$530,312.09	\$19,270.10	\$100,800.00	\$4,807.04	\$4,807.04	2,260.93		\$611,841.99	\$639,972.04	\$28,130.05	100.00%
Total Long-term Investments	511,041.99	530,312.09	19,270.10	100,800.00	4,807.04	4,807.04	1,042.86		611,841.99	639,972.04	28,130.05	100.00%
Total Endowment Assets												
at Texas A&M University System	\$511,041.99	\$530,312.09	\$19,270.10	\$100,800.00	\$4,807.04	\$4,807.04	\$1,042.86		\$611,841.99	\$639,972.04	\$28,130.05	100.00%
Dec. Jan. and Feb activity	Simple yield excluding mkt.value change: (Realized gain + Int.Div./Recvd. + Amort./Accr.) / (Average Book Value) =											
							4.17%	5,849.90	Market Value gain =	28,130.05	4.60%	
							(Annualized)	561,441.99	611,841.99			

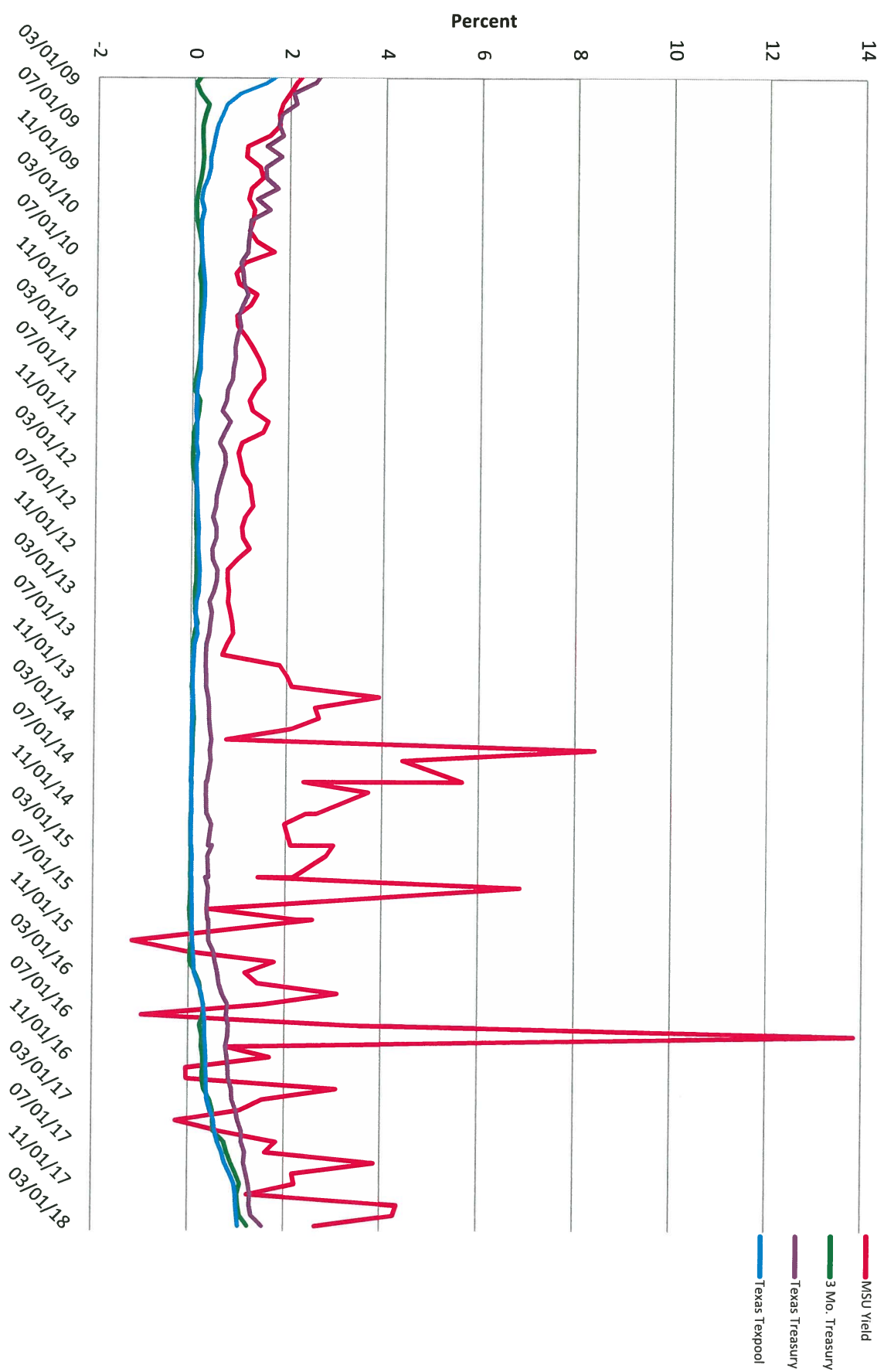
REDWINE QUASI ENDOWMENT INVESTMENTS - TEXAS A&M UNIVERSITY SYSTEM ENDOWMENT POOL
FOR THE SECOND QUARTER ENDED FEBRUARY 28, 2018

	Book Value 11-30-17	Market Value 11-30-17	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 02-28-18	Market Value 02-28-18	Unrealized Gain (Loss)	Market Value Percentage Of Total
TEXAS A&M INVESTMENT MGMT FEE												
Long-term Investment Pools:												
U.S. Dollars												
Texas A&M System Endowment Pool	\$11,516,585.66	\$11,938,782.83	422,197.17		\$108,219.68	\$108,219.68	\$50,899.99		\$11,516,585.66	\$12,138,244.75	\$621,659.09	100.00%
Total Long-term Investments	11,516,585.66	11,938,782.83	422,197.17	0.00	108,219.68	108,219.68	23,477.53		11,516,585.66	12,138,244.75	621,659.09	100.00%
Total Endowment Assets												
at Texas A&M University System	\$11,516,585.66	\$11,938,782.83	\$422,197.17	\$0.00	\$108,219.68	\$108,219.68	\$23,477.53		\$11,516,585.66	\$12,138,244.75	\$621,659.09	100.00%
Dec. Jan. and Feb activity	Simple yield excluding mkt.value change: (Realized gain + Int.Div./Recvd. + Amort./Accr.) / (Average Book Value) =											
							4.57%	131,697.21	Market Value gain =	621,659.09	5.40%	
							(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 2018

1ST QUARTER – NOVEMBER 30, 2017

Effective Rates for FY 2018 YTD:

Cash Portfolio:	1.27%
Long-Term Portfolio:	3.97%
Total Pool:	3.15%

Capital Market & Rates

The yield on 2-year Treasuries rose to 1.78% in November from 1.33% at the end of August. The yield on 10-year Treasuries rose to 2.41% in November from 2.12% at the end of August.

The S&P 500 Index returned 7.7% during the quarter and 22.9% for the one-year ending November 30, 2017. Developed international equity markets returned 5.1% (in US Dollars) during the quarter and 27.3% for the one-year period. Emerging markets returned 3.3% (in US dollars) during the quarter and 33.3% for the one-year period.

The unemployment rate stood at 4.1% in November. The economy added 510,000 jobs during the three month period.

The economy was estimated to have grown at a 3.2% annual rate during the quarter ending September 30, up from 3.1% in the prior quarter.

CCP Estimated Distribution Rate for FY 2018

Total Pool: 2.25%

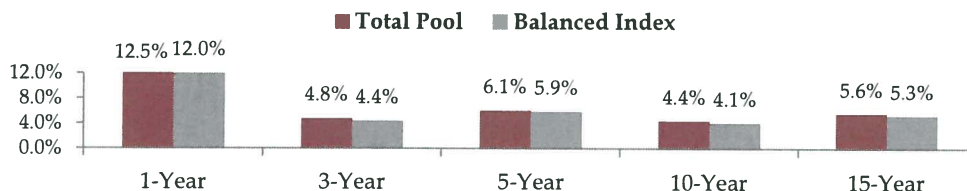
<https://www.tamus.edu/finance/treasury-services/>

Pool Valuation

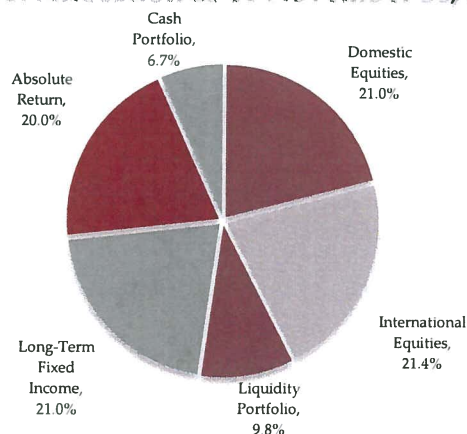
As of November 30, 2017 the Pool had a market value of approximately \$4.5 billion. For the 1st quarter of FY 2018, the Pool positions had \$951.3 million in cash inflows and \$925.4 million in cash outflows, increasing the book value of the Pool by \$25.9 million. The Pool earned investment income during this quarter of \$15.9 million and realized net gains on investments of \$18.0 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 Performance



Asset Allocation as of November 30, 2017

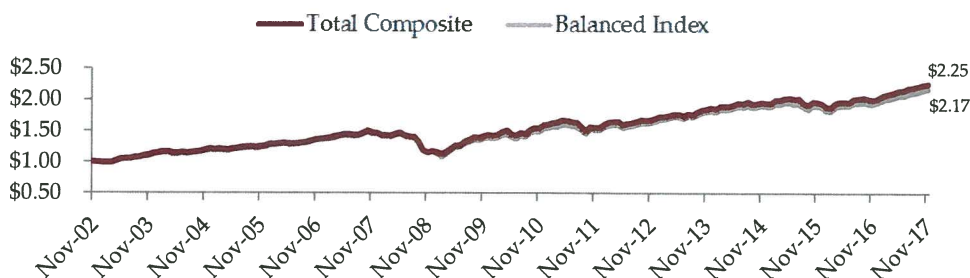


Asset Allocation (\$M)

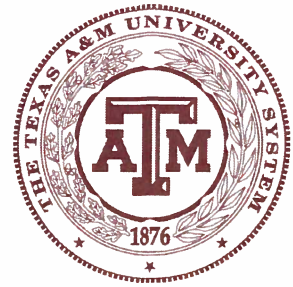
Excluding Debt Proceeds and SEF Deposits

Domestic Equities	\$748.7
International Equities	\$764.0
Liquidity Portfolio	\$348.8
Fixed Income	\$749.8
Absolute Return	\$713.6
Cash Portfolio	\$237.5

Growth of \$1 (15 Years)



Texas A&M University System System Endowment Fund



FISCAL YEAR 2018

1ST QUARTER – NOVEMBER 30, 2017

Capital Market Update

As measured by the Russell 3000 Index, the US stock market returned 7.9% over the quarter and 22.3% for the one-year period. Small cap stocks outperformed large cap stocks by 2.6% for the quarter and by 4.3% for the one-year period. Growth stocks outperformed value stocks by 1.5% during the quarter and by 16.0% over the one year.

Developed international equity markets returned 5.1% (in US Dollars) during the quarter and 27.3% for the one-year period. Emerging markets returned 3.3% (in US dollars) during the quarter and 33.3% for the one-year period.

Fixed income markets declined during the quarter, falling -0.5%. For the one-year period, fixed income markets increased 3.2%.

Absolute return, on an aggregate basis, appreciated 1.8% for the quarter and 7.9% for the one-year period.

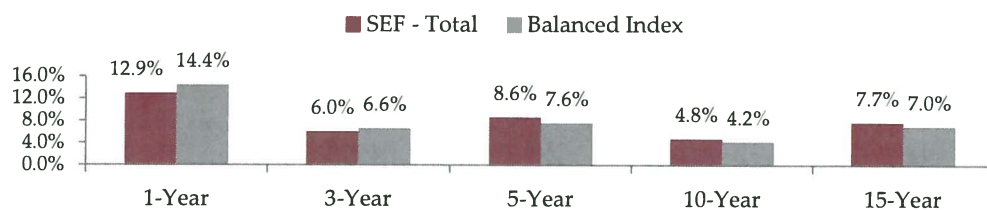
Quarterly Endowment Spending Rate

FY 2018: \$0.073954 per unit

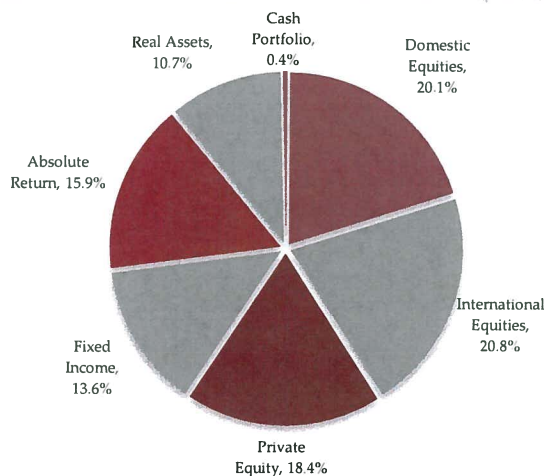
Endowment Valuation

As of November 30, 2017, the SEF had a market value of approximately \$1.1 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, 2017 was \$6.48.

Investment Performance



Asset Allocation as of November 30, 2017

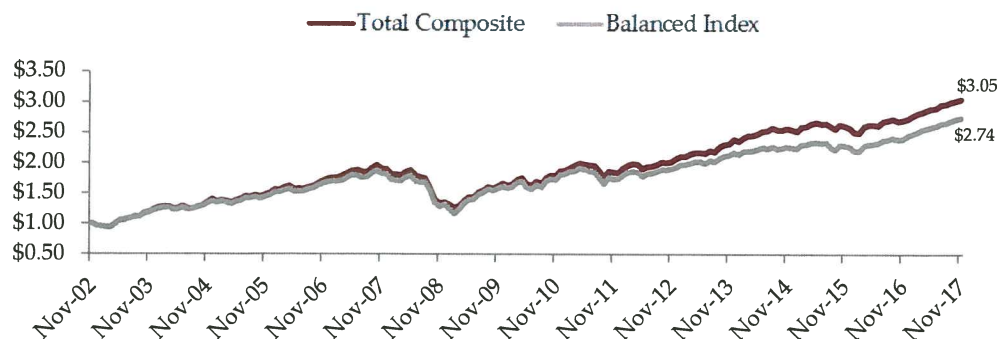


Asset Allocation (\$M)

Prior to Distribution and New Deposits

Domestic Equities	\$229.8
International Equities	\$237.5
Private Equity	\$210.4
Fixed Income	\$155.6
Absolute Return	\$181.2
Real Assets	\$121.9
Cash Portfolio	\$4.7

Growth of \$1 (15 Years)



The units and market value summary is available online for each endowment account at the Treasury web page: <https://www.tamus.edu/finance/treasury-services/system-endowment-fund/>

Texas Economic Expansion Continues; Tight Labor Market Could Limit Stronger Growth

March 30, 2018

The Texas economy's broad expansion continues. Year-to-date employment growth has been widespread across metros and industries. Additionally, the Federal Reserve Bank of Dallas' [Texas Business Outlook Surveys \(TBOS\)](#) indicate continued expansion in manufacturing and services in the first quarter. Tight labor market conditions could limit the strength of future economic growth, however, as a growing percentage of companies responding to TBOS report difficulty filling positions due to a lack of applicants.

Recent federal tax law changes are a tailwind for the regional economy and projected to boost investment. However, a lack of clarity on trade policy could damp the high optimism among Texas firms, curtailing investment plans and overall growth in 2018.

Robust Employment Growth in Early 2018

[Texas employment](#) increased at a 3.2 percent annualized rate in February after growing 4.0 percent in January. The Dallas Fed's [Texas employment forecast](#) anticipates annual job growth of 3.4 percent in 2018 (December/December). [Unemployment](#) held steady at 4.0 percent in February, near its historic low and below the nation's 4.1 percent rate.

Year to date, employment has grown at a 28.8 percent annualized rate in the energy sector (*Chart 1*). Construction and professional and business services also experienced notable expansions during the first two months of the year, with gains exceeding 8 percent in services and close to 7 percent in construction. Job growth was solid across Texas' major metropolitan areas. Austin remained the fastest-growing major metro, with 7.2 percent year-to-date employment expansion. Growth has accelerated in every major metro except San Antonio in the year to date compared with 2017.

Business Executives Report Difficulty Hiring

Tightness in the Texas labor market was corroborated by the [supplemental questions to TBOS](#) in February. More than half of the 362 executives surveyed said they planned to increase employment over the next six to 12 months (*Chart 2*). This was the highest share expecting to increase employment in the 10 times the question has been asked since 2011.

Among survey respondents, 64.8 percent reported difficulties finding qualified workers. The problem persisted across skill levels but was concentrated among mid-skill positions, which typically require some college or technical schooling. Nevertheless, lack of applicants is the main issue firms have faced when trying to fill vacant positions since 2017 (*Chart 3*). This suggests that consistent low unemployment along with a skills mismatch could restrain employment growth going forward.

Chart 1
Year-to-Date Employment Gains Seen Across Metros, Industries

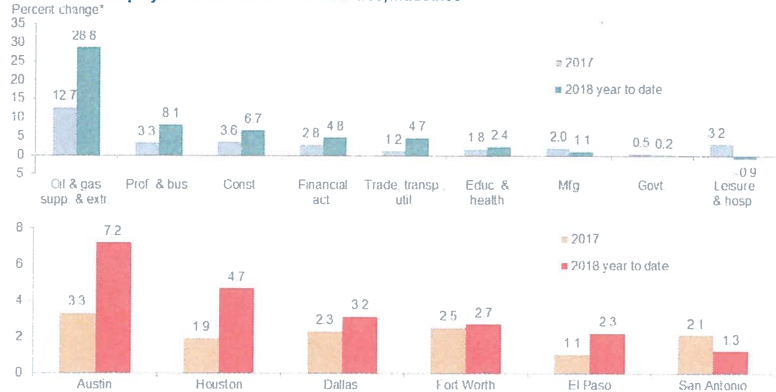


Chart 2
Share of Firms Expecting to Increase Employment Reaches New High

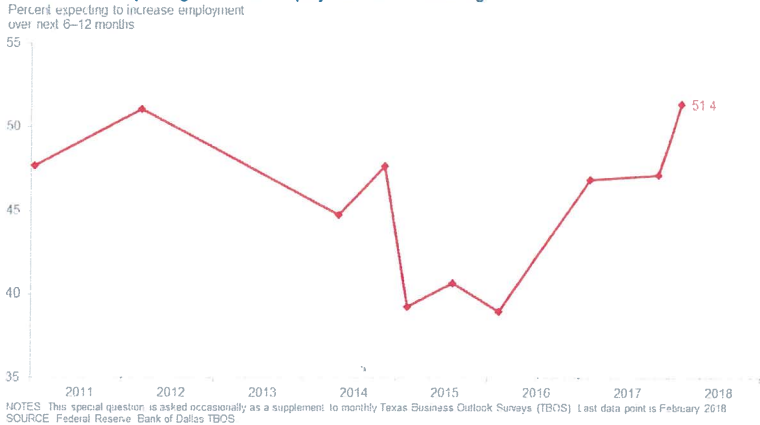
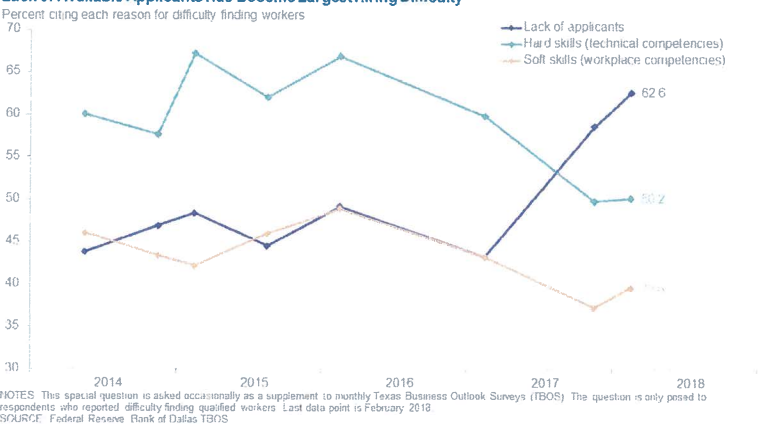


Chart 3
Lack of Available Applicants Has Become Largest Hiring Difficulty



Wages Decline After Steady Rise in Early 2017

Texas wages increased faster than the nation during the oil boom but stalled in 2015 and 2016. Last year, Texas wage growth sped up during the first half of 2017 but slowed at year-end. Still, Texas wages grew faster than they did nationally in 2017 (*Chart 4*).

Consistent with tight labor conditions, wage growth expectations are bullish for 2018 (*Chart 5*). In March, the three-month moving average of the six-months-ahead wage and benefits index for manufacturing reached the highest level since September 2004, while the future wage and benefits index for services was at its highest since November 2007.

Manufacturing Production Growth and Service Activity Remain High

Texas factory activity continued to expand in March but at a slower pace than last month, according to the [Texas Manufacturing Outlook Survey \(TMOS\)](#). Texas service sector activity picked up in March, according to the [Texas Service Sector Outlook Survey \(TSSOS\)](#). The three-month moving averages for both manufacturing production and service revenue remained elevated and above the postrecession average.

Texas Export Growth Exhibits Strong Momentum

Texas exports edged down 1 percent in January after climbing 11 percent in 2017, the highest growth rate since 2011 (*Chart 6*). Exports of petroleum and coal products expanded 17 percent, propelling last year's activity. Chemicals exports increased 6.9 percent. Exports of computers and electronics fell 2.9 percent, and transportation equipment declined 6.8 percent during the year. Texas exports should continue growing as the Texas trade-weighted value of the dollar has fallen and global growth continues to improve. A lower value of the dollar makes Texas goods less expensive abroad. Nevertheless, the impact of recently announced tariffs on Texas exports remains unclear.

Texas Inflation Moderates, Expectations Elevated

The 12-month change in the Texas core consumer price index (CPI), which excludes volatile energy and food prices, dropped to 2.0 percent in January (*Chart 7*). The U.S. core CPI was 1.8 percent in January and ticked up to 1.9 percent in February.

Looking ahead, TBOS six-months-ahead price measures suggest that firms expect inflation in Texas to rise. The three-month moving average of the future finished goods price index for manufacturing remained close to its highest point since 2008 when Texas CPI growth averaged 3.9 percent. The three-month moving average of the service sector future selling prices index reached its highest point since 2007.

—Jesus Cañas and Stephanie Gullo

About the Authors

Cañas is a senior business economist, and Gullo is a research analyst in the Research Department at the Federal Reserve Bank of Dallas.

Chart 4
Wage Growth Accelerated Then Receded in 2017

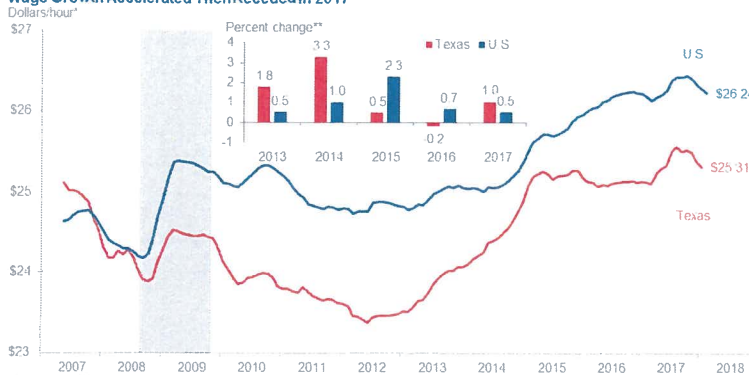


Chart 5
Wage Growth Expectations at Historic Highs

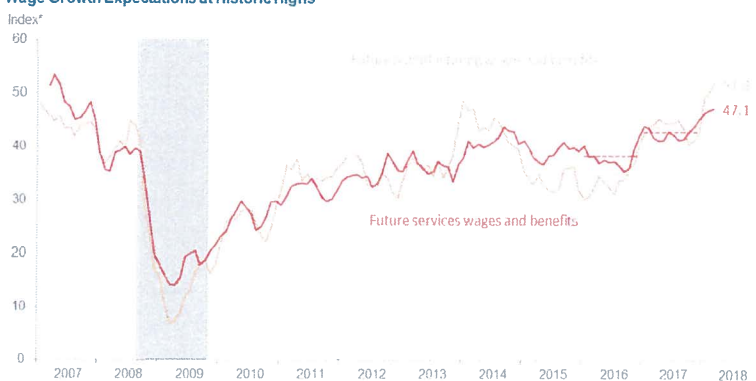


Chart 6
Export Growth Boosted by Falling Texas Trade-Weighted Value of the Dollar

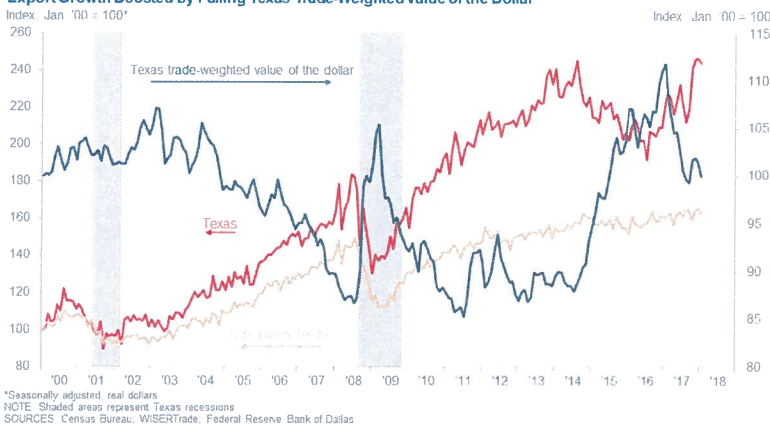


Chart 7
Price Pressures Abate at Start of 2018

