

**UW System Board of Regents
Business & Finance Committee
UW-Madison, Gordon Dining and Event Center, Overture Room
December 4, 2014**

MEETING OF THE BUSINESS AND FINANCE COMMITTEE:

The Business and Finance Committee was called to order at 1:05 p.m. by Regent Mueller. Roll call was taken and Regents Mueller, Pruitt, Farrow, Harsy, and Higgins were in attendance.

I.2.a. Approval of the Minutes of the October 9, 2014, Meeting of the Business and Finance Committee

Upon the motion of Regent Higgins, and the second of Regent Pruitt, the Committee unanimously approved the minutes of the October 8, 2014, meeting of the Business and Finance Committee.

I.2.b. Quarterly Report of Gifts, Grants, and Contracts (1st Quarter FY 2015)

Senior Vice President for Administration David Miller presented the Committee with a report of gifts, grants, and contracts received in the period July 1, 2014 through September 30, 2014. Gifts, grants, and contracts awards received in this first quarter totaled approximately \$519.4 million. This was a net decrease of approximately \$18.3 million from the same period in the prior year. Federal awards decreased \$51.0 million but this was offset somewhat by an increase of \$32.7 million in non-federal awards. Senior Vice President Miller noted that he plans to invite the Vice Chancellor for Research from UW-Madison to a future meeting with the intent of providing greater insight into where this funding comes from, highlight some historical trends, and discuss prospects for future funding. He felt the presentation of these numerical data would be better appreciated with this richer context in mind.

Regent Higgins asked about the relatively low volume of awards received by UW-Parkside. Mr. Miller responded that, while we cannot explain today why they appear relatively low, we can follow up with more information. Regent Higgins stated that would be fine, but that he would like to hear more on the situation at a later date.

Regent Farrow asked how these numbers fit into the overall program revenue balance figures that recently received a great deal of attention. UW-Madison Vice Chancellor for Administration Darrell Bazzell explained that, since the data represent awards rather than revenue, much of this funding has likely not even been received yet so they do not fit directly into the program revenue balance figures. Regent Mueller and others also noted that these funds are accounted for in separate appropriations and so, once received, they are presented that way in State and UW accounting systems as well as the UW System Annual Financial Report.

I.2.c. UW-Madison Master Research Agreement with TempoQuest, Inc.

Darrell Bazzell, Vice Chancellor for Administration at UW-Madison provided a brief overview of this agreement. The document represents a master research agreement that provides the general terms and conditions to be applied to a series of research activities which will be detailed in future *Research Project Specification* documents (Statements of Work). Mr. Bazzell explained that this is a little different approach than has been used for some other contracts brought to the committee for approval. With this contract, they are coming on the front end in anticipation of the work eventually exceeding the \$500,00 threshold requiring Board approval. He noted that they had some similar situations where smaller contracts grew above the threshold and then had to come to the Board somewhat mid-stream in the research project. They hope to avoid that situation

with this new approach. Senior Vice President David Miller noted that there had been some questions in the past about why contracts were just now being presented when work actually began earlier. As a result, we had to explain that such contracts only recently exceeded the approval threshold as work under the agreement was expanded. He said that they decided to move to this new approach to avoid those situations.

Regent Farrow asked where TempoQuest, Inc. was located. Mr. Bazzell responded that they are based in Omaha, Nebraska. She also had questions about the economic development impacts of the contract. She asked about intellectual property rights and where jobs might be created as a result of this project. Mr. Bazzell responded that the University retains such rights under the agreement. At this point, it is not possible to ascertain where and how many jobs might eventually result from the work although the agreement would currently employ UW researchers and their assistants. Regent Mueller asked how this work would affect the ability of researchers to perform their work for the University. Mr. Bazzell noted that these efforts are an integral part of their employment at the University. He also wanted to clarify that these agreements come to the Board only when there is benefit to and engagement with the University. Agreements that were exclusively of personal benefit to researchers would not come to the Committee for approval as they would be considered outside activity which is subject to certain other reporting requirements.

Upon the motion of Regent Pruitt and the second of Regent Farrow, the Committee unanimously approved the agreement.

I.2.d. Trust Funds – Investment Policy Statement Review and Affirmation

UW System Office of Trust Funds Director Doug Hoerr provided an overview of the Investment Policy Statement. He noted that there are no substantive changes included in the document and that asset allocation targets and the 4% spending rate remain the same. He explained that asset allocation targets are reviewed every three years and that, while he believes the current targets are reasonable and desirable, asset allocation will be part of the discussion at the February 2015 meeting. With respect to the 4% spending rate, Mr. Hoerr noted that currently the expected long-term return of a standard portfolio comprised of 70% equities and 30% bonds would be approximately 6.75%. With this in mind, and knowing that inflation is hovering around 2% and that management costs are roughly 1%, the 4% spending rate appears reasonable and prudent. Director Hoerr then paused and asked if there were any questions.

Regent Higgins expressed concern regarding appendix 3 of the document which summarizes Board policy on proxy voting and social responsibility. He noted that he and Regent Farrow had expressed concerns with these provisions on earlier occasions but there has been no discussion. He proposed an amendment to the resolution to remove appendix 3 before approving of the balance of the document. Director Hoerr explained that appendix 3 simply describes existing Regent policy regarding proxy voting it does not set that policy. Senior Vice President Miller stated that proxy voting policy will be among the Trust Funds issues to be discussed at the Committee's February meeting at which time any desired changes could be sought. With this understanding, Regent Higgins withdrew his request to remove the appendix before approval. Regent Pruitt offered comments on the historical context of these policies noting that an annual public forum was held for many years to allow concerns from students, faculty and others to be heard. The forum was established in response to criticism of these groups regarding UW investment practices. However, it was discontinued several years ago for a number of reasons most notably that very few people attended. Regent Pruitt suggested that, given this history, it might be a good idea to gather some broader input before completely eliminating these policies.

Regent Higgins also asked about what is being approved. The materials state that no substantive revisions are being made but then why is it coming to the Committee. What specifically has changed? Director Hoerr noted

that the only revisions to the document were updates to the current market values and average withdrawal rates for the funds.

Regent Farrow asked how long Mr. Hoerr has been with the University and whether he has any contact with others outside the UW. Mr. Hoerr responded that he has been with the UW for over 12 years. He meets at least annually with Big 10 and other colleagues and works collaboratively with UW Foundation and other colleagues. He is a Chartered Financial Analyst (CFA) and member of the CFA Society of Madison which is comprised of a broad array of professional Investment and Trust Officers working in both the private and public sectors. As a result, he noted that he has a pretty good understanding of how things are handled in other organizations. Regent Farrow expressed some concern regarding the multitude of foundations existing within the UW System. Mr. Hoerr stated that there are many models in use across the country and across industries and noted that the UW is not unique in its approach.

Before calling the resolution up for a vote, Regent Mueller wrapped up the discussion by asking Director Hoerr how the University's Trust Funds have been performing. Mr. Hoerr noted that returns look very good over the longer five and ten year measures generally performing in the top quartile. Returns in the short term show a decent absolute return of around 9% but he noted they do appear to lag benchmarks a bit. He stated this could be attributed to somewhat greater exposure to emerging market stocks which have lagged the strong recent performance of US equities in recent months.

Upon the motion of Regent Pruitt and the second of Regent Regent Higgins, the Committee unanimously approved the Investment Policy Statement as presented.

I.2.e. Trust Funds – UW-Madison Request for Exception to Board Policy on Large Unendowed Bequests/Gifts for the Albert and Monique Grant – Chazen Museum of Art Fund

Director Doug Hoerr provided a brief overview of the Board policy regarding gifts of this nature explaining that policy would generally require that a Board-designated endowment be created which would allow expenditure of earnings only. He noted that exceptions are allowable with Board approval and that such requests do come to the Board from time to time. He also noted that this was a fairly complex estate that required a splitting of certain assets between the Metropolitan Museum of Art and the University. UW-Madison Vice Chancellor for Administration Darrell Bazzell explained that the parties were essentially offered a choice between art and cash. The Metropolitan Museum of Art chose art and that the University accepted cash for its portion of the bequest.

Regent Pruitt asked about the Grant's connection to art. Russell Panczenko, Director of the Chazen Museum of Art on the UW-Madison campus, stated that there was no specification as to use in the estate documents but in trying to honor the donors it was noted that Monique had a connection to the University of Wisconsin and that Albert was very interested in art. That is why they chose the seek expenditure of the bequest to secure significant art pieces for the Chazen's collections.

Regent Higgins noted that absent approval of the exception, the funds would be used to create an endowment. Why could the proceeds not simply be added to the acquisitions fund and used collectively to purchase future art? Mr. Bazzell explained that the institution is seeking approval for an exemption to the endowment requirement not approval of any specific purchases. In response to Regent Higgins comment that the materials identify specific acquisitions intended, Mr. Miller noted that this was simply color commentary. The request is simply to allow current expenditure of the bequest.

On the motion of Regent Farrow and the second of Regent Higgins, the Committee unanimously approved the resolution.

I.2.g. Report of the Senior Vice President

Senior Vice President David Miller introduced Jennie Baurenhuber who recently joined his office and will be staffing the Committee beginning in February.

Mr. Miller then provided information on a recently completed cost benchmarking study which evaluated operating costs of the University's Shared Financial System (SFS) and Human Resource System (HRS) compared to what similar operations were spending for those activities. He noted that the study was performed by experienced external consultants (Gartner Consulting) with a very robust set of benchmarking data. Their study found costs for the Shared Financial System to be approximately 10% below peers and costs for the Human Resource System to be approximately 5% below peers. He noted that the full report contains considerable detail and noted that areas of relatively high costs are more than offset by areas of relatively low costs. He noted that opportunities for additional cost savings may exist in those remaining areas of higher cost. Specifically, through implementation of fewer customizations and less use of outsourced/consultant staffing.

Mr. Miller also provided brief updates on other projects including an upcoming efficiency and effectiveness study to be undertaken at the UW System Administration, the need for a new Budget System, efforts to develop a new Business Intelligence system, and on-going efforts to strengthen controls and streamline Human Resources processes.

Finally, Senior Vice President Miller noted that work is underway on a follow up report on causes of faculty turnover within the UW System. The Committee received a quantitative report last month, this follow up will provide information on the actual causes of faculty turnover. Data are being reviewed at the institutions right now and each departure will be slotted into one of five or so categories describing the reason for separation. This follow up report is expected to be ready for the committee's next meeting in February.

Regent Pruitt said he would like to see more "color" in the follow up report on faculty turnover. Mr. Miller responded that the follow up report will include reasons for separations, not just more numerical data.

Regent Mueller noted concerns regarding the high costs of the information systems he described earlier. Mr. Miller stated that, while the costs are significant, they have actually stabilized recently noting that the costs of Common Systems shared among all UW institutions was exactly the same in FY2014 and FY2015. Regent Mueller also offered support for the idea of using more in-house staff on these projects and said such an approach dovetails nicely with our desire to hire more Wisconsin residents and graduates and could help keep more of them in the State.

Regent Farrow expressed some concerns regarding security over these large information systems and the potential exposure to hacking schemes. Senior Vice President acknowledged those concerns and pointed to the recent hiring of a Chief Information Security Officer to help address such concerns.

The Committee adjourned at 2:02 p.m.

Respectfully submitted,

Michael M. Kraus
Recording Secretary