

11/1/2016

BOARD OF REGENTS OF THE UNIVERSITY OF WISCONSIN SYSTEM

I.2. Business and Finance Committee

Thursday, November 10, 2016
9:00 a.m. – 9:30 a.m.
Gordon Dining & Event Center
770 W. Dayton Street, 2nd Floor
Overture Room
Madison, Wisconsin

- a. Approval of the Minutes of the October 6, 2016 Meeting of the Business and Finance Committee
- b. Creation of Board of Regents Business and Finance Committee – Subcommittee on Investments
[Resolution I.2.b.]
- c. Report of the Vice President(s)

November 10, 2016

Agenda Item I.2.b.

Approval of Revisions to
the Bylaws of the Board of Regents
to Create a Subcommittee on Investments
within the Business and Finance Committee

BUSINESS AND FINANCE COMMITTEE

Resolution I.2.b.

That, upon the recommendation of the President of the Board of Regents of the University of Wisconsin System, the Board of Regents approves revisions to Chapter III, Section 3, of the Bylaws of the Board of Regents, to create a Subcommittee on Investments within the Business and Finance Committee.

**APPROVAL OF REVISIONS TO THE BYLAWS OF THE BOARD OF REGENTS
TO CREATE A SUBCOMMITTEE ON INVESTMENTS
WITHIN THE BUSINESS AND FINANCE COMMITTEE**

BACKGROUND

The Board of Regents has oversight responsibility for the UW System trust funds, which totaled \$523.4 million as of June 30, 2016. The Board’s bylaws state that the Business and Finance Committee “shall have charge of consideration of all matters related to...trust funds...” The bylaws further authorize the Business and Finance Committee to “hire investment counsel, subject to Board approval, and to give discretionary authority to investment counsel in the purchase and sale of securities within guidelines determined by the Committee.”

Through Regent policies, the Business and Finance Committee delegates the administration and management of trust funds primarily to the Trust Officer or other administrative officers; in practice, this delegation is to the Assistant Trust Officer, who is the Director of the Office of Trust Funds. The Director submits various reports to the Business and Finance Committee.

Regents have previously expressed interest in enhancing their oversight of trust funds. In addition, the Legislative Audit Bureau’s fiscal year 2014-15 financial audit of the UW System included an examination of the investments, investment administration, and Board oversight of trust funds, and made a number of recommendations for improvement.

REQUESTED ACTION

Approval of Resolution I.2.b., approving revisions to Chapter III, Section 3 of the bylaws of the Board of Regents to create a Subcommittee on Investments within the Business and Finance Committee.

DISCUSSION

The Board’s bylaws assign oversight responsibility for UW System trust funds to the Business and Finance Committee. Regent Policy Document (RPD) 31-2, “Management and Administration of Trust Funds,” authorizes the Business and Finance Committee to delegate the administration and management of trust funds to administrative officers; the Assistant Trust Officer oversees the Office of Trust Funds.

Specific responsibilities of the Business and Finance Committee and the Office of Trust Funds for the investment and the administration of trust funds are delineated in the Investment Policy Statement adopted annually by the Board. In short, the Business and Finance Committee recommends to the full Board an investment policy statement which, among other things, establishes asset allocations for the investment funds, establishes the spending policy for the endowment (long term) fund, and provides summary synopses of other related Regent policies, such as proxy voting and social responsibility considerations.

The Board annually elects trust fund officers: the Trust Officer (Vice President for Finance) and two Assistant Trust Officers (the Director of the Office of Trust Funds and the General Counsel). The Director of the Office of Trust Funds has responsibility for the management and administration of trust funds, hires and terminates external investment managers, and reports on trust funds activities to the Business and Finance Committee. The Director submits the following reports to the Business and Finance Committee:

- Quarterly investment reviews, which include detailed market commentaries, investment performance data, and fund-level activities and transactions;
- An annual report, which provides annual data on sources and uses of the funds, annual financial statements for the trust funds as a whole (consistent with the UW System's audited financial statements), and information on the external and internal expenses of the Office of Trust Funds;
- An annual endowment peer benchmarking report, which provides investment performance data and other points of comparison for peer institutions;
- Annual investment manager due diligence reports, which are brief reports summarizing the most recent annual due diligence meetings, and which highlight any potential areas of concern; and
- Proxy voting reports, which, upon request by the Board, provide the Committee with voting records and results for proxy proposals voted internally.

As part of the fiscal year 2014-15 financial audit of the UW System, the Legislative Audit Bureau (LAB) examined: 1) the role of the Board of Regents and the Office of Trust Funds in overseeing the investment of trust funds, and 2) the investment policies that the UW System Office of Trust Funds uses to manage trust fund investments. The LAB recommended that UW System Administration:

- Review the asset allocation plans, particularly for the asset classes that are outside the approved ranges, to determine if changes should be made to the asset allocation plans;
- Report to the Board of Regents on the results of the review, and seek approval of any revisions to the asset allocation plans;
- Complete and provide an annual due diligence report for each external investment manager to the Board of Regents Business and Finance Committee, as required by the University of Wisconsin System Trust Funds Investment Policy Statement; and
- Report to the Board of Regents on various additional items, including investment management fees, benchmarks, and investment performance.

Objectives

The Regents' main objective in enhancing board oversight of trust funds is to provide a forum for more robust and focused discussions of trust fund issues. To a lesser extent, recognizing that Regents are not normally investment professionals, the Board may wish to introduce and incorporate some level of "external," non-Regent investment expertise into these discussions.

UW System Administration and Board of Regents staff researched and identified board oversight approaches at other universities, ranging from advisory committees to separate stand-alone committees. Each of these approaches could achieve the main objective and each offers advantages and disadvantages.

While an advisory committee would provide an opportunity for focused discussions related to trust funds, as the name indicates, the committee would only provide advice to the Board and would not have the authority to vote. As a result, the effectiveness and efficiency of the committee may be a concern.

A separate investment committee would give more prominence to the oversight of trust funds. However, a restructuring of Board standing committees and responsibilities would be needed, and this would also further reduce the role of the Business and Finance Committee.

Another approach that would enable the Board to achieve its primary objective would be a subcommittee on investments. Under this recommendation, a restructuring of Board committees and responsibilities would not be necessary, as the Subcommittee on Investments would be a subcommittee of the Business and Finance Committee. It could discuss Trust Funds in a transparent manner, with the authority to vote and recommend action to the Business and Finance Committee. Advisors or liaisons – who would be non-Regents and non-subcommittee members – could be selected as advisors to the subcommittee, if desired, based on the expertise needed by the Board.

Implementation

The creation of a Subcommittee on Investments is recommended. This will require changes in a number of areas, including Board bylaws, Business and Finance Committee operations, and Office of Trust Funds operations.

1. Bylaws

The Board has created three subcommittees in the past – the Audit Subcommittee, the Physical Planning Subcommittee, and the 21st Century Implementation Subcommittee. All three subcommittees were created through Board bylaws provisions. Thus, a bylaws change is proposed in the current instance. The attachment shows the current bylaws language and the proposed changes to Chapter III, Section 3.

2. Business and Finance Committee Operations

The Subcommittee on Investments would be a subcommittee of the Business and Finance Committee. Members of the Subcommittee on Investments will be appointed by the Board President.

To ensure effective operations, members of the subcommittee will be drawn exclusively from the Business and Finance Committee. The subcommittee will have at least four Regents, which may include the Chair and/or Vice Chair of the Business and Finance Committee. The Chair and Vice Chair of the Subcommittee on Investments will be appointed by the Board President from among the subcommittee members.

The subcommittee may have investment advisors or liaisons. These advisors or liaisons will be non-Regents and non-subcommittee members. The Board can source or hire these investment advisors or liaisons based on the expertise needed by the subcommittee. The advisors or liaisons may be UW System faculty members or individuals from investment firms who do not have a conflict of interest. Compensation for these investment advisors or liaisons may be necessary.

The Subcommittee on Investments' sole responsibility will be overseeing trust funds. Thus, the subcommittee will meet quarterly, or as often as necessary, and vote to recommend action to the Business and Finance Committee, which would then vote to recommend action to the full Board.

3. Office of Trust Funds Operations

The Subcommittee on Investments will be staffed by the Office of Trust Funds. Reports that the Director of the Office of Trust Funds currently provides to the Business and Finance Committee would be provided to the Subcommittee on Investments instead. Also, Regent policies on trust funds would be first submitted to the Subcommittee on Investments for discussion and action.

The Investment Policy Statement will be revised to reflect the change, and the Subcommittee on Investments will be involved in shaping this policy statement.

RELATED REGENT POLICIES

Regent Policy Document 31-9, Investment Policy Statement: Key Elements and Review Process
Regent Policy Document 31-2, Management and Administration of Trust Funds
University of Wisconsin System Trust Funds Investment Policy Statement

ATTACHMENT

Chapter III, Section 3 – *Current*

Duties of the Business and Finance Committee

Section 3. The Business and Finance Committee shall have charge of consideration of all matters related to operating budget, finances, trust funds, business operations, and non-academic personnel.

Authority is delegated to the Business and Finance Committee to hire investment counsel, subject to Board approval, and to give discretionary authority to investment counsel in the purchase and sale of securities within guidelines determined by the Committee.



Chapter III, Section 3 – *Proposed Revisions*

Duties of the Business and Finance Committee

Section 3. The Business and Finance Committee shall have charge of consideration of all matters related to operating budget, finances, trust funds, business operations, and non-academic personnel.

Authority is delegated to the Business and Finance Committee to hire investment counsel, subject to Board approval, and to give discretionary authority to investment counsel in the purchase and sale of securities within guidelines determined by the Committee.

The Business and Finance Committee shall have a Subcommittee on Investments, appointed by the President of the Board. The Subcommittee on Investments shall recommend effective investment policy and practices to the Business and Finance Committee and shall oversee the implementation of investment policies the Board adopts.