

**UW System Board of Regents
Business & Finance Committee - Subcommittee on Investments
1511 Van Hise Hall, 1220 Linden Drive, Madison, WI
April 13, 2017 3:30 p.m. To be held by telephone conference**

MEETING OF THE BUSINESS AND FINANCE COMMITTEE – SUBCOMMITTEE ON INVESTMENTS:

The Subcommittee on Investments was called to order at 3:30 p.m. by Regent Steil. Roll was taken. Present in the room were Julie Gordon, Doug Hoerr, Tom Stafford, Mike Kraus, Jane Radue and Diane Wendt. Regents Steil, Erickson, and Delgado were present via teleconference.

I.2.b. Overview of the Uniform Prudent Management of Institutional Funds Act (UPMIFA)
Trust Funds Director Hoerr walked the subcommittee through UPMIFA and its implications. The three main areas to be aware of are: 1) Standards of Conduct – prudence norms have evolved over time, and the new law provides modern articulation of the prudence standards; costs of managing/investing must be “appropriate and reasonable;” investments may be invested “in any kind of property or type of investment,” but institutions shall diversify and must make decisions about individual investments in an overall portfolio context, not in isolation, and “as part of an overall investment strategy having risk and return objectives reasonably suited to the fund and to the institution;” 2) Appropriation for Expenditure or Accumulation of Endowment Funds – UPMIFA modernizes rules governing expenditures; provides both stricter guidelines and more flexibility in coping with fluctuations in the value of endowments; 3) Release or Modification of Restrictions on Management, Investment, Purpose - UPMIFA updates provisions for release/modification of donor restrictions to permit more efficient use, particularly for smaller, older funds.

I.2.c. Quarterly Investment Report as of December 31, 2016
Trust Funds Director Hoerr presented information regarding the overall performance of the Long Term, Intermediate Term and Income Funds. The Long Term Fund returned +0.6% for the quarter (second quarter of fiscal year 2017/fourth quarter of calendar year 2016) and +7.9% for the full calendar year, versus -1.3% and +6.7% for its primary benchmark. Over longer timeframes, this Fund has outperformed its primary benchmark by +1.0% per year. The Director also noted his belief that there is unrealized relative value in the Fund’s positions that should boost performance in the near future (e.g., heavier relative weightings to developed non-U.S. and emerging market equities). The Intermediate Term Fund returned -0.8% and +3.7% for these same periods, while its primary benchmark returned -2.0% and +2.0%, respectively. Over longer timeframes, this Fund has performed well on an absolute basis and clients/users of this Fund have been pleased with its performance. The Income Fund, a money market-like short-term fund managed by SWIB, returned +0.11% percent for the quarter and +0.42% for the calendar year.

Trust Funds Director Hoerr informed the committee that work continues on the quarterly investment report as of March 31, 2017 and expects it to be completed soon and discussed at the next subcommittee meeting. However, Mr. Hoerr was able to provide some high-level performance results for the subcommittee.

I.2.d Discussion of External Investment Managers – Annual Review

Trust Funds Director Hoerr outlined the approach for conducting on-going due diligence of external investment managers throughout the lifetime of the relationship. Efforts here include annual in-depth meetings with key investment personnel, in-depth meetings at managers' offices once every two to three years, attendance at client conferences, and open communication via phone or email as needed. In regards to reporting expectations, "Annual Investment Manager Due Diligence Reports" are to be provided to the Board routinely. Mr. Hoerr then presented these reports for all due diligence meetings conducted in calendar year 2016. Specific questions are provided to all managers in advance of these meetings to ensure productive conversations and consistent reporting. The annual due diligence reports focus on six core aspects of each firm: firm management and personnel developments, investment philosophy and process review, asset and client base developments, investment performance, fee review, and concerns/issues. Finally, each manager is given a grade or rating for both investment performance and client service. When asked by Regent Steil if there were significant concerns about any of the managers, Director Hoerr said that while shorter-term performance for some managers has been lagging, longer term performance generally remains strong, and that conviction in their capabilities remains intact. Director Hoerr did, however, note some "key man" risk at a couple of the firms, notably GMO, Reams, and Adams Street Partners, but that thoughtful, advance succession planning is generally taking place.

I.2.e. Report of the Interim Vice President and Trust Funds Director

Follow-up on Subcommittee request regarding advisors – Interim Vice President Gordon and Trust Funds Director Hoerr responded to questions regarding the status of bringing in outside investment experts or consultants to assist the Regents in their fiduciary oversight of the Trust Funds. Names of individuals from the UW-Madison School of Business School, UW Foundation, and former faculty and industry members have been discussed. Interim Vice President Gordon said that she will begin reaching out to those whom they feel can best assist.

Update on staffing – Interim Vice President Gordon noted that work continues on the hiring of a new Investments Manager. There were 61 applicants from which 11 were selected for phone interviews. Those interviews have been completed, and 3-4 finalists will be interviewed in person within the next 2 weeks. Betsy Hill, Co-Director of the Applied Security Analysis Program at UW-Madison ASAP, will continue to assist with this process. Finally, the Interim Vice President noted that Trust Funds Director Hoerr is planning to retire later in the year.

The Subcommittee meeting adjourned at 5:04 p.m.

Respectfully submitted,

Diane Wendt
Recording Secretary