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BOARD OF REGENTS OF THE UNIVERSITY OF WISCONSIN SYSTEM

I.2-1. Business and Finance Committee
Subcommittee on Investments

Thursday, March 9, 2017
8:00 a.m. – 9:15 a.m.
Gordon Dining & Event Center
770 W. Dayton Street, 2nd Floor
Concerto Room
Madison, Wisconsin

- a. Overview of Subcommittee on Investments Charter
- b. Overview of National College and University Business Administration:
Endowment Management
- c. Review of Investment Policy Statement
- d. Quarterly Investment Report (1st Quarter FY2017)
- e. Report of the Vice President and Trust Funds Director

UNIVERSITY OF WISCONSIN SYSTEM TRUST FUNDS OVERVIEW OF SUBCOMMITTEE ON INVESTMENTS CHARTER

EXECUTIVE SUMMARY

BACKGROUND

The Board of Regents has oversight responsibility for UW System Trust Funds. Before November 2016, the Board's bylaws charged the Business and Finance committee with responsibility for all matters related to Trust Funds. The Board expressed its interest in creating a subcommittee to become more engaged in matters related to Trust Funds.

To increase its engagement with investment matters, the Board of Regents amended its bylaws in November 2016 to create a Subcommittee on Investments, reporting to the Business and Finance Committee, and outlined the subcommittee's responsibilities to "recommend effective investment policy and practices...and oversee implementation of investment policies the Board adopts." [Chapter III, Section 3].

REQUESTED ACTION

This item is for informational purposes only.

DISCUSSION

Having created a Subcommittee on Investments in November 2016, the Board adopted a charter for the subcommittee at its February 2017 meeting. The charter outlines the Subcommittee's responsibilities as follows:

- How members of the subcommittee are to be appointed;
- The roles of both the Assistant Trust Officer and any investment advisors or liaisons to the subcommittee; and
- The subcommittee's specific responsibilities in overseeing the management and administration of funds invested on behalf of the Board of Regents.

The charter is attached.

RELATED REGENT POLICIES

Bylaws of the Board of Regents of the University of Wisconsin System
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

**PROPOSED CHARTER
UNIVERSITY OF WISCONSIN SYSTEM BOARD OF REGENTS
SUBCOMMITTEE ON INVESTMENTS**

1. Purpose

The purpose of the Subcommittee on Investments is to provide effective oversight for UW System trust funds, which includes recommending effective investment policies and practices to the Business and Finance Committee. The Subcommittee then oversees implementation of investment policies that are adopted by the Board of Regents.

2. Trust Officer/Assistant Trust Officers

The Board of Regents annually elects a Trust Officer (the Vice President for Finance) and Assistant Trust Officers (the Director of the Office of Trust Funds and the General Counsel). As stated in Chapter II of the Board of Regents' Bylaws, the Trust Officer and Assistant Trust Officers are responsible for receiving, managing, and maintaining records of all UW System trust funds and performing other duties relating to trust funds that are imposed by law and the rules and orders of the Board. In addition, the Director of the Office of Trust Funds/Assistant Trust Officer is responsible for staffing and supporting the Subcommittee on Investments and the operational management and administration of trust funds, including the implementation of policies approved by the Subcommittee and adopted by the full Board.

3. Investment Advisors and Liaisons

Investment advisors, consultants or liaisons may be sourced or hired by the Board of Regents to provide external investment expertise to the Subcommittee. These individuals shall not be Regents or members of the Subcommittee. Investment advisors and liaisons shall not be from investment firms where a conflict of interest would limit the individual's ability to provide the Subcommittee with independent and objective advice.

4. Membership

Members of the Subcommittee on Investments shall be appointed by the President of the Board of Regents. Only Regents serving on the Business and Finance Committee may be appointed by the President to the Subcommittee on Investments. The Subcommittee on Investments must have at least four Regents, which may include the Chair and/or Vice Chair of the Business and Finance Committee. The President of the Board of Regents shall appoint the Chair and Vice Chair of the Subcommittee on Investments.

5. Meetings

The Subcommittee on Investments shall meet at least quarterly. The Subcommittee may meet more often if necessary.

6. Responsibilities

The Subcommittee's primary duties and responsibilities are the following:

- Fulfill the Board's fiduciary responsibilities related to trust funds by seeking reasonable assurance that practices and operations are in compliance with applicable laws (e.g., UPMIFA), regulatory requirements, and policies;
- Regularly review, approve and recommend to the Business and Finance Committee an Investment Policy Statement, which will include:
 - Investment objectives, performance expectations, and benchmarks for the investment funds,
 - Asset allocation targets and ranges for the investment funds,
 - Spending (or distribution) policy for the endowment fund,
 - Methods and standards for overall investment performance and investment manager evaluation, risk measurement and control, and reporting/communications;
- Annually review evaluations of the external investment managers, and based on recommendations made by Office of Trust Funds staff, approve the selection, renewal or termination of external managers;
- As necessary, review, monitor and provide guidance to the following:
 - Addition or termination of asset classes, investment strategies, and, in some cases, specific investment vehicles or structures
 - Investment guidelines for individual investment managers
 - Investment operations and performance relative to objectives, expectations, and benchmarks
 - Structure, staffing, resources and expenses devoted to trust funds investment and operational functions
- Report to the Business and Finance Committee any material changes to the UW System's investment portfolio or operations.

**UNIVERSITY OF WISCONSIN SYSTEM TRUST FUNDS
OVERVIEW OF NATIONAL COLLEGE AND UNIVERSITY BUSINESS
ADMINISTRATION: ENDOWMENT MANAGEMENT**

EXECUTIVE SUMMARY

BACKGROUND

Recognizing the importance of endowments for colleges and universities, especially given an environment for public universities where other resources are often diminishing, the National Association of College and University Business Officers (NACUBO) has produced a chapter entitled “Endowment Management” as part of its on-going National College and University Business Administration publications. Endowments, if invested and managed properly, can provide a perpetual, real (inflation-adjusted), and sustainable source of funding.

REQUESTED ACTION

This item is for informational and educational purposes only.

DISCUSSION

NACUBO’s Endowment Management chapter is attached. The primary topics covered are the following: guiding legal principles, the investment policy statement, endowment spending policies, structures for endowment management, and endowment operations.

RELATED REGENT POLICIES

Regent Policy 31-9: “Investment Policy Statement: Key Elements and Review Process”

UNIVERSITY OF WISCONSIN SYSTEM TRUST FUNDS REVIEW OF INVESTMENT POLICY STATEMENT

EXECUTIVE SUMMARY

BACKGROUND

The following is an excerpt from the NACUBO College and University Business Administration's chapter entitled Endowment Management:

“All endowments need a comprehensive investment plan, generally called the investment policy statement. One product of that plan will be the asset allocation guidelines outlining which asset classes are permissible to purchase, as well as the normal, minimum, and maximum percentage allocation of endowment dollars that can be invested in those asset classes. Creation of an investment plan and asset allocation guidelines first requires an understanding of any institutional investment mandates and the institution's level of risk tolerance.”

The current version of the *Investment Policy Statement* (IPS) for the UW System Trust Funds was last reviewed and reaffirmed by the Board at its meeting of December 10, 2015. The preface of that document states the following under the section entitled *Review of the IPS*: “Given the centrality of the IPS itself in ensuring that the Board meets its fiduciary responsibilities and effectively oversees the management of the investment program, it is imperative that the Board review the IPS on an on-going basis. Although long-range and strategic in nature, the IPS should nevertheless be considered a living document; revisions and further refinements may be required as and when goals, constraints, or external market conditions change significantly.” Two key elements of the IPS are the strategic asset allocation targets for both the Long Term and Intermediate Term Funds, and the spending policy for the Long Term Fund (the Fund used for endowments).

REQUESTED ACTION

This item is for informational purposes only.

DISCUSSION

The current version of the *Investment Policy Statement* is attached. To assist in the Subcommittee's review, the following summarizes the contents of the IPS.

The IPS is organized into these five major sections:

- **Premises** – discusses the underlying bases (primarily investment objectives, constraints, assumptions, and philosophy) for the investment policies and their implementation
- **Investment Policies** – describes specific policies, such as asset allocation, benchmarking, and risk management, which are adopted to attain identified objectives while conforming with the major premises

- **Implementation** – describes the roles and responsibilities in implementing investment policies; the selection, retention and termination of investment managers; and code of ethics
- **Evaluation** – describes how success will be monitored, evaluated, and communicated
- **Appendices** – provide greater detail on various policy elements discussed at a broader level in the main body of the document

RELATED REGENT POLICIES

Regent Policy 31-9: “Investment Policy Statement: Key Elements and Review Process”

**UNIVERSITY OF WISCONSIN SYSTEM TRUST FUNDS
QUARTERLY INVESTMENT REVIEW
JULY 1, 2016 THROUGH SEPTEMBER 30, 2016**

EXECUTIVE SUMMARY

BACKGROUND

The Quarterly Investment Reviews provide the following detailed information: 1) financial market overviews, including investment returns for different asset classes and markets for current and longer-term periods; 2) Fund overviews, which include changes in net assets for the current quarter, asset allocations versus targets and ranges, and Fund-level transactions conducted during the quarter; 3) performance analysis, which includes Fund-level and investment manager-level investment performance for current and longer-term periods; and 4) risk analysis, which includes various measures of Fund and portfolio risk and risk-adjusted returns, as well as data regarding compliance with investment guidelines where applicable.

REQUESTED ACTION

This item is for informational purposes only.

DISCUSSION

For the 1st quarter of fiscal year 2017, global equities performed strongly, while global bonds, real assets and inflation-hedging assets posted modest returns. Total Trust Funds net assets increased by \$13.8 million during the quarter, from \$506.1 million at June 30, 2016 to \$519.9 million at September 30, 2016. The Long Term Fund returned +4.6 percent for the quarter (+7.2 percent for calendar year-to-date), the Intermediate Term returned +1.1 percent (+4.5 percent for calendar year-to-date), and the Income Fund returned +0.11 percent for the quarter (+0.31 percent for calendar year-to-date).

Regarding risk and compliance, the Long Term Fund continued to exhibit lower volatility of returns than its Global 70/30 Benchmark, and for longer term periods, greater returns per unit of risk. The Intermediate Term Fund (with some equity and high yield exposures) continued to exhibit volatilities and returns per unit of risk similar to its all-investment grade bond index benchmark, while providing significantly greater absolute returns over longer periods versus both its all-bond index and “policy portfolio” benchmarks. Finally, no separate account investment managers were in violation of their investment guidelines as of quarter-end.

While the full Quarterly Investment Review for the 2nd quarter of fiscal year 2017 may not be available in time for the Subcommittee’s March 2017 meeting, it is anticipated that high-level investment performance data will be provided and discussed at the meeting.

RELATED REGENT POLICIES

Regent Policy Document 31-2, “Management and Administration of Trust Funds”