



**UNIVERSITY OF WISCONSIN SYSTEM  
TRUST FUNDS**

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**INVESTMENT POLICY STATEMENT**

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**Approved by the Board of Regents on  
April 6, 2018**

## Preface

**Introduction and Background.** The invested Trust Funds of the University of Wisconsin System (UW Trust Funds) currently consist predominately of bequests from individuals via wills or other trusts, as well as outright gifts from living donors, corporations (including matching gift programs), and external foundations and trusts. Such bequests and gifts come to the Board of Regents of the University of Wisconsin System (the Board) whenever the donor and documentation name the beneficiary as either the Board of Regents, directly, or any UW System institution, without specifically identifying a UW-related foundation. (UW-related foundations are independent entities with separate governing boards.) These gifts or donations originate as either, 1) “true endowments,” where the donor has restricted the use of “principal” and may or may not have imposed additional restrictions as to purpose (in accounting parlance, “restricted – nonexpendable” gifts), or 2) “expendable,” where the donor has placed no restriction on use of principal and may or may not have imposed restrictions as to purpose (in accounting parlance, either “restricted – expendable” or fully “unrestricted” gifts).

The Board is the principal and ultimate fiduciary of the UW Trust Funds. A fiduciary is defined as someone who oversees and/or manages the assets of, or for the benefit of, another person and who stands in a special relationship of trust, confidence, and/or legal responsibility. A summary of the primary fiduciary and management responsibilities of the Board is provided in **Appendix 1**. As noted there, the Board has delegated to its Business and Finance Committee (the Committee), many oversight and management functions. Specific roles and responsibilities of all relevant parties are discussed later.

**Purposes.** The Investment Policy Statement (IPS) is the tool to direct and guide the activities of the investment of the entrusted assets. Furthermore, the IPS should provide the guiding principles for all aspects of the management of entrusted assets, and the premises on which these principles rest. This IPS replaces and supersedes any previous investment policy statement approved by the Board of Regents.

**Organization and Format.** The IPS is organized into these five major sections:

- **Premises** – which discusses the underlying bases (primarily various objectives, assumptions, and beliefs) for the policies and their implementation
- **Investment Policies** – which describes specific policies adopted to attain identified objectives while conforming with the major premises
- **Implementation** – which describes by whom and how the policies are to be implemented
- **Evaluation** – which describes how success will be monitored and evaluated
- **Appendices** – which provide greater detail on various policy elements discussed at a broader level in the main body of the document

Regarding format, the following conventions are used: the major section headings are designated by Roman numerals (e.g., **I**); major sub-sections are designated by capital letters (e.g., **A**); headings for specific topics within major sub-sections appear in **Boldface**; headings for subsidiary topics therein appear in *Italicized Boldface*; headings for each topic therein (sub-sub-topic) appear in *Italics*; and headings for paragraphs therein, where helpful, appear in Regular Typeface. Finally, within the text, *italicized* words or sentences are used to add emphasis; quotation marks (other than for direct quotes) are used when introducing a term or phrase that, although perhaps common in the investment and endowment fields, may not be familiar to the general reader.

**Review of the IPS.** 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.

# I. Premises

## A. Investment Objectives, Constraints and Other Considerations

**Tax Considerations.** Tax considerations and external legal/regulatory requirements are generally relevant to all UW Trust Fund assets. As a tax-exempt organization, the UW System’s investment returns are generally not subject to taxation; however, it should be noted that under certain circumstances, a tax-exempt organization’s investments can generate Unrelated Business Taxable Income (UBTI). The current external legal/regulatory frame-work, to which generally all assets are subject, is also described in **Appendix 1**.

### Long Term Fund

**Investment Return Objectives.** Used primarily for investing endowed assets (where the “principal” is to be preserved into perpetuity), the primary return objective of the Long Term Fund is to achieve, net of administrative and investment expenses, *significant and attainable* “real returns;” that is, nominal returns net of expenses, over and above the rate of inflation. By distributing a significant real return stream, disbursements for current expenditure will grow with the rate of inflation so as to maintain their purchasing power and support level into perpetuity. Other secondary investment return objectives for the Fund are to outperform various market and peer group benchmarks. (Details on these benchmarks are provided in later sections.)

**Spending Policy.** The “spending policy” for an endowment provides guidance and a methodology for determining what amounts are to be distributed for annual spending purposes. The policy should help ensure that the purchasing power of the corpus is maintained. The current spending policy for the Long Term Fund is provided in **Appendix 2**.

### *Usage, Constraints, and Other Considerations*

**Investment Time Horizon.** With over 95 percent of the accounts in the Fund classified as endowments, the appropriate investment horizon is extremely long term. The Fund should therefore be managed as an “endowment fund,” where the purchasing power of the corpus is to be preserved into perpetuity.

**Diversification.** The Fund should seek to diversify investments in order to minimize the risk of large losses, unless under the circumstances it is clearly prudent not to do so, considering the Fund’s portfolio as a whole at any point in time. Use of commingled vehicles is acceptable but precludes the application of individualized investment guidelines.

**Dependence on and Variability of Distributions.** Expenditures from UW Trust Funds do not represent a significant portion of overall UW campus budgets. However, specific departments and programs may rely heavily on Trust Fund resources. As such, extreme variability in the value of the annual distributions is not desirable. Therefore, risk objectives (i.e., volatility of returns) and the spending rate methodology should take this into account.

**Liquidity Requirements and Cash Flow Analysis.** Generally, the Fund has an obligation or liability to pay out the spending rate, plus expenses, offset by new contributions. To a limited extent, some “expendable” assets are invested in the Long Term Fund, which results in the occasional need to liquidate Fund principal as well.

**Investment Risk Objectives.** A primary risk objective is to minimize the probability that the desired return objective is not achieved, particularly over the intermediate to long term. Another objective, as

suggested above, is to limit extreme volatility of spending distribution levels in the shorter term, which by extension implies limiting extreme volatility of returns in the shorter term.

### **Income/Principal Cash Fund**

***Investment Risk and Return Objectives.*** The Cash Fund is managed exclusively by the State of Wisconsin Investment Board (SWIB) in the State Investment Fund pursuant to its guidelines to provide (i) safety of principal, (ii) liquidity and (iii) competitive rates of return, in that order.

***Usage, Constraints, and Other Considerations.***

***Investment Horizon.*** The Fund is used primarily for the following: 1) spending distributions from the Long Term Fund (these amounts become currently expendable income); 2) other monies which are needed for expenditure, generally within the next twelve to eighteen months; and 3) pending investment of new monies awaiting investment in the Long Term Fund.

***Liquidity Requirements.*** This Fund essentially permits withdrawals and contributions on a daily basis. Only short-term, highly liquid investments are appropriate here.

***State of Wisconsin Requirement.*** By statute, this Fund must reside with the State as part of its agency-commingled State Investment Fund, and it is managed by SWIB. Other than performance reporting and certain benchmark comparisons discussed later, *this document excludes any further discussion of the Income/Principal Cash Fund, as it falls outside of the purview of the UW Board of Regents and UW Trust Funds staff.*

## **B. Core Investment Philosophy and Beliefs**

**Nature of Capital Markets, Investment Risks and Returns.** When one seeks to truly “invest,” the objective is not just to get one’s money back (or even just enough to maintain the same purchasing power), but to actually make more money, to make a profit, to have increased the “real” value of your assets. To do this, one must be willing to accept some level of investment risk. Unfortunately, there are no “risk-free” assets capable of generating returns sufficient to support the desired spending levels of an endowment. In free and open capital markets, capital will flow to higher risk investment opportunities only if they are priced to provide the *potential* for higher returns. “Potential” for higher returns is emphasized here, because the higher returns are not a certainty; if they were certain, they would not be riskier. The *expected average* return may be higher, but the range of possible outcomes is much wider (including the possibility of complete loss) versus a “safer” investment. Some examples of systematic or broad market risks are the following:

- Equity market
- Bond market (credit and/or interest rate risk)
- Inflation
- Deflation
- Economic trauma
- Geopolitical trauma
- Liquidity/Illiquidity
- National and global monetary and fiscal policies

It may be possible to hedge against some of these risks, but they cannot be completely eliminated simply through investment diversification. However, since these broad risk factors affect different markets and asset classes in different ways and to varying degrees, *diversification among many different asset classes and markets can greatly reduce overall portfolio risk.* It is important to keep in mind, though, that *all*

investment returns derive from economic activity and productivity – from the creation (or destruction) of “real” wealth, real goods and services. Whether it is corporate profits or interest income, the corporations and borrowers are engaged in economic activity, which if successful, will allow them to repay their lenders or share the wealth with their owners. With this perspective in mind, it is clear that broad (increasingly, global) economic activity is the ultimate risk factor, and that each of the systematic risks listed above can significantly impact this economic activity. Investment risk is inherently neither good nor bad, but all aspects and sources of potential risk must be understood, monitored, managed, and, in the end, embraced in order to achieve attractive and commensurate returns.

**Active vs. Passive Management.** Consistent with the premises on market efficiency, the belief put forward here is that active management may be desirable (as opposed to passive or indexed management), especially in less efficient markets. However, if active management is to be pursued by hiring external managers, one must be adept at selecting superior managers, because active management is a zero-sum game – one manager’s positive alpha is another manager’s negative alpha.

**Managing Costs.** Costs reduce investment returns. UW System is committed to managing the Trust Funds in a prudent and cost-efficient manner. Any applicable external management fees are to be negotiated, to the extent practicable, to ensure that managers’ and UW System’s interests are aligned and that net performance is optimized. Passive index management is to be considered an option when containing costs and providing for more predictable net investment returns are important.

**Primacy of Asset Allocation.** The single most significant decision in the investment process is that of asset allocation; that is, deciding how assets are to be allocated among the major investment categories (or asset classes). Studies indicate that well over 90 percent of a portfolio’s return can be explained simply by its asset allocation.

**Flexible Yet Disciplined.** The overall management process for the UW Trust Funds’ investment program should be flexible enough to allow for capturing investment opportunities *as they occur*, yet maintain reasonable parameters to ensure prudence and care in execution.

**Keep It Simple.** The central premise here is that overall simplicity in an investment program is generally a virtue. Complex new investment schemes should only be entertained if they are fully understood in terms of risks (often new and complex), expected rewards, and their impact on and interaction with the overall investment portfolio under not only “normal” but extreme market and economic conditions as well.

## II. Investment Policies

### A. Asset Allocations, Policy Portfolios, and Benchmarks

#### Strategic Asset Allocations.

**Purpose.** As noted earlier, determining and implementing the overall strategic asset allocations for the Funds is the first and most important step in implementing the investment program. The strategic, or policy, asset allocations should represent the long-term “equilibrium” or “normal” asset class positions for the portfolios, positions that under normal conditions are expected to best meet the Funds’ objectives for both investment returns *and* risk.

**Frequency of Asset Allocation Reviews.** Given their focus on long-term capital market assumptions, in-depth asset allocation reviews need not be conducted on a set schedule. However, it is anticipated that in-

depth reviews will generally be made every three to five years. Also, the spending policy for the Long Term Fund should generally be reviewed in conjunction with an asset allocation review.

***Departures from Strategic Asset Allocation Targets.***

*Setting Asset Allocation “Ranges.”* Strategic asset allocation analyses are generally intended to produce a desirable portfolio with *precise percentage targets* for each asset class. A common and acceptable practice is, however, to adopt permissible allocation ranges about these precise targets. This allows for some “tactical flexibility” for controlled deviations and limits, to some extent, the need for constant rebalancing. Asset allocation ranges are to be incorporated into approved asset allocations plans.

***Current Asset Allocation Targets by Fund.***

*Long Term Fund.* The current strategic asset allocation or “policy portfolio” for the Long Term Fund is provided in the State Investment Fund & Separately Managed Funds Investment Policy and Guidelines, found on SWIB’s website (<http://www.swib.state.wi.us/statutes-guidelines>). Individual asset class benchmarks are also included.

## **B. Other Investment and Risk Management Policies**

**Rebalancing.** Rebalancing to target asset allocations, or to within permissible ranges, is a key risk management practice, given again the primacy of asset allocation to achieving and maintaining the desired risk/return profile. Furthermore, to the extent that multiple managers, investment styles (e.g., growth vs. value, large- vs. small-cap, etc.), or “sub-asset classes” are employed within a particular broad asset class category, rebalancing should generally take place at these levels as well.

**Individualized Investment Guidelines.** In the case of “separately-managed accounts,” individualized investment guidelines are to be developed. These guidelines will vary depending on the asset class, style, and strategies involved, as well as the perceived capabilities of the investment manager in question. When commingled funds of any kind are contemplated, the funds’ documented investment guidelines, and expected investment practices, are to be carefully reviewed to determine their acceptability.

## **III. Implementation**

The University of Wisconsin System has the statutory authority under Section 36.11 (11m) of the Wisconsin statutes to manage Trust Funds assets in one of three ways: 1) internally by UW System employees, 2) selecting a private investment firm using the competitive sealed proposal process, or 3) by contracting with SWIB.

SWIB is the state agency responsible for investing the assets of the Wisconsin Retirement System (WRS), the State Investment Fund (SIF), and investment portfolios for several other state agencies. SWIB’s robust functions of oversight and accountability, particularly through SWIB’s nine-member Board of Trustees, can serve to enhance the UW System Board of Regent’s role as a fiduciary and responsible steward of UW Trust Funds assets. Furthermore, SWIB has demonstrated a positive track record of prudent investment strategies to maximize investment returns. Therefore, the Board of Regents of the University of Wisconsin System has chosen to contract with SWIB for a majority of the investment management of the Trust Funds.

### **A. Roles and Responsibilities**

**Board of Regents.** The full Board retains these specific responsibilities:

- Approve the Investment Policy Statement

- Approve the contractual arrangement with SWIB for the investment management of the Trust Funds
- Annually elect all UW Trust Funds-related officers (i.e., the Trust Officer and any Assistant Trust Officers, which includes the Director of the Office of Trust Funds)

***Business and Finance Committee.*** The Board delegates all other management and administration responsibilities for the UW Trust Funds to its Business and Finance Committee. The Committee, in turn, is authorized, with the approval of the Board, to delegate such powers and responsibilities regarding the management and administration to the Trust Officer or other administrative officers or employees of the UW System as the Committee deems appropriate. The Committee retains these specific roles and responsibilities:

- Recommend to the full Board an Investment Policy Statement
- Recommend to the full Board the UW Trust Funds-related officers (i.e., the Trust Officer and any Assistant Trust Officers, which includes the Director of the Office of Trust Funds)
- Otherwise oversee and monitor all other aspects of the management and administration of UW Trust Funds, which are (i) being managed internally, (ii) delegated to SWIB, or (iii) delegated to other third parties

**SWIB.** SWIB's roles and responsibilities are detailed in an investment management agreement with the Board of Regents, which provides the definitive terms of SWIB's engagement. SWIB's responsibilities include the following (references to the Trust Funds in this section refer solely to the Trust Fund assets delegated to SWIB's management by the Board of Regents):

- Serve as the outsourced investment manager for the Board of Regents of the UW System and the Trust Funds
- Determine and set appropriate asset allocation targets and ranges based on the return and risk objectives of the Trust Funds
- Implement the asset allocation by selecting appropriate external investment managers or funds, and/or investing and managing assets internally
- Determine performance benchmarks
- Determine or review investment guidelines for managers and/or funds to which Trust Funds are allocated
- Provide for the third-party custody of all Trust Funds assigned to SWIB's direct management
- Rebalance the Trust Funds to the asset allocation targets on a periodic basis as deemed appropriate
- Coordinate cash distributions for the liquidity/cash flow requirements of the Fund as jointly determined and communicated by and between SWIB and UW System
- Regularly communicate with, and provide quarterly investment-related reports to, the Board of Regents
- Consult with the Board of Regents regarding investment risk and return objectives and long-term asset class expectations to allow the Board of Regents to set an appropriate endowment distribution/spending policy as market conditions change
- Provide UW System and its auditors with the various reports and information reasonably needed for the UW System to compile financial statements and complete all audits

**Office of Finance.**

***Vice President for Finance/Trust Officer.*** Primary responsibilities of the Vice President for Finance are the following:

- In general, oversee the management and administration of the Office of Trust Funds
- Perform other duties as required by law or assigned by the Board or Committee

**Office of Trust Funds.**

***Director/Assistant Trust Officer.*** Primary responsibilities of the Director of the Office of Trust Funds are the following:

- In general, implement, conduct, oversee, and monitor all other aspects of the management and administration of the UW Trust Funds, including all specific policies and practices contained herein or otherwise approved by the Committee and Board
- Submit periodic reports to the Committee (reporting/communication standards are discussed later)
- Manage and monitor all external and internal expenses and fees
- Manage and maintain all UW Trust Funds records
- Work with donors, estates, and trusts in taking in and properly establishing new Trust Funds accounts

**Accounting, Recordkeeping, and Administrative Staff.** Primary responsibilities are the following:

- In general, maintain all accounting and recordkeeping systems related to the Trust Funds, and for all Trust Funds' accounts
- Assist benefiting campuses and departments in their utilization of Trust Funds accounts

**General Counsel's Office.** Primary responsibilities are the following:

- Help ensure compliance with all applicable laws and regulations
- Provide assistance on any legal matters pertaining to bequests and other trust-related gifts
- Provide assistance on matters pertaining to various Trust Funds-related contracts and agreements

## **B. Codes of Ethics and Avoiding Conflicts of Interest**

**UW System Code of Ethics.** Pursuant to this Code, it is expected that no UW officials will make, participate in making, or influence a decision in which the official has a financial interest. Also, no member of the UW System staff may solicit or accept from any person or organization anything of value pursuant to an express or implied understanding that his or her conduct of University business would be influenced thereby.

## **IV. Evaluation**

### **A. Monitoring and Measuring Success**

**Performance Expectations and Benchmarks.**

***Fund Level.***

*Long Term Fund.* The Business and Finance Committee will review on a periodic basis the performance of the Long Term Fund against the benchmarks established by SWIB. The Business and Finance Committee may also establish its own metrics to evaluate overall performance.

**Monitoring and Managing Expenses.** As mentioned earlier in the *Implementation* section, it is the responsibility of the Office of Trust Funds to monitor and manage both external and internal expenses related to the administration and management of the Trust Funds. External fees for investment management and other products and services are to be reasonable and competitive with similar products or services available. Expenses relating to internal administrative and accounting activities are to be managed to reasonable and acceptable levels, as these expenses too are charged against the investment Funds.

### **B. Reporting and Communication Standards**

**Reporting Expectations.** The Office of Trust Funds will create periodic reports that will incorporate the performance evaluation and benchmarking information discussed previously. These reports are to be



provided to the Board and the Committee on a routine basis and will incorporate information received quarterly from SWIB:

- Quarterly Investment Reviews – which are to include market commentaries, investment performance data, and Fund-level activities and transactions
- Annual Report – which is to provide 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
- Annual Endowment Peer Benchmarking Report – which is to provide investment performance data and other points of comparison for peer institutions

These reports are also to be made publicly available via the Trust Funds’ web site.

**Other Communication Expectations.** It is expected that if there is any significant adverse development in the management of the Funds during any interim periods, the Director of the Office of Trust Funds will immediately communicate such information to the Trust Officer/Vice President for Finance, who may then direct that it be communicated to the Committee Chair.

## Appendix 1

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### PRIMARY FIDUCIARY AND MANAGEMENT RESPONSIBILITIES OF THE BOARD

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Wisconsin Statutes, Board policies and the terms of the gifts, grants, and bequests themselves provide the basic framework within which UW Trust Funds are managed and its fiduciary responsibilities are established. This appendix outlines the principal provisions in these areas.

#### **Statutory Provisions.**

**Section 36.29, Wisconsin Statutes.** Section 36.29, Wis. Stats., authorizes the Board to accept gifts, grants and bequests for the benefit or advantage of the UW System, and to administer the funds comprised of such donations. This statute also establishes several restrictions and requirements with respect to these funds:

- (1) Gifts, grants and bequests must be executed and enforced according to the provisions of the legal instrument establishing the donation, including all provisions and directions in such an instrument for the accumulation of the income of any fund or rents and profits of any real estate without being subject to the limitations and restrictions provided by law in other cases, except that no such income accumulation can be allowed to produce a fund more than 20 times as great as that originally given;
- (2) No investment of the funds of such gifts, grants, or bequests shall knowingly be made in any company, corporation, subsidiary, or affiliate that practices or condones through its actions discrimination on the basis of race, religion, color, creed, or sex;
- (3) The board may not invest more than 85% of trust funds in common stocks;
- (4) Any grant, contract, gift, endowment, trust or segregated funds bequeathed or assigned to an institution or its component parts for any purpose whatsoever shall not be commingled or reassigned.

**UPMIFA, s. 112.11, Wisconsin Statutes.** The Uniform Prudent Management of Institutional Funds Act ("UPMIFA"), codified in s. 112.11, Wis. Stats., applies to institutional funds, defined as funds held by an institution exclusively for charitable purposes, including governmental organizations and universities, organized and operated exclusively for educational, religious, charitable or other eleemosynary purposes. UPMIFA describes the standard of conduct in managing and investing an institutional fund; the appropriation for expenditure of endowment funds, providing various rules of construction here; the delegation of management and investment functions; the release or modification of restrictions on management, investment, or purpose; and states that the statute applies to institutional funds existing on or after August 4, 2009, governing only decisions and actions taken on or after that date.

In general, UPMIFA grants broad authority to the institution to invest and reinvest institutional funds, unless otherwise limited by the applicable gift instrument or law. The institution may delegate its investment authority to its committees, its officers, or employees, or to other outside investment managers or advisors. The institution may also appropriate for expenditure a portion of the appreciated assets of an endowment fund, and make other expenditures as permitted by law, relevant gift instruments or the institutional charter. With respect to managing and investing, delegating management and investment functions, and making appropriations of appreciated assets, UPMIFA establishes the standard of fiduciary conduct that the institution must follow, requiring that the institution "act in good faith, with the care that an ordinarily prudent person in a like position would exercise under similar circumstances." Section 112.11(3), (4), (5), Wis. Stats.

UPMIFA further permits the release or modification of any restrictions on the use or investment of funds, if the donor gives written consent. The institution also may apply to a state circuit court for modification of a restriction regarding the management or investment of an institutional fund, "if the restriction has

become impracticable or wasteful, if it impairs the management or investment of the fund, or if, because of circumstances not anticipated by the donor, a modification of a restriction will further the purposes of the fund. . . . To the extent practicable, any modification must be made in accordance with the donor's probable intention." Under similar circumstances, the institution may also apply to a circuit court to modify the purpose of the fund or a restriction on the use of the fund, "in a manner consistent with the charitable purposes expressed in the gift instrument." Lastly, release or modification for reasons described above regarding the purpose, management or investment of an institutional fund of less than \$75,000 and more than 20 years old is permitted upon 60 days' notification to the attorney general. Section 112.11(6), Wis. Stats.

### **Board Bylaws and Policies.**

***Bylaws and Regent Policy Document 31-2.*** The Board has, through its Bylaws, delegated authority to the Business, Finance, and Audit Committee to "have charge of consideration of all matters related to . . . trust funds, . . ." (Chapter III, Section 3, Regent Bylaws.) In addition, the Committee has been delegated the authority 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 Board's Trust Officer (the Vice President for Business and Finance) has the duty to "receive, manage, and maintain records of all trust funds" to perform other duties required by law or assigned by the Board or Business, Finance, and Audit Committee (Chapter II, Section 8, Regent Bylaws).

Complementing these provisions in the Bylaws, Regent Policy Document (RPD) 31-2 expressly empowers the Committee to manage the Trust Funds, providing, in relevant part:

The management and administration of University Trust Funds, . . . is delegated to the [Business, Finance, and Audit] Committee; the said Committee is authorized and empowered to do all things necessary within the limitations imposed by law or by the terms of the specific gifts and bequests accepted by the Board of Regents to administer the funds so received and under the control of the Regents in an efficient and prudent manner; the Business and Finance Committee is authorized, with the approval of the Board, to delegate such powers and responsibilities regarding the management and administration of University Trust Funds to the Trust Officer or other administrative officers or employees of the University as the Committee may in its judgment deem appropriate; the Committee is authorized to employ investment counsel; and the Trust Officer of the Regents is directed to keep a separate record of the actions taken by the Business and Finance Committee on all matters relating to University Trust Funds and to distribute memoranda of such actions as soon as practicable to all members of the Board of Regents for their confidential information.

**Compliance with Donor Terms.** It is incumbent upon the Board to ensure that gifts and bequests be "executed and enforced according to the provisions of the instrument making the same," s. 36.29, Wis. Stats. However, donor-imposed terms and conditions can sometimes impose practical problems; contravene current University policies; or, in some cases, no longer be legal. As the vast majority of bequests coming to the Board of Regents are unsolicited gifts from deceased donors who have not worked with the University in crafting their gift instrument, the opportunity to prevent such problematic donor terms is limited. When such issues arise, whether in working with a living donor before the gift is made or "after the fact," the Trust Funds Office consults with the Office of General Counsel to determine appropriate actions consistent with Regent policy and applicable law.

## Appendix 2

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### SPENDING POLICY FOR THE LONG TERM FUND

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The “spending policy” for an endowment specifies the methodology for determining what amounts are to be distributed for annual spending purposes. The policy should help ensure that the purchasing power of the endowment’s corpus is maintained.

**Current Policy.** (*Effective July 1, 2005.*) A “rate” of distribution (percent of assets) that reflects an achievable and sustainable level of *real* investment returns is to be determined. *Real* investment returns are those achieved over and above the relevant rate of inflation. The most relevant rate of inflation for University-related costs is the Higher Education Price Index (HEPI). HEPI is expected to roughly equal the Consumer Price Index (CPI) plus one percent over time. The spending rate should also be applied in a manner that helps smooth the volatility of the dollar level of annual distributions that may otherwise result from Fund market value fluctuations.

The spending rate is to be *four percent (4%)* per annum. This percentage is to be *applied to a trailing three-year moving average of Fund market valuations* (12 quarterly valuations) to determine the dollar value of the annual distribution. Investment income from the Fund plus proceeds from security sales as needed may be used to provide the required distribution. Realized annual investment returns above (below) the spending rate, will increase (decrease) the market value of the Fund’s corpus.

## Appendix 3

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### **POLICY ON LARGE UNENDOWED BEQUESTS/GIFTS**

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*Regent Policy 31-15: Policy on Large Unendowed Bequests/Gifts*

All new bequests/gifts of \$1,000,000 or more where the donor is silent as to the expenditure of principal, shall be identified as Board-designated endowments, with only the income from the trust available for expenditure in accordance with the terms of the trust agreement. However, where the donor explicitly states that the principal of the gift be made available for expenditure, this policy will not apply. If an institution wants an exception to this proposed rule, the request for exception, with appropriate justification, should be contained in the institution's recommendation for acceptance and be incorporated in the Regent resolution. If at a later date the institution wishes to seek an exception to the Regent imposed restriction, it should submit a request to the Office of the Vice President for Finance for consideration at the next meeting of the Business and Finance Committee.