



UNIVERSITY OF WISCONSIN SYSTEM TRUST FUNDS

**Annual Endowment Peer Benchmarking Report
Year Ended June 30, 2016**

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Annual Endowment Peer Benchmarking Report
Fiscal Year Ended June 30, 2016

INTRODUCTION

- The Annual Endowment Peer Benchmarking Report utilizes as informational source the 2016 NACUBO–Commonfund Study of Endowments (NCSE). The NCSE is an annual survey of college and university endowments which reports data on investment and spending policies and practices, investment performance, staffing, etc. Some summary data is given below.

Number of Institutions Reporting – Total	805
Number of Institutions Reporting – Public	299
Number of Institutions Reporting – Private	506
Total Endowment Assets Represented	\$515 billion
Average Endowment Size	\$640 million
Median Endowment Size	\$116 million
<i>Participating UW Institutions:</i>	<i>UW System Trust Funds – \$363 million</i>
	<i>UW-Madison Foundation – \$2.4 billion</i>
	<i>UW-Eau Claire Foundation – N/A</i>

- Data presented in the report that follows falls into the following major categories:
 - Asset Allocation
 - Investment Performance
 - Cost of Managing Investment Programs
 - Investment Management Practices
 - New Gifts to Endowment
 - Spending Policies
 - Investment Return Objectives
 - Underwater Funds
 - Resources, Management and Governance
 - Responsible Investing Practices

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ASSET ALLOCATION

Asset Class	UW Trust Funds ¹	NCSE All Pools ²	NCSE \$100-\$500MM	NCSE >\$1B
Equities (sub-total)	51%	48%	47%	36%
U.S. Equities	21%	30%	27%	17%
Non-U.S. Equities	30%	18%	20%	19%
Developed	18%	11%	14%	11%
Emerging	12%	7%	6%	8%
Fixed Income	19%	16%	14%	8%
Alternatives (sub-total)	25%	29%	33%	51%
Private Capital ³	14%	6%	6%	15%
Hedge Funds ⁴	9%	13%	15%	20%
Real Estate ⁵	0%	2%	3%	5%
Natural Resources ⁶	2%	4%	4%	6%
Other Alternatives	0%	4%	5%	5%
Cash/Other	6%	7%	6%	5%
TOTAL	100%	100%	100%	100%

¹ It should be noted that UW Trust Funds employs a “global tactical asset allocation” strategy for a significant portion of the endowment fund, which involves tactical shifts in asset allocation. The numbers provided here are actual allocations as of the fiscal year-end, June 30.

² All NCSE figures represent equal-weighted averages, except for the non-U.S. equity break-down, which is dollar-weighted.

³ Category consists primarily of venture capital and other private equity.

⁴ Category consists primarily of unregulated private investment partnerships investing in mostly marketable securities, but employing strategies (long/short, convertible arbitrage, leverage, etc.) which are designed to provide for more absolute returns with low correlation to the markets.

⁵ Category includes both public and private commercial real estate.

⁶ Category includes timber and farm land, oil and gas partnerships, commodities, and managed futures.

⁷ Category includes distressed debt and “alternatives not broken out.”

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ASSET ALLOCATION

Classifications Used in Portfolio Construction

	UW Trust Funds	NCSE All Pools	NCSE \$100-\$500MM	NCSE >\$1B
Functional classifications (or factors) used in portfolio construction: ¹				
Growth assets	Yes	96%	96%	93%
Risk reduction (long/short, fixed income)	Yes	95%	97%	93%
Inflation protection (real assets, TIPS)	Yes	86%	92%	93%
Opportunistic	Yes	61%	70%	83%
Liquidity	Yes	72%	76%	78%
Duration	No	58%	61%	65%
Other	No	6%	5%	7%

¹ Multiple responses were allowed. Responses shown here are only for those institutions (628, or approximately 78%, for the “all pools” group) that reported they use such classifications.

Percent Allocated to Liquidity Categories in Fiscal Year 2015¹

Liquidity Category	UW Trust Funds	NCSE All Pools	NCSE \$100-\$500MM	NCSE >\$1B
Liquid (one month or less)	84%	62%	61%	39%
Semi-liquid (>1month and <1 year)	0%	22%	24%	26%
Illiquid (greater than one year)	16%	16%	15%	35%

¹ Responses shown here are only for those institutions (682 for the “all pools” group) that reported they use such liquidity classifications.

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INVESTMENT PERFORMANCE

Average Annualized Rates of Return by Size Cohort

	1 Year	3 Year	5 Year	10 Year
NCSE >\$1B	-1.9%	6.0%	6.1%	5.7%
NCSE All Pools	-1.9%	5.2%	5.4%	5.0%
NCSE \$100-\$500MM	-2.4%	4.9%	5.1%	4.8%
<i>UW Trust Funds Return</i>	-2.6%	4.5%	4.7%	5.4%

Average Annualized Rates of Return for Top Decile & Top Quartile Performers

	1 Year	3 Year	5 Year	10 Year
Top Decile	2.7%	6.6%	6.6%	5.4%
Top Quartile	1.0%	6.3%	6.2%	5.3%
NCSE All Pools	-1.9%	5.2%	5.4%	5.0%
<i>UW Trust Funds Return</i>	-2.6%	4.5%	4.7%	5.4%

Risk/Volatility (Annualized Standard Deviation of Returns)

	10-Year Period ¹
NCSE >\$1B	9.3%
NCSE All Pools Average	9.8%
NCSE \$100-\$500MM	10.2%
<i>UW Trust Funds ³</i>	9.4%

¹ Institutions were asked to provide the 10-year annualized standard deviation of their endowments' returns; 310 institutions provided this data. Presumably, numbers provided were standard deviation of monthly returns, as this is what is normally measured.

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COSTS OF MANAGING INVESTMENT PROGRAMS

Fees Paid Directly to Investment-Related Service Providers in Fiscal Year 2016 (in basis points) ¹

Type of Fee for Service	UW Trust Funds	NCSE All Pools	NCSE \$100-\$500MM	NCSE >\$1B
Direct asset managers (fund & separate account management fees)	72	59	67	74
Investment consultants	N/A	13	11	4
Outsourced chief investment officer (OCIO)	N/A	31	31	10
Custodian/administrator	<1	5	4	4

¹ Responses shown here are only for the 426 institutions that supplied the requested data. The averages by various fee type are only for those institutions that used such services (e.g., the 13 basis point average paid to investment consultants is the average of only those institutions that used consultants).

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INVESTMENT MANAGEMENT PRACTICES¹

Active, Passive, Extended Markets within “Traditional” Asset Classes

Asset Class/Strategy	UW Trust Funds	NCSE All Pools	NCSE \$100-\$500MM	NCSE >\$1B
U.S. Equities				
Active	86%	70%	63%	74%
Passive/Enhanced Index	14%	30%	37%	26%
Non-U.S. Equities				
Active Developed Markets	61%	50%	55%	47%
Passive Developed Markets	0%	11%	17%	9%
Emerging Markets	39%	39%	28%	44%
Fixed Income				
Active U.S. Investment Grade	25%	57%	55%	58%
Passive U.S. Investment Grade	42%	21%	23%	19%
U.S. Below Investment Grade	28%	9%	10%	10%
Non-U.S.-Developed	0%	10%	8%	11%
Emerging Markets	5%	3%	4%	2%

¹ Figures represent *dollar-weighted* averages. For asset class/strategy where there is no break-out for active and passive (e.g., emerging market markets), responses include both active and passive strategies.

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NEW GIFTS TO ENDOWMENT

	NCSE All Pools	NCSE \$100-\$500 million	NCSE >\$1 billion
Average gifts (\$ millions)	\$12.9	\$6.1	\$78.5
Median gifts (\$ millions)	\$2.8	\$4.1	\$46.3
<i>UW Trust Funds</i>	<i>\$3.9 million¹</i>		

¹ Total gifts to UW Trust Funds for the fiscal year totaled \$16.3 million, but only \$3.9 million was endowed.

SPENDING POLICIES

Spending Methodology¹

	NCSE All Pools	NCSE \$100-\$500MM	NCSE >\$1B
<i>Percent of a moving average</i>	<i>77%</i>	<i>79%</i>	<i>59%</i>
<i>Average percentage used</i>	<i>4.7%</i>	<i>4.7%</i>	<i>4.7%</i>
Decide on an appropriate rate each year	15%	12%	20%
Weighted average or hybrid method	9%	12%	18%
Last year's spending plus inflation	4%	4%	12%
Spend pre-set percent of beginning market value	3%	3%	2%
Spend all current income	3%	2%	2%
Other	4%	2%	3%
Grow distribution at a predetermined inflation rate	-	-	2%
<i>UW Trust Funds</i>	<i>4% of moving 12-quarter average²</i>		

¹ Multiple responses were allowed.

² As another point of comparison, UW Foundation currently uses a 4.5% rate applied to a moving 16-quarter average.

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ACTUAL SPENDING

Average Annual *Effective* Spending Rates¹

NCSE All Pools	4.3%
NCSE \$100-\$500 million	4.3%
NCSE >\$1 billion	4.4%
<i>UW Trust Funds</i>	3.9%

¹ Average annual effective spending rates are computed by dividing endowment dollars distributed for spending by the beginning endowment market value. Figures represent equal-weighted averages.

Changes to *Effective* Spending Rates¹

	NCSE All Pools	NCSE \$100-\$500MM	NCSE >\$1B
Increased spending rate	61%	75%	70%
Average percentage increase	0.5%	0.5%	0.3%
Decreased spending rate	20%	15%	19%
Average percentage decrease	0.6%	0.4%	0.3%
No change	15%	9%	4%
No answer/uncertain	4%	1%	7%
<i>UW Trust Funds</i>	<i>Effective rate for 2015: 3.6%</i> <i>Effective rate for 2016: 3.9%</i>		

¹ Since there is a lag effect on the moving average method used by the great majority of institutions in calculating their spending, an increase (decrease) in the effective spending rate from one year to the next may be attributable to lower (higher) investment returns.

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LONG-TERM INVESTMENT RETURN OBJECTIVES

	NCSE All Pools	NCSE \$100-\$500MM	NCSE >\$1B
Have return objectives	74%	75%	66%
Less than 5%	3%	2%	1%
5.0%-5.9%	10%	8%	6%
6.0%-6.9%	10%	11%	8%
7.0%-7.9%	25%	29%	21%
8.0%-8.9%	23%	23%	27%
9.0% and over	3%	2%	3%
Do not have return objectives	10%	11%	9%
No answer/uncertain	16%	14%	25%
Average return objective	7.1%	7.2%	7.4%
Median return objective	7.4%	7.5%	7.6%
<i>UW Trust Funds</i>	7.5%		

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UNDERWATER FUNDS¹

	Percent of Endowment Underwater²
NCSE All Pools	4.4%
NCSE \$100-\$500 million	4.3%
NCSE >\$1 billion	6.4%
<i>UW Trust Funds</i>	<i>0.1%</i>

¹ "Underwater funds" represent individual endowment accounts whose market values are below their "historic dollar value" (i.e., the original value of the gift).

² "Percent of endowment underwater" is calculated as follows: the sum of the market values of all individual endowments accounts that are underwater by any amount, divided by the market value of the entire endowment pool.

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RESOURCES, MANAGEMENT AND GOVERNANCE

Investment Committee Size and Investment Staffing

	Average Number of Investment Committee Members	Average Investment Staffing (in FTEs)	Has Chief Investment Officer
NCSE All Pools	7.9	1.8	18%
NCSE \$100-\$500 million	8.4	0.9	11%
NCSE >\$1 billion	9.0	11.0	77%
<i>UW Trust Funds</i>¹	8	1.5¹	No

¹ As of June 30, 2016, UW Trust Funds reported to the Business and Finance Committee. Investment staffing has historically consisted of one FTE Investment Analyst and the Director, assumed to devote 50% time to investments. The Analyst position has been vacant since October 9, 2015.

Compensation Costs for Internal Investment Staff¹

	<i>UW Trust Funds</i>	NCSE All Pools	NCSE \$100-\$500 mm	NCSE > \$1 billion
Average <i>total</i> compensation cost (for all FTEs)	\$179,200	\$460,000	\$137,000	\$2,646,000
Average compensation cost <i>per FTE</i>	\$119,467	\$255,556	\$152,222	\$240,545

¹ The survey asked respondents to provide only total "internal costs for investment staff compensation and benefits." The average compensation cost per FTE was computed from the survey data using the average investment staffing FTE data in the previous chart.

Investment Committee Credentials

	<i>UW Trust Funds</i>	NCSE All Pools	NCSE \$100-\$500 mm	NCSE > \$1 billion
Members who are investment professionals	0	4.4	5.0	7.0
Members with alternative strategies experience	0	3.0	3.1	5.3
Voting members who are alumni	7	4.4	5.2	6.4

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RESOURCES, MANAGEMENT AND GOVERNANCE

Consultant Use¹

	UW Trust Funds	NCSE All Pools	NCSE \$100-\$500 mm	NCSE > \$1 billion
Consultant Used	No	84%	92%	82%
Consultant Services Used:	None			
Asset allocation/rebalancing		83%	90%	45%
Manager selection		80%	92%	41%
Policy review		76%	84%	40%
Performance attribution/measurement		85%	94%	52%
Outsourced investment management		38%	38%	9%
Ongoing due diligence		73%	84%	47%

¹ Multiple responses were allowed.

Outsourcing of Investment Function ¹

	UW Trust Funds	NCSE All Pools	NCSE \$100-\$500 mm	NCSE > \$1 billion
Have substantially outsourced	No	43%	45%	10%
Considering substantially outsourcing	No	4%	5%	0%
Neither	-	49%	48%	77%
No answer/uncertain	-	4%	2%	13%

Average Number of Investment Managers Used by Broad Asset Class

	UW Trust Funds	NCSE All Pools	NCSE \$100-\$500 mm	NCSE > \$1 billion
U.S. Equities	3	3.8	4.2	5.8
Non-U.S. Equities	2	4.0	4.2	9.4
Fixed Income	3	2.9	3.1	4.0
Alternative Strategies – Direct	2	16.5	12.1	81.4
Alternative Strategies – Fund of Funds	2	3.1	3.6	3.5

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RESOURCES, MANAGEMENT AND GOVERNANCE

Responsible for Ongoing Investment Manager Due Diligence¹

	UW Trust Funds	NCSE All Pools	NCSE \$100-\$500 mm	NCSE > \$1 billion
Board	No	14%	11%	0%
Investment or finance committee	No	57%	59%	15%
Dedicated internal staff	Yes	40%	38%	78%
Consultant	No	64%	80%	45%
Outsourced investment manager	No	6%	8%	1%

¹ Multiple responses were allowed.

Ongoing Investment Manager Due Diligence Employed¹

	UW Trust Funds	NCSE All Pools	NCSE \$100-\$500 mm	NCSE > \$1 billion
On site manager visits at my institution	Yes	58%	53%	69%
On site manager visits at their office	Yes	47%	54%	75%
Telephone conference calls with managers	Yes	68%	71%	77%
Quantitative attribution analysis of manager performance	Yes (some)	60%	65%	72%
Position-based risk analysis	No	41%	42%	58%
Peer group comparisons	Yes	67%	71%	69%
Annual due diligence questionnaire updates	Yes	35%	43%	52%
Third party evaluation of managers	No	42%	49%	34%
Media monitoring	Yes	27%	27%	51%

¹ Multiple responses were allowed.

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RESPONSIBLE INVESTING PRACTICES

	UW Trust Funds¹	NCSE All Pools	NCSE \$100-\$500MM	NCSE >\$1B
Seek to include investments ranking high on Environmental, Social, and Governance (“ESG”) issues	No	17%	19%	19%
Exclude or screen out investments inconsistent with institution’s mission	No	27%	27%	27%
Allocate portion of endowment to investments furthering institution’s mission	No	17%	16%	16%
Have met with third-party stakeholders regarding responsible investing considerations	Yes	33%	38%	53%

¹ UW Trust Funds are subject to various Regent Policies dealing with responsible investing, actively votes social responsibility-related proxies, solicits student and public comment on social issues, and may take ad hoc actions on social responsibility issues.

Percent that Have Managers Vote Proxies Consistent with Responsible Investing Criteria

	UW Trust Funds¹	NCSE All Pools	NCSE \$100-\$500MM	NCSE >\$1B
Vote proxies consistent with ESG policy	Yes	9%	11%	12%
Vote proxies consistent with socially responsible investment (“SRI”) policy	Yes	11%	14%	19%
Vote proxies consistent with other responsible investment criteria	N/A	11%	9%	13%

¹ UW Trust Funds generally votes SRI-related proxies internally where possible.