

March 18, 2015

MEMORANDUM

TO: State Board of Regents

FROM: David L. Buhler

SUBJECT: USHE – Annual Money Management Report for the Fiscal Year Ending June 30, 2014

Issue

Pursuant to *Utah Code 51-7-13(3)(a)(c)*, *Utah Code 51-8-303(6)*, and Board of Regents policy R541, the State Board of Regents shall receive from each institution monthly, and annually, reports detailing the deposit and investment of funds in its custody or control, and submit annually to the Governor and the Legislature a summary report of all investments by institution under its jurisdiction. This report is compiled and summarized from the investment reports submitted by the institutions and meets the requirements of the statutes.

On a monthly and annual basis each institution prepares investment reports that are reviewed and approved by the Treasurer of the Institution attesting to the compliance to the Uniform Prudent Management of Institutional Funds Act (UPMIFA), the State Money Management Act, and submitted for approval to each of the Institution's Board of Trustees (the responsibility for approving these reports has been delegated by the Board of Regents).

The annual report is also reviewed by the internal auditor(s) of each institution to verify compliance with state statutes, regent's policy, institutional policy, federal regulation, strength of controls, and to certify the completeness and accuracy of the reports. The attached tables and graphs are a summary of what was approved by each institution and demonstrate the relative size of institutional investments and the asset allocations in place at each school. This report is presented to the Board of Regents as an information item prior to being submitted to the Governor and Legislature.

Background

In order to provide the required audited reports to the Governor and the Legislature, this report is prepared after the state auditors complete their annual audit with the institutions. The investment figures used in this report tie to the audited "Statement of Net Assets" found in the financial statements for each institution. While that impacts the timeliness of this annual report, monthly reports are reviewed by institutional Trustees and the Office of the Commissioner each month.

The reports show the total USHE investments by category, based on the specific governing regulations. These categories are: (1) Endowments - governed by UPMIFA and regents policy R541. (2) Foundations - governed by a Foundation Board of Trustees/Directors operating under the requirements of non-profit

501(c)(3)s. (3) Other Funds - all funds not endowment or foundation operating under the guidelines and requirements of Utah Code 51-7, and Utah Money Management Act. These funds are required to be invested in a qualified depository.

The attached tables and graphs show the funds invested by category, class, and institution. Page 1 displays a summary of USHE investments and trends in the total value of all fund's invested by each institution over the previous three year period, page 2 displays Endowment funds, pages 3 Foundation funds, and page 4 Other funds.

### Additional Information

In response to past Regents' questions, the Commissioner's staff has worked with USHE controllers in providing additional information regarding the oversight and review of the investment process, including asset allocation, compliance with laws and regulations, return on assets, and risk management. The following has been provided by the institutions describing their processes and procedures for evaluating the performance of their respective investments, as well as the various benchmarks that are used in the evaluation process, including notes describing the use of outside industry professionals to assist in the management of institutional investments.

### Oversight and Review

The responsibility for oversight, management and reporting of assets invested, including the management of the portfolio, selection of investment products, and investiture/divestiture decisions have been delegated by the Board of Regents to an institution's Board of Trustees. To assist in this work, the institutions have given operational responsibility for this oversight to investment committees. These committees vary by campus, but may include trustees, institutional officers, designated treasurers, institution employees, members of the business community, and investment professionals. The various committees evaluate their respective investments relative to returns, risk mitigation, institutional needs, reasonableness, effectiveness, overall position, prudence, and management cost, while maintaining compliance with statutes, policies, authorities, and regulations. Reports of the positions, instruments, and balances are produced on a monthly and a quarterly basis by the designated treasurer, approved by committees, and presented to the institutional President and Board of Trustees for review and approval.

### Performance Measurement

Institutional use of outside professionals varies amongst institutions. In some cases, they are utilized to directly manage pieces of investment portfolios, and may include Commonfund, Wells Fargo, LCG Associates, Albourne America, and Strata Financial Services. In other cases, individuals who are recognized as investment professionals may sit on the investment committees.

Industry standard benchmarks are used by the various institutions to measure the return on their investments, allocation of assets, and risk level. These may include S&P 500, Russell 3000, Morgan Stanley (MSCI) for equity funds, UBS index, Barclays Capital Index, London Interbank Offered Rate (LIBOR), and peer group comparisons. Several institutions participate in a national survey by NACUBO – Commonfund Study of Endowments (which includes all major colleges and universities in the U.S.). The results of this annual study are a key indicator of how their investment practices and results compare to other major universities. The NACUBO study also provides insights into current investment trends and

ways to improve overall results. Dixie State University has chosen to place the bulk of their investments with the University of Utah, thus getting the benefit of all the investment strategies the University of Utah has access to, as well as professionals on staff.

### Foundations

The Foundations are governed in a similar manner, having a board and committee that oversee and direct the investments of each foundation. The foundations are subject to federal regulations. In the case of Dixie State University and Utah Valley University, their foundations are completely separate entities from the institutions. Dixie State University does not maintain any institutional investments within their foundation. Snow College does not have a foundation.

Utah State University's foundation is considered to be a part of the university or "dependent foundation", which is dedicated to maximizing support from private donations. As such, foundation funds are invested as part of the university endowment according to current university guidelines, oversight protocols, performance evaluation standards, and according to the same investment policies as all other university funds.

### Commissioner's Recommendation

This is an information item only; no action is required.

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David L. Buhler  
Commissioner of Higher Education

DLB/GLS/BLS/MWM  
Attachment