UTAH SYSTEM OF HIGHER EDUCATION
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September 9, 2015

MEMORANDUM

TO: State Board of Regents

FROM: David L. Buhler

SUBJECT: University of Utah Endowment Pool Investment Guidelines and Implementation Strategy

Issue

The University of Utah (UU) is requesting approval of revisions to their Endowment Pool Investment Guidelines along with a newly created Implementation Strategy component. The primary focus of these documents is to accommodate new asset allocation targets and ranges within the UU Endowment Pool, to provide for asset allocation rebalancing based on ranges rather than on set time deadlines, and to clarify respective roles and responsibilities of the various parties involved in the UU investment portfolio and its oversight.

Background

An institution's Board of Trustees may adopt its own institutional endowment investment policy. All such policies including any associated investment guidelines or other policy direction must meet the requirements of the Uniform Prudent Management of Institutional Funds Act, and must be formally approved by the Board of Regents (R541-6.1), prior to being implemented.

The University of Utah's Board of Trustees directed Senior Administration to identify an investment consultant to advise and direct an appropriate investment strategy, and to maintain oversight and risk management functions. The investment consultant selected was "Fund Evaluation Group" ("FEG") which, after a thorough assessment, recommended new investment targets and ranges, including increasing alternative investments above the current 30% limit (R541.6.2.3.1.) to a maximum of 60%. The University's Board of Trustees approved both the revised Investment Guidelines and new Implementation Strategy on August 11, 2015. The attached memo from the University's CFO provides substantial additional detail regarding this current effort.

Commissioner's Recommendation

The Commissioner recommends that the Regents review the proposed University of Utah revisions, ask any clarification questions desired, and if in agreement with the changes, approve both the University of Utah's *Endowment Pool Investment Guidelines* and the *Implementation Strategy*, effective immediately.

David L. Buhler
Commissioner of Higher Education

DLB/GLS/BLS
Attachments

THE UNIVERSITY OF UTAH

John E. Nixon, CPA
Senior Chief Administrative Officer and Chief Financial Officer
201 South Presidents Circle, Room 208 • Salt Lake City, Utah 84112-9013 • 801-585-0806

M E M O R A N D U M

To: David L. Buhler, Commissioner

From: John E. Nixon, Sr. Chief Administrative Officer and CFO

Date: August 14, 2015

Subj: Request for approval of revised and updated University of Utah Endowment Pool Investment Guidelines

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Request

The University of Utah requests approval of the attached revised University of Utah Endowment Pool Investment Guidelines, including its new component statement entitled "Investment Implementation Strategy" (collectively, the "Guidelines"). The primary focus of the revised Guidelines is to accommodate new proposed targets and ranges for asset allocation for the University of Utah's Endowment Pool (the "Pool").

Background

Approximately a decade ago, the University of Utah sought the guidance and support of the Board of Regents, in petitioning the State of Utah to adopt a modified version of the Uniform Prudent Management of Institutional Funds Act ("UPMIFA") into Utah State Law, in which it was successfully accepted. The addition of UPMIFA language into R541 for "Endowment Funds" has allowed for the successful implementation of the current investment strategy for the University of Utah's Endowment Pool, all of which is still appreciated by the University of Utah.

When the current Endowment Fund language was added to R541, it was believed that the stated asset allocation standards as set in R541-6 were appropriate given the resources and experience dedicated to alternative assets by Utah Institutions of Higher Education.

Under the guidance of the Utah State UPMIFA and R541, over the past 10 years the University's Endowment Pool has grown from $430,811,812 to $715,327,861, and within, has gradually increased its investments in alternative assets which are now approaching the allowable 30% maximum under R541. The University believes that during this period of growth, it has prudently invested in alternative assets by demonstrating a high level of fiduciary due diligence and oversight by its Investment Advisory Committee and Investment Staff.

THE UNIVERSITY OF UTAH

John E. Nixon, CPA
Senior Chief Administrative Officer and Chief Financial Officer

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The University of Utah's Board of Trustees has become increasingly mindful of the challenges of investing its endowment to meet the dual goals of preserving purchasing power for future generations while providing current income for student scholarships and faculty chairs. After review of the asset allocations and investment approaches of peer institutions from across the nation, the Trustees directed Senior Administration to conduct a search for a qualified investment consultant to advise and direct the University in pursuing appropriate investment strategies for endowments of its size. The University's goal in hiring a new external advisor is to maintain oversight and risk management of the endowment portfolio through the University's Investment Office which is located on campus.

The Senior Administration recommended to the Trustees that the University hire Fund Evaluation Group ("FEG"), an institutional investment consultant with an national client base of public higher education institutions, that has the resources to structure a new asset allocation strategy and for recommending investments and managers in all areas of investments, (particularly in alternative investments) for the University. FEG did a thorough review of the Endowment Pool and suggested a new over-all asset allocation with targets and ranges (see attached). FEG determined that to ensure mature growth and competitive returns on endowment funds, the University would need the ability to invest more funds in alternative investments; with a maximum allocation range of up to 60%. The University has directed FEG that any movement into a higher alternative investment allocation should be done prudently and over a pre-determined time horizon, while remaining cognizant of investment opportunities.

Modifications to the Endowment Pool Investment Guidelines

The University has prepared modified Guidelines based on FEG's investment strategy recommendations. The Guidelines have been split into two components – the main Guidelines and a new component statement entitled "Investment Implementation Strategy".

The University moved from the main Guidelines to the Investment Implementation Strategy details regarding the objectives, asset allocation/investment structure, and performance measurement. The Guidelines were also changed to clarify the respective roles and responsibilities of the Board of Trustees, Senior Investment Officers of the University, the Investment Advisory Committee, the Investment Management Office, and investment consultants.

The day–to-day management of the Pool is detailed in the Investment Implementation Strategy. It will be subject to regular review and may be modified as determined appropriate by those with oversight over the Pool, including the University's Board of Trustees and the Board of Regents. The main Guidelines set forth the general standard of care for the overall management of the Pool by the University and it is anticipated that these provisions will be in place long term.

The University's Board of Trustees approved the modified Guidelines, including its new component statement entitled "Investment Implementation Strategy", on August 11, 2015. Approval is now requested from the Board of Regents.

University Of Utah Endowment Pool
Investment Guidelines

I. Purpose

To establish university guidelines and strategies related to the investment of the Endowment Pool (the "Pool") and reporting of such investments.

The goal for the management of endowment funds at an academic institution is to ensure that the endowment provides future students and faculty with the same level of spending resources (adjusted for inflation), as current students and faculty receive, while also providing a stable and increasing cash flow to fund current operating budgets. In order to accomplish this, endowment funds of the University of Utah (the "University") are invested under the total return concept of the Uniform Prudent Management of Institutional Funds Act (UPMIFA). UPMIFA was adopted into state law under Utah Code 51-08 and it is the governing regulation for the University's endowment funds.

In addition, endowment funds specifically serve two purposes for the University. First, endowment funds provide financial flexibility to the University by allowing the Health Sciences and the Main Campus Senior Administrators and the Academic Deans to strategically manage their colleges and departments to ensure the University continues to achieve its mission of leadership as a research institution on a national level. Second, due to the decentralized private funding structure of the University, endowment funds play a sizeable role in funding scholarships, fellowships, and current initiatives for particular departments.

The **Pool** was established by the University as a pooled fund for the long term investment of endowment funds. As determined by the University's spending policy, a percentage of the market value of the endowment funds is distributed quarterly to provide funding for current operations as approved by the President of University.

II. References

A. Uniform Prudent Management of Institutional Funds Act (UPMIFA), Title 51, Chapter 08, Utah Code Annotated 2007.

B. Utah State Board of Regents Investment Policy (R541)

III. Definitions

Endowment funds - As used in these guidelines, "endowment funds" include true endowment funds, term endowment funds, and quasi-endowment funds.

True endowment funds - As used in these guidelines, "true endowment funds" (also known as "permanent endowment funds") are institutional funds with respect to which a donor has stipulated, as a condition of the gift, that the gift is to be maintained inviolate and in perpetuity. True endowment funds are to be invested for the purpose of producing present and future income that may, also by donor stipulation, be expended or reinvested with the original gift. The principal or corpus of the true endowment must be maintained intact. Income that may be expended according to the donor's stipulation may be unrestricted or restricted as to the purpose for which it is expended, the time it may be expended, or both. Income that may not be expended but rather added to the principal or corpus in accordance with the donor's stipulation assumes, or takes on, the same restrictions as the original gift.

Term endowment funds – Term endowment funds are similar to true endowments, except that, upon the passage of a stated period (or time) or the occurrence of a particular event, all or part of the donation may be expended. True and term endowments are collectively referred to as "donor-restricted" transactions.

Quasi-endowment funds - Quasi-endowment funds are institutional funds that the governing board (in this case, the University's Board of Trustees [the "Board"]), rather than the donor, has determined are to be retained and managed like an endowment. Principal and income of these funds may be utilized at the discretion of the governing board and are set aside to function as an endowment and may be unrestricted or restricted as to the purpose or time of expenditure by any agent outside the institution.

Investment Implementation Strategy – The Investment Implementation Strategy is a component statement of the Endowment Pool Investment Guidelines that shall further describe qualitative and quantitative measures to implement strategies and tactics, asset allocations, performance measurements and expectations to prudently invest endowment funds to sustain the University's current and future needs. The Investment Implementation Strategy is subject to change.

IV. Investment Guidelines

The following standard of care shall apply to the investment of the Pool by the University:

1) Standard of Care

   a) The University shall invest and manage the Pool as a prudent investor would, by considering the purposes, terms, distribution requirements, and other circumstances of the endowment funds. In satisfying this standard, the University shall exercise reasonable care, skill, and caution.

   b) The University's investment and management decisions respecting individual assets must be evaluated, not in isolation, but in the context of the endowment portfolio as a whole, and as a part of an overall investment strategy having risk and return objectives reasonably suited to endowment funds.

c) The University shall conduct appropriate due diligence and make a reasonable effort to verify facts relevant to the investment and management of endowed assets.

d) The University shall consider at least the following, which may be relevant to the endowment(s) and/or its beneficiaries, in investing and managing endowment assets:

   i) General economic conditions,

   ii) The possible effects of inflation or deflation,

   iii) The role that each investment or course of action plays within the Pool and if it is consistent with the Pool's investment strategy,

   iv) The expected total return from income and the appreciation of capital, and

   v) Needs for liquidity, regularity of income, and preservation and/or appreciation of capital.

e) The University shall not consider previous or potential gifts from donors and/or political interests relating to the University when conducting due-diligence and considering investment opportunities.

2) <u>Delegation of Investment and Management Functions</u>

The University may delegate investment and management functions that a prudent investor could properly delegate under the circumstances. The University shall exercise reasonable care, skill, and caution in:

a) Selecting an external investment consultant (the term investment consultant shall be considered the University's investment consultant and either as singular or plural and include the term investment advisor(s)), investment manager(s) or fund administrators.

b) Establishing the scope and terms of the delegation, consistent with the purposes and terms of the endowment. Periodically review the investment consultant, and/or investment manager(s) actions in order to monitor their fiduciary duty, compliance with the terms of the delegation, and investment performance;

c) So long as the University complies with Article IV, Investment Guidelines subsection-(2) requirements; it shall not be liable to the endowment(s) and/or the beneficiaries for the decisions or actions of the investment consultant, and/or investment manager(s) to whom a function was given.

3) Costs

In investing and managing the Pool, the University may only incur costs that are appropriate and reasonable in relation to the assets, the purposes of the endowment, and the skills of designated University administration and/or investment consultant and/or investment manager(s) to whom investment management functions were delegated.

V. Delegation of Responsibilities

1) Responsibilities of the Board of Trustees

a) The Board has the following responsibilities:

i) Ultimate fiduciary responsibilities for the Pool.

ii) Approve the University of Utah Investment Policy, which includes the Endowment Pool Guidelines which includes the Investment Implementation Strategy (Article XVIII), to ensure appropriate governance is in place and effectively implemented.

iii) The Board shall review and approve the monthly investment report and quarterly performance report of the Pool that have been submitted to the Board.

iv) Perform the review as described in Article XIV of these guidelines.

b) The Board shall delegate to the Investment Advisory Committee the responsibility for the ongoing monitoring of the Pool.

c) The Board shall delegate the responsibilities listed below to the Senior Chief Administrator & Chief Financial Officer, the Vice President for Administrative Services and the Associate Vice President/Chief Investment Officer (CIO), (collectively defined as Senior Investment Officers), who may act on the advice from the Investment Advisory Committee. In delegating such responsibilities the Board will not ordinarily meet with investment managers hired by the University.

i) Invest and reinvest the funds of the Pool.

ii) Contract with independent investment consultant, investment manager(s), and other fund administrators for the Pool.

iii) Subscribe for an interest as a limited partner or shareholder of a domestic or offshore partnership or corporation.

iv) Make payments of compensation for investment advisory and/or management services for the Pool.

v) Other responsibilities as determined by the Board.

2) Responsibilities of the Investment Advisory Committee

The Investment Advisory Committee (the "Committee") is responsible for monitoring the provisions of the Investment Implementation Strategy (Article XVIII). This responsibility includes the monitoring of investment strategy, of the hiring and firing of investment managers, custodians, and investment consultants; monitoring performance of the Pool on a regular basis (at least quarterly); and maintaining sufficient knowledge about the Pool and its managers to be reasonably assured of their compliance with the Investment Implementation Strategy (Article XVIII).

The Committee is chaired by the Vice President for Administrative Services, and it shall consist of six to ten members who are selected by the President of the University. The Committee shall have two members from the Board of Trustees and not less than two independent investment management professionals.

3) Responsibilities of the Investment Management Office

a) The responsibilities of the Investment Management Office may include, but are not limited to, the following:

i) Conduct due diligence searches for external investment consultant(s), investment manager(s), investments opportunities, and other fund administrators, and in consultation with the Committee, determine their engagement, continuation, or termination or any other matters pertaining to the benefit of the Pool and may be done in conjunction with the investment consultant as set forth in the Investment Implementation Strategy (Article XVIII).

ii) Serve as the primary contact for the Pool and manage the day-to-day operational activities, which include but limited to:

(1) Execute or direct investments as outlined in the Investment Implementation Strategy (Article XVIII) and as otherwise set forth in the Endowment Pool Investment Guidelines.

(2) In consultation with the Committee, outline investment strategies for implementing the asset allocation and provide oversight over the allocation and reallocation of assets in order to be in compliance with the targets and ranges as set forth in the Investment Implementation Strategy (Article XVIII).

(3) Oversight of all internal reporting pertaining to transactions for assets and income within the Pool so that Accounting may properly record the activity on the University's accounting statements.

iii) All necessary reporting to ensure compliance by University administration and by the investment consultant, investment manager(s), and other fund administrators within the relevant statutes, policies, guidelines, and strategies.

iv) Review Pool expenses to ensure only reasonable and necessary expenses are being assessed and/or in conjunction with the investment consultant as necessary.

b) The Investment Management Office may be assisted by an investment consultant, and/or investment manager(s) in carrying out any of the responsibilities listed above and/or as set forth in the Investment Implementation Strategy (Article XVIII).

4) <u>Responsibilities of Investment Consultant</u>

a) Acknowledge in writing acceptance of fiduciary duty to the Pool and to exercise reasonable care under the standard of care defined in Article IV, Investment Guidelines**.** This list is not intended to be limited.

b) Communicate promptly with the Investment Management Office regarding all significant matters such as but not limited to:

i) Changes in the firm's ownership, organizational structure, or professional staffing (additions and departures),

ii) Changes to the firm's financial stability, solvency, legislative or regulatory oversight, and/or pending litigation proceedings,

iii) Changes to fee schedules,

iv) Any other changes of a substantive nature that may affect the firm's operations.

c) Provide an Investment Implementation Strategy (Article XVIII) that shall serve as a component statement of the Endowment Pool Investment Guidelines.

5) <u>Responsibilities of Securities Custodian(s) for Separate Managed Accounts</u>

a) Serve as custodian and act in a fiduciary capacity for the University and the Pool.

b) Acknowledge in writing the acceptance of a fiduciary duty to the Pool, to exercise reasonable care, and to comply with the terms of the delegation as defined in Article IV, Investment Guidelines.

c) Communicate promptly with the Investment Management Office and with the University's investment consultant regarding all significant matters such as but not limited to:

i) changes to the firm's ownership or organizational structure,

ii) changes to the firm's financial stability, solvency, legislative or regulatory oversight, and/or pending litigation proceedings,

iii) changes to fee schedules;

iv) any other changes of a substantive nature that may affect the firm's operations.

d) Provide safekeeping of securities entrusted to it, collect dividends and interest payments on held securities, make cash disbursements, and manage cash flows as directed by the Investment Management Office.

e) May lend securities owned by the Pool, but held in custody by another party, such as a bank custodian, only if such securities lending is pursuant to a separate written agreement.

f) Issue monthly statements that provide complete and accurate accounting records:

i) of security holdings and positions priced in accordance with industry standards;

ii) each asset transaction, including income and cash flows received from each investment manager.

g) Meet periodically with the Senior Investment Officer and/or staff, who include the University's investment consultant, to report on the separate investment account.

The foregoing list is not intended to be all inclusive.

VI. Conflicts of Interest

The University's officers, directors, employees, or members of the Committee that are involved with the investment of the Pool ("Access Persons") have a duty to be free of conflicting interests that might influence their decisions when representing the University. Consequently, as a general matter, the University's Access Persons are not permitted to maintain any conflict of interest with the University, and should make every effort to avoid even the appearance of any such conflict. A conflict of interest occurs when an individual's private interests interfere in any way – or even appear to interfere – with the University's interests as a whole. A conflict of interest can arise when an Access Person takes actions or has interests that may make it difficult to perform his or her assigned duties objectively and effectively, or when an Access Person or a member of his or her family receives any improper personal benefits as a result of his or her position with the University. Any Access Person who believes that he or she may have a potential conflict of interest must immediately report concerns to the appropriate University representative, mechanism, or process. This general prohibition on conflicts of interest includes (but is not limited to) the following:

1) The University's dealings with investment consultant, investment firm(s), investment fund(s), and others shall be based solely on what is in the University and Pool's best interest, without favor or preference to any third party, including close relatives; and

2) Access Persons who deal with or influence decisions of individuals or organizations seeking to do business with the University shall not own interests in or have other personal stakes in such organizations that might affect the decision-making process and/or the objectivity of such employee, unless expressly authorized in writing by the Board, and only after the interest or personal stake has been disclosed.

VII. Investment Objectives of the Pool

The University of Utah shall invest the Pool in accordance with prudent return and risk objectives. These objectives seek to achieve a total rate of return over a described time horizon which exceeds the rate of inflation (as measured by the Consumer Price Index) plus any spending and administrative expenses, thus protecting the purchasing power of the assets and to solidify an investment program that offers a high probability of achieving the stated investment return objective while keeping the frequency and magnitude of temporary declines at acceptable levels. These objectives are set forth in the Investment Implementation Strategy (Article XVIII). Pursuant to Articles XII &XIII, the Investment Implementation Strategy shall be reviewed periodically.

VIII. Eligible Pool Investments

The following shall be considered eligible Pool investments. This list is not intended to be exhaustive and shall be subject to review on an ongoing basis. Eligible pool investments may be further outlined in the Investment Implementation Strategy (Article XVII). Eligible Pool Investments include:

Global marketable equities: shall be diversified and readily marketable across a spectrum of small, medium, and large market capitalizations by - issue, industry, and sector as well as diversified across multiple regions, including the United States, developed foreign and emerging markets, as all may be further described in the Investment Implementation Strategy (Article XVIII).

Global marketable fixed income holdings: should be diversified by country, issue, sector, coupon, and quality and should be readily marketable and can include both investment grade and non-investment grade securities as all may be further described in the Investment Implementation Strategy (Article XVIII).

Alternative investment funds: that derive returns primarily from marketable and non-marketable assets such as, high yield and distressed debt (hedged or non-hedged), private capital (including venture capital, private equity, both domestic and international), natural resources, public and private real estate assets or absolute return and long/short hedge funds (each an “Alternative Investment Fund”) and other diversifying strategies as may be further described in the Investment Implementation Strategy (Article XVIII). The foregoing list is not intended to be all inclusive.

1. Alternative investments shall be measured against appropriate benchmarks, universes and/or expected rates of return. Asset allocation targets and ranges as set forth in the Investment Implementation Strategy (Article XVIII) will guide the long-term investment activities for the Pool.

2. Due Diligence Criteria for Alternative Investment Funds shall be as stated in Article XII, Section 1, Due Diligence Criteria.

Use of commingled funds (e.g., mutual funds; bank trust funds), domestic and offshore partnerships and corporations, and separate account agreements, which meet the general intent of the Investment Implementation Strategy (Article XVIII), may be utilized by the Pool.

Equity and fixed income managers may invest in short term commercial paper, money-market mutual funds, other money market investments, and short term bond investments as a surrogate for cash reserves from time-to-time. The intent is to have the investment manager remain fully invested at all times. Cash is not considered to be a strategic asset.

Due to the changing nature of investment opportunities, any other parameters or special investment opportunities may necessitate the amending of the Endowment Pool Investment Guidelines including the Investment Implementation Strategy (Article XVIII). Approval of the Board of Trustee prior to amending may be deemed appropriate.

IX. Asset Allocation

Asset allocation targets and ranges as set forth in the Investment Implementation Strategy (Article XVIII) will outline the long-term investment activities for the Pool.

Senior Investment Officers, with the advice of the Committee, will manage the asset allocation mix within the target allocations and allocation ranges. It is expected that the asset allocation mix will be diversified among asset classes and be designed to meet the rate of return and risk objectives of the Pool as set forth in the Investment Implementation Strategy (Article XVIII).

Rebalancing:

a) The actual allocation percentages may vary before rebalancing is necessary to comply with the asset allocation targets.

b) Senior Investment Offices and the Committee shall review the Pool's asset allocations on a regular basis and determine the weighting and rebalancing parameters for allocation to investment strategies and shall be described in the Investment Implementation Strategy (Article XVIII). Advice from the investment consultant regarding asset allocation strategies may also be considered.

X. Pool Risk Tolerance

Based on the University's understanding of capital market risk, the following guiding principles and measures shall be followed to control undue portfolio volatility in the Pool:

1) The University recognizes that the primary fiduciary obligation regarding the Pool is to prudently invest the portfolio to meet investment objectives that will fulfill the purpose of the Pool as described in Article I.

2) The University fully recognizes the likelihood of periodic market declines and is willing to accept the possibility of some short-term declines in market value in order to achieve potentially higher long-term investment returns.

3) Assets of the Pool are to be diversified to protect against large investment losses and to reduce the probability of excessive performance volatility.

4) Diversification of assets is to be achieved by:

   a) allocating monies to various asset classes and investment styles within asset classes;
   b) retaining investment management firm(s) with complementary investment philosophies, styles and approaches.

XI. Performance Evaluation and Review Process for the Pool

Senior Investment Officers and the Committee will evaluate the Pool's investment performance on a periodic basis which shall include, but not be limited to, the following:

1) The overall Pool's performance and each investment manager's performance to determine whether the Pools' objectives are being met.

2) The Pool's asset allocation mix relative to its Investment Implementation Strategy (Article XVIII) and capital markets outlook.

3) The risk and return profile(s) of the Pool and each investment manager to determine whether the Pool's goals and objectives are being met.

4) The extent to how each investment manager has managed their portfolio consistent within that manager's stated investment philosophy and style.

5) Each investment manager's adherence to these guidelines.

6) A reasonable full market cycle time horizon for evaluating the Pool's investment performance shall be on a long term basis as more specifically described in the Investment Implementation Strategy (Article XVIII).

XII. External Investment Manager Search and Evaluation

1) Due Diligence Criteria

The Investment Management Office and the investment consultant shall consider the following minimum criteria as part of the due diligence process for selecting an external investment manager.

a) Investment experience and integrity of the investment management team.

b) Stability of the investment management organization.

c) Fit within the investment strategy for the Pool.

d) Focused investment strategy with demonstrated process of implementation.

e) Performance relative to peer group and to assumed risk.

f) Investment vehicle structure including:

i) Expense ratios or fees

ii) Inception date of product

iii) Total assets in product

2) External Investment Manager Evaluation

Time frames for evaluating the qualitative and quantitative performance measures of investment managers should approximate a determined market cycle. Senior Investment Officers and the Committee will evaluate the Pool's investment managers on a periodic basis as may be further described in the Investment Implementation Strategy (Article XVIII). This may be done in conjunction with the investment consultant.

Managers will be evaluated based upon accepted industry standards and the criteria for which they were hired.

XIII. Review of Endowment Pool Investment Guidelines

Senior Investment Officers and the Committee will review the Endowment Pool Investment Guidelines, including the Investment Implementation Strategy (Article XVIII), periodically to determine that it continues to be appropriate in view of changes within State and Federal regulations, the University, the Pool, and capital markets.

XIV. Internal Controls and Audits

1) The University shall establish a system of internal controls, which shall be evaluated annually by the University's internal auditors and/or by independent auditors. The controls shall be designed to prevent losses of funds from fraud, employee error, or misrepresentation by third parties or by university employees and officers.

2) The President shall arrange for an audit of the University's annual report, conducted by either the resident auditors or the Regents' audit staff. The audits shall be conducted in accordance with applicable generally accepted auditing standards for regulatory or prescribed format reports. Reports shall include the auditors' comments based on their examination of investment policy and procedures, the process, the accounting records, and the safekeeping methods.

XV. Reporting to Board of Trustees and to the State Board of Regents

1) In establishing reports for its Board of Trustees, the University shall implement the following:

   a) All reports shall include the Chief Investment Officer's assertion that, to the best of his/her knowledge, the institution is in compliance with UPMIFA.

   b) The Chief Investment Officer shall submit monthly investment reports to the Board within 45 days of the month's end. In addition, the Chief Investment Officer shall submit quarterly performance reports to the Board within 60 days of the quarter's end.

   c) Within 30 days of the Board's approval, the University shall submit to the Board of Regents a copy of the investment reports submitted to the Board. Reports submitted to the Board of Regents shall be accompanied by a transmittal letter to the Commissioner indicating that the President of the University of Utah has reviewed the reports.

Annually, the Senior Investment Officers shall make a presentation to the Board of Trustees. Such presentation shall include a discussion of the investments and the current and past performance of the Pool, and may be followed up with a question and answer period. The investment consultant may also be invited to participate in the presentation as determined by the Senior Investment Officers.

XVI. Annual Money Management Report

Annually, the University shall submit, on forms provided by the Commissioner of Higher Education, a summary report of its money management activities for the year. This report shall include an auditor's opinion (as provided in section 4.11 of Regents Policy R541) regarding: the fairness of presentation of the report in accordance with generally accepted accounting principles, UPMIFA, and these guidelines. Draft reports shall be submitted to the Commissioner's Office not later than October 15 of each year. Final reports including the auditor's opinion shall be submitted not later than November 30 of each year.

XVII. Managing Institutional Funds of Other Institutions of Higher Education

Nothing in these guidelines shall restrict the ability of the University to manage endowed funds for other institutions of higher education. In delegating all investment management functions to the University of Utah, the other institution's Board of Trustees shall maintain their fiduciary responsibility for the funds. The terms of any such agreement between the University and other institutions shall govern and should clearly layout the expectations of each party, especially with regard to fees and reporting. The funds shall be managed in accordance with these guidelines and all other governing laws and regulations (such as UPMIFA).

Excerpted and based upon the Utah Uniform Trust Code (Utah Code 75-7-814(2))
Modified from the Uniform Prudent Investor Act § 7.

XVIII. Strategies

(Link to Investment Implementation Strategy)

UNIVERSITY OF UTAH ENDOWMENT POOL INVESTMENT IMPLEMENTATION STRATEGY

May, 2015

CONTENTS

OVERVIEW

PURPOSE

This Endowment Pool Investment Implementation Strategy is intended to establish a clear understanding of the philosophy and investment objectives of the University of Utah's Endowment Pool (the "**Pool"**) This Endowment Pool Investment Implementation Strategy is a component statement to the University of Utah Endowment Pool Investment Guidelines as utilized by the Investment Advisory Committee and the Senior Investment Officers, which consists of the Senior Chief Administrator & Chief Financial Officer, the Vice President for Administrative Services and the Associate Vice President/Chief Investment Officer (CIO), in monitoring investment performance, as well as, serve as a further guideline for any investment manager retained.

The purpose of the **Pool** is to accumulate a pool of assets sufficient to build capital for future use along with the corresponding obligation to support current needs. While shorter-termed investment results will be monitored, adherence to an overall sound long-term investment policy which balances short-term spending needs with preservation of the real (inflation-adjusted) value of assets, is crucial to the long-term success of the Fund.

SCOPE

This Endowment Pool Investment Implementation Strategy applies to assets that are a part of the **Pool** and for which the Investment Advisory Committee and Senior Investment Officers have responsibility.

FIDUCIARY DUTY

In seeking to attain the investment objectives set forth in this Endowment Pool Investment Implementation Strategy, the Investment Advisory Committee, Senior Investment Officers, the investment consultant, and investment managers shall exercise prudence and appropriate care as fiduciaries in accordance with the Utah Uniform Prudent Management of Institutional Funds Act (UPMIFA) and Utah State Board Of Regents Investment Policy R-541 and the University of Utah Endowment Pool Investment Guidelines under the University of Utah Investment Policy 3-050. All investment actions and decisions must be based solely on the interest of the **Pool**. Fiduciaries must provide full and fair disclosure to the University all material facts regarding any potential conflicts of interests.

DEFINITION OF DUTIES

BOARD OF TRUSTEES

The Board of Trustees has the ultimate fiduciary responsibility for the **Pool's** investment portfolio; their responsibilities are set forth in the University of Utah Endowment Pool Investment Guidelines.

INVESTMENT ADVISORY COMMITTEE

The Investment Advisory Committee is delegated by the Board of Trustees with the responsibility for the ongoing monitoring of **Pool;** their duties are set forth in the University of Utah Endowment Pool Investment Guidelines.

SENIOR INVESTMENT OFFICERS

The Senior Chief Administrator & Chief Financial Officer, the Vice President for Administrative Services and the Associate Vice-President/Chief Investment Officer (CIO) have overall operating responsibility for investment of the **Pool** as set forth in the University of Utah Endowment Pool Investment Guidelines under University of Utah Investment Policy 3-050.

INVESTMENT CONSULTANT

The investment consultant is responsible for assisting the Investment Advisory Committee and the Senior Investment Officers in all aspects of managing and overseeing the investment portfolio. The consultant shall act as the primary source of investment research/education and investment manager information. On an ongoing basis the consultant will:

1. Provide asset allocation/investment structure and asset category implementation strategies for the **Pool** as described in the Endowment Pool Investment Implementation Strategy.
2. Provide proactive recommendations on investment managers, private partnerships and off-shore funds and internally executed strategies;
3. Supply the Investment Advisory Committee and the Senior Investment Officers with reports (e.g., asset allocation studies, investment research and education) or information as reasonably requested;
4. Monitor each investment manager/fund;
5. Provide the Investment Advisory Committee and the Senior Investment Officers with quarterly performance reports; and
6. Assist the Investment Advisory Committee and the Senior Investment Officers periodically, with a review of the Endowment Pool Investment Implementation Strategy, including an assessment of the current asset allocation and investment objectives.

INVESTMENT MANAGERS

Investment managers have the responsibility for managing the underlying assets consistent with their stated approach and with this Endowment Pool Investment Implementation Strategy. The investment managers will report investment results and meet with the Investment Advisory Committee, Senior Investment Officers and staff, and/or investment consultant as requested.

CUSTODIAN

The custodian's duties are set forth in the University of Utah Endowment Pool Investment Guidelines for separately managed accounts, otherwise it is the investment managers' responsibility to maintain and monitor their own custodian.

OBJECTIVES

The overall, long-term investment objective of the **Pool** is to achieve an annualized total return (net of investment management expenses), through appreciation and income, greater than the rate of inflation (as measured by the Consumer Price Index) plus any spending and administrative expenses, thus protecting the purchasing power of the assets. The assets are to be managed in a manner that will meet the primary investment objectives, while at the same time attempting to limit volatility in year-to-year spending.

STRATEGY

The Board of Trustees and Investment Advisory Committee understand the long-term nature of the **Pool**, and realize, that within the constraints of the asset allocation model, adding assets with higher return expectations are intended to outweigh their short-term volatility risk. As a result, the majority of assets will typically be invested in equity or equity-like securities, including real assets (real estate, natural resources, and infrastructure). Real assets also are expected to provide the added benefit of inflation protection.

Fixed income and diversifying strategies will be used to lower short-term volatility and provide stability, especially during periods of deflation and negative equity markets. Cash is not a strategic asset of the portfolio and is used to meet short-term liquidity needs or as a short term vehicle to dampen volatility. It also serves as a residual to the investment process as used for reallocation between funds and/or prior to income distribution.

SPENDING POLICY

Income available for spending is determined by a total return system. The amount to be spent in the coming fiscal year is calculated as of each December 31st. The calculation is based on a specified percentage of a 12-quarter rolling average of the market value. The spending rate will at all times be approved by the President of the University.

ASSET ALLOCATION/INVESTMENT STRUCTURE

Asset allocation will likely be the key determinant of the **Pool's** returns over the long-term. Therefore, diversification of investments across multiple markets that are not similarly affected by economic, political, or social developments is highly desirable. A globally diversified portfolio, with uncorrelated returns from various assets, should reduce the variability of returns across time.

In determining the appropriate asset allocation, the inclusion or exclusion of asset categories shall be based on the impact to the total **Pool**, rather than judging asset categories on a stand-alone basis.

The target asset allocation should provide an expected total return equal to or greater than the primary investment objective of the **Pool**, while avoiding undue risk concentrations in any single asset class or category, thus reducing risk at the overall portfolio level.

Investments will generally fall into one of four asset categories. Each category serves a specific role within a portfolio. An allocation to all four categories can provide diversification to major market risk factors while establishing a simple framework to review the exposures within the portfolio. The categories are as follows:

GLOBAL EQUITY	Intended to be the primary source of long-term capital appreciation for the portfolio. While having higher expected returns than fixed income, they also have higher expected volatilities. Sub-categories include both public and private equities, as well as hedged equity mandates.
GLOBAL FIXED INCOME/CREDIT	Intended to offset the volatility of equities, particularly during market downturns, as well as provide deflation protection. These investments are comprised primarily of fixed income (debt) securities, and can be categorized as interest rate sensitive and credit sensitive. Sub-categories include both public and private debt.
REAL ASSETS	Intended to insulate the portfolio from inflation shocks and to provide a source of non-correlating returns with other asset categories. Includes both public and private investments in real estate, natural resources (e.g., energy, agriculture, timber, commodities), and infrastructure (e.g., power generation, mid-stream energy Master Limited Partnerships “MLPs”).
DIVERSIFYING STRATEGIES	Intended to provide diversification from systematic market risk, with the primary determinant of returns typically derived from manager skill (alpha) rather than the market (beta). . Sub-categories include both liquid and semi-liquid non-directional strategies that seek low correlations to the public equity and fixed income markets.

To achieve these goals, the asset allocation will be set with the following target percentages and within the following ranges:

Asset Category	Target	Range
GLOBAL EQUITY	**40%**	**30-50%**
Public Equities	*25*	*15-50*
*Hedged Equity**	*5*	*0-10*
*Private Equity**	*10*	*0-15*
GLOBAL FIXED INCOME/CREDIT	**20**	**10-40**
Interest Rate Sensitive	*11*	*5-40*
*Credit Sensitive**	*9*	*0-20*
REAL ASSETS	**20**	**10-30**
*Real Estate**	*7*	*0-15*
*Natural Resources**	*8*	*0-10*
*Infrastructure**	*5*	*0-10*
DIVERSIFYING STRATEGIES*	**20**	**0-30**

* May include semi-liquid hedge funds or illiquid private capital funds.

REBALANCING

The CIO will monitor the asset allocation structure of the **Pool** and attempt to stay within the ranges allowed for each asset category. The portfolio may differ from target allocations, but within the allowable ranges, due to market movements or tactical tilts. If the portfolio moves outside of the ranges the CIO, with advice from the investment consultant, will develop a plan of action to rebalance. In many cases the additions of new money or withdrawals for spending will be used to rebalance in a cost effective manner.

ACTIVE AND PASSIVE MANAGEMENT

The asset allocation will be implemented using both active and passive investment managers. Highly efficient areas of the capital markets may be managed primarily using index funds and other structured strategies (e.g., smart beta, enhanced index, portable alpha).

INVESTMENT STYLES / MARKET CAPITLIZATION

Investment styles (growth and value) are cyclical, but over the long-term, value stocks tend to outperform growth stocks, and small cap stocks tend to outperform large cap stocks. Therefore, the **Pool** will employ a strategic overweight to value stocks and small cap stocks as appropriate.

LIQUIDITY

The **Pool** will seek to maintain a balance between investment goals and liquidity needs. Liquidity is necessary to meet the spending policy payout requirements and any extraordinary events. In many instances, the most appropriate investment option is one that comes with liquidity constraints.

Illiquid investments include private equity, private debt, and private real assets. Hedge funds are considered semi-liquid due to lock-up periods, redemption restrictions, and in some cases, illiquidity of the underlying investments. The tradeoff between appropriateness and liquidity will be considered throughout the portfolio construction process, but with the following limits:

Classification	Target	Limits
Liquid	At least 50% of the portfolio	At least 40% of the portfolio
Semi-Liquid	25% of the portfolio	No more than 30% of the portfolio
Illiquid*	25% of the portfolio	No more than 30% of the portfolio

* *A private capital implementation plan (with target amounts and timing of capital commitments) will be used to manage the allocation prudently, strive to maintain the target allocation, and maintain vintage year diversification. Market movements could cause the allocation to move outside ranges, in which case, rebalancing will not be necessary, but future commitments may need to be adjusted.*

PERFORMANCE MEASUREMENT

TIME HORIZON

The **Pool** seeks to achieve the investment objectives over a full market cycle, but does not expect that all investment objectives will be attained each year. Furthermore, the **Pool** recognizes that over various time periods, the portfolio may produce over or under performance relative to the broad markets. For this reason, long-term investment returns will be evaluated over a full market cycle (for measurement purposes: 5 years).

PRIMARY BENCHMARK

The primary objective of the **Pool** is to achieve a total return, net of fees, in excess of spending, administrative fees, and inflation. The Primary Benchmark is the minimum return needed to achieve this objective subject to appropriate drawdown measurement. The Benchmark is therefore stated as follows:

Total Return greater than Spending + Administrative Fees + Consumer Price Index with a maximum drawdown not greater than 25%.

BROAD STRATEGIC BENCHMARK

Another strategic objective is to achieve a total return in excess of the broad financial indices. The Broad Strategic Benchmark shall be comprised of each broad asset class benchmark weighted by its long-term strategic allocation. The Broad Strategic Benchmark is as follows:

Weight	Index	Asset Categories
60%	MSCI ACWI	Equity / Real Assets
40%	Barclays U.S. Aggregate	Fixed Income / Diversifying Strategies

RELATIVE RETURN BENCHMARK

Another investment objective is to achieve a total return that is comparable to appropriate peer institutions and appropriate asset size category over a time horizon defined by the Investment Advisory Committee.

MANAGER EVALUATION

QUALITATIVE MEASURES

Each investment manager will be reviewed by the CIO and investment consultant on an ongoing basis and evaluated upon the criteria listed below but not limited to:

1. Maintaining a stable organization;
2. Retaining key personnel;
3. Avoiding regulatory actions against the firm, its principals, or employees;
4. Adhering to the guidelines and objectives of this Endowment Pool Investment Implementation Strategy;
5. Avoiding significant deviations from the manager's stated investment philosophy.

Although there are no strict guidelines that will be utilized in selecting managers, the CIO and the investment consultant will consider the criteria above, as well as, the unique role the manager may play, the length of time the firm has been in existence, its track record, assets under management, and the amount of assets the Fund already has invested with the firm.

SUMMARY OF QUANTITATIVE PERFORMANCE

Public Liquid and Semi-Liquid Active Managers

Liquid and semi-liquid (hedge fund) active managers will be measured against an appropriate market index and a peer universe of portfolios managed in a similar investment style. The CIO and the investment consultant expect the managers to outperform the benchmarks over a full market cycle, but do not expect that all investment objectives will be attained each year. Furthermore, the Investment Advisory Committee and Senior Investment Officers recognize that over various time periods, the managers may produce significant over or under performance relative to their benchmarks. For this reason, long-term investment returns will generally be evaluated over a full market cycle (for measurement purposes: 5 years).

Managers failing to meet these criteria over a full market cycle will undergo extensive qualitative and quantitative analysis. This analysis will focus on the manager's personnel, philosophy, portfolio characteristics, and peer group performance to determine whether the manager is capable of implementing their defined portion of the overall portfolio structure.

Public Liquid Passive Managers

Passive (or index) managers are expected to approximate the total return of its respective benchmark.

Private Illiquid Managers

Private partnerships typically range from 7-15 years in life, during which time the **Pool** may not be able to sell the investment. Additionally, the partnership may not produce meaningful returns for 3-5 years (depending on the strategy). New investments will create a drag on fund performance (known as the J-curve) in the early years (3-5 years) until these investments begin to mature.

Private, illiquid manager performance will be measured utilizing internal rate of return (IRR) from the inception of the partnership and compared to an appropriate peer group and/or public market equivalent benchmark.

GUIDELINES AND RESTRICTIONS

GENERAL

In today's rapidly changing and complex financial world, no list or types of categories of investments can provide continuously adequate guidance for achieving the investment objectives. Any such list is likely to be too inflexible to be suitable of the market environment in which investment decisions must be made. Therefore, the process by which investment strategies and decisions are developed, analyzed, adopted, implemented and monitored, and the overall manner in which investment risk is managed, will determine whether an appropriate standard of reasonableness, care, and prudence has been met for the **Pool's** investments.

The requirements stated below apply to investments in non-pooled/mutual funds, where the investment manager is able to construct a separate, discretionary account on behalf of the **Pool**. Although the **Pool's** officers cannot dictate policy to pooled/mutual fund investment managers, the **Pool's** officers' intent is to select and retain only pooled/mutual funds with policies similar to this Endowment Pool Investment Implementation Strategy. All managers (pooled/mutual and separate), however, are expected to achieve the performance objectives. Each long-only equity and fixed income investment manager shall:

1. Have full investment discretion with regard to security selection consistent with this Endowment Pool Investment Implementation Strategy;
2. Immediately notify the CIO and investment consultant in writing of any material changes in the investment philosophy, strategy, portfolio structure, ownership, or senior personnel;

3. Make no purchase that would cause a position in the portfolio to exceed 5% of the outstanding voting shares of the company or invest with the intent of controlling management.

Public Equity Manager Guidelines (including REITs)

Each active equity investment manager shall:

1. Assure that no position of any one company exceeds 8% of the manager's total portfolio as measured by market value;
2. Vote proxies and share tenders in a manner that is in the best interest of the Fund and consistent with the investment objectives contained herein;
3. Maintain a minimum of 25 positions in the portfolio to provide adequate diversification;
4. Construct a properly diversified portfolio across sectors and industries;
5. (U.S. equity managers) have no more than 20% of the total portfolio in foreign stocks or American Depository Receipts (ADRs).

Interest Rate Sensitive (Core) Fixed Income Manager Guidelines

Each investment grade fixed income investment manager shall:

1. Maintain an overall weighted average credit rating of A or better by Moody's and Standard & Poor's;
2. Hold no more than 10% of the portfolio in below investment grade (Baa/BBB) securities. Split rated securities will be governed by the lower rating;
3. Maintain a duration within +/-20% of the effective duration of the appropriate benchmark (does not apply to TIPS managers);
4. Assure that any one issuer does not exceed 5% of the manager's portfolio, as measured at market value, except for securities issued by the U. S. government or its agencies.

Credit sensitive (High yield/bank loan) Manager Guidelines

Each high yield/bank loan investment manager shall:

1. Maintain an overall weighted average credit rating of B or better by Moody's and Standard & Poor's;
2. Hold no more than 20% of the portfolio in investments rated below B. Split rated securities will be governed by the lower rating;
3. Assure that any one issuer does not exceed 5% of the manager's portfolio, as measured at market value.

Commodities Manager Guidelines

Each active commodities investment manager shall:

1. Be diversified with exposure to energy, metals, and agricultural commodities;
2. Have no more than 25% in any one commodity contract.

Master Limited Partnerships (MLPs) Manager Guidelines

The objective of the MLP allocation is to provide liquid exposure to the mid-stream energy infrastructure industry, low correlation to the public equity and fixed income markets, and serve as an inflation hedge. The majority of MLPs own assets such as pipelines that transport crude oil, natural gas, and other refined petroleum products. Each active MLP investment manager shall:

1. Assure that no MLP exceeds 15% of the manager's total portfolio as measured at market;
2. Maintain a fully invested portfolio, with no more than 10% allocated to cash equivalents;
3. Maintain a minimum of 15 MLPs in the portfolio to provide adequate diversification.

Derivative Security Guidelines

For the purposes of this strategy, derivatives include, without limitation, futures contracts; options; options on futures contracts; forward contracts; swap agreements, including swap contracts with embedded options; any instrument or contract intended to manage transaction or currency exchange risk in purchasing, selling or holding investments; and any other instrument commonly used by institutional investors to manage institutional investment portfolios.

At the Total **Pool** level, derivatives may be used to maintain the program's strategic asset allocation, including securitizing excess cash, and to provide portfolio hedging, but derivatives shall not be used for leverage at the portfolio level.

Investment managers may be permitted to utilize derivatives to implement their strategies if appropriate to their mandate.

Under no circumstances may derivatives or leverage be used to circumvent the intent or limits otherwise prescribed by this Endowment Pool Investment Implementation Strategy.