

March 22, 2017

MEMORANDUM

TO: State Board of Regents

FROM: David L. Buhler

SUBJECT: USHE – Annual Money Management Report for the Fiscal Year Ending June 30, 2016

Issue

Pursuant to *Utah Code 51-7-13(3)(a)(c)*, *Utah Code 51-8-303(6)*, and Board of Regents policy R541, USHE institutions are required to submit to the Board monthly and annual reports detailing the deposit and investment of funds. The Board then submits an annual summary report of all investments by institution to both the Governor and the Legislature. This report serves as the annual summary report and meets the requirements outlined in statute.

Background

On a monthly and annual basis institutions prepare investment reports that are reviewed and approved by both the institution treasurer and internal auditor(s). The treasurer certifies that the institution is in compliance with the Uniform Prudent Management of Institutional Funds Act (UPMIFA) and the State Money Management Act. The internal auditor(s) verifies compliance with state statutes, Regents' policy, institutional policy, federal regulation, strength of controls, and confirms the completeness and accuracy of the investment reports. Completed reports are submitted to the institution's Board of Trustees for review and approval (as delegated by the Board of Regents) and forwarded to the Commissioner's Office for review and record keeping.

Statute requires that the annual summary report to the Governor and Legislature represent audited values. To meet this requirement, this report is prepared after the state auditors complete their annual financial audit of the institutions. The investment figures used in this report tie to the audited "Statement of Net Assets" found in the institution's financial statements.

The attached report demonstrates the relative size of institutional investments and the asset allocations in place at each school by investment category. The categories are:

- Endowment Investments - governed by UPMIFA and regents policy R541;
- Foundation Investments - governed by a Foundation Board of Trustees/Directors operating under the requirements of non-profit 501(c)(3)s; and
- Other Investments - all funds not endowment or foundation operating under the guidelines and requirements of Utah Code 51-7, and Utah Money Management Act.

Additional Information

The Commissioner's staff has worked with USHE controllers to provide additional information regarding the oversight and review of the investment process to address Regent questions regarding: asset allocation, compliance with laws and regulations, return on assets, and risk management. The following information has been provided by the institutions describing their processes and procedures for evaluating the performance of their respective investments, the various benchmarks used in the evaluation process, and clarifying 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) has been delegated by the Board of Regents to an institution's Board of Trustees. To assist with this charge, the institutions have created investment committees to help with the operational responsibilities. The membership of these committees vary by campus, but may include trustees, institutional officers, designated treasurers, institution employees, members of the business community, and/or investment professionals. Institutional use of outside professionals varies. In some cases, outside professionals (i.e Commonfund, Wells Fargo, LCG Associates, Albourne America, and Strata Financial Services) are hired to manage pieces of investment portfolios. In other cases, individuals who are recognized as investment professionals may sit on the investment committees.

Investment committees are asked to evaluate the 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

Institutions use industry standard benchmarks to measure the return on their investments, allocation of assets, and risk level. The benchmark tools 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 to professionals on staff.

Foundations

Foundations are managed 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, the foundations are completely separate entities from the institution. Dixie State University does not maintain any institutional investments within their 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.

Items of Note

Southern Utah University - the decrease in the total investment portfolio from FY 2015 to FY 2016 is due to the construction and completion of the new Beverly Center for the Arts. This project was a \$40 million construction project comprising of two buildings; a new Shakespeare Theater and the Southern Utah Museum of Art (SUMA) for which 100% of the funds were raised by the University. The significant increase seen in our investments from FY 2014 to FY 2015 was the result of various large pledges being received for the project, invested with institutional funds in FY 2015, and then withdrawn for construction during FY 2016.

Dixie State University - The decrease in the total reported cash and investments between FY15 and FY16 was due to the construction of the new student housing. In FY15, bond proceeds in the amount of \$21,173,656 were included in the report. In FY16, payments on the new student housing had reduced this amount to \$9,087,706. This drop, of over \$12 million, was offset by an increase in investments of \$1 million. This resulted in the overall drop of about \$11 million.

Commissioner's Recommendation

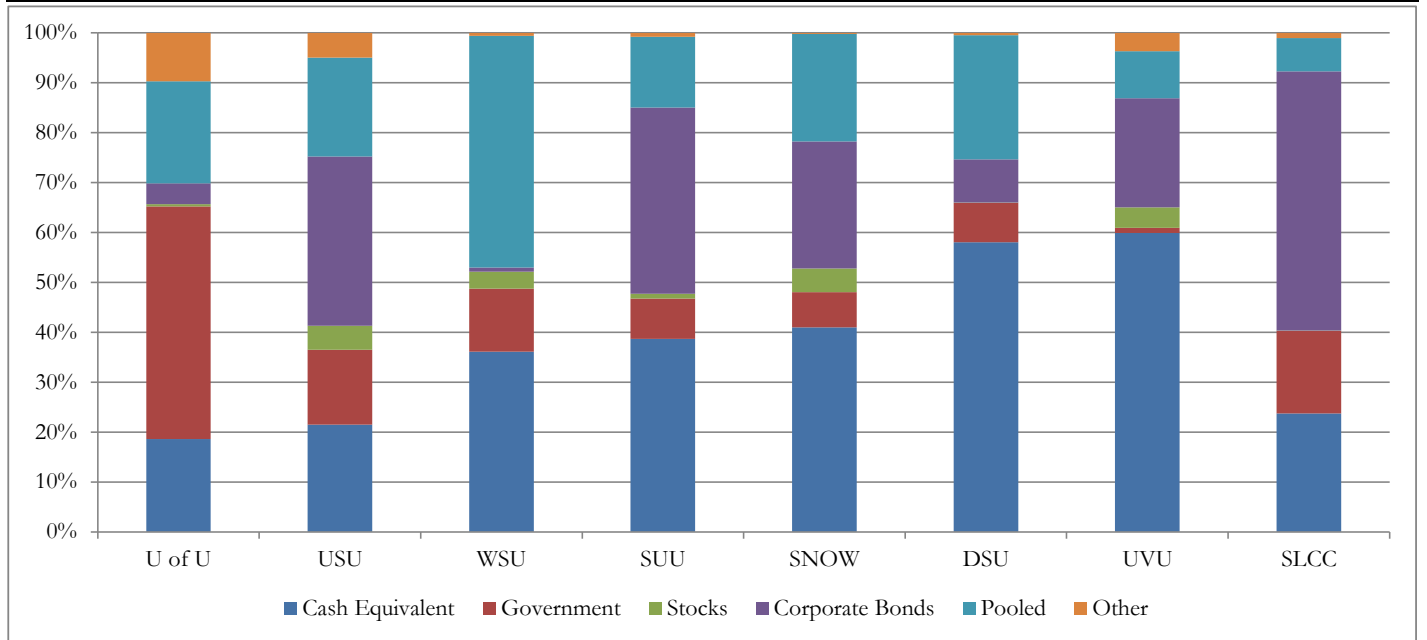
This is an information item only; no action is required.

David L. Buhler
Commissioner of Higher Education

DLB/KLH/BLS/MWM
Attachments

2016 Summary of USHE Investments

| Category of Investment | Class | U of U | USU | WSU | SUU | SNOW | DSU | UVU | SLCC |
|------------------------|-------|--------|--------|--------|--------|--------|--------|--------|--------|
| Cash Equivalent | A | 18.61% | 21.51% | 36.09% | 38.67% | 41.00% | 58.04% | 59.92% | 23.76% |
| Government | B | 46.61% | 14.97% | 12.65% | 8.11% | 7.07% | 7.91% | 1.01% | 16.55% |
| Stocks | C | 0.48% | 4.83% | 3.41% | 0.92% | 4.69% | 0.05% | 4.13% | 0.04% |
| Corporate Bonds | D | 4.17% | 33.93% | 0.82% | 37.34% | 25.52% | 8.67% | 21.86% | 51.97% |
| Pooled | E | 20.44% | 19.84% | 46.44% | 14.21% | 21.56% | 24.88% | 9.42% | 6.64% |
| Other | F | 9.69% | 4.93% | 0.58% | 0.76% | 0.17% | 0.44% | 3.66% | 1.05% |



Total investment allocation by each Institution, as of June 30, 2016.

3 Year Comparison of All Fund Investments

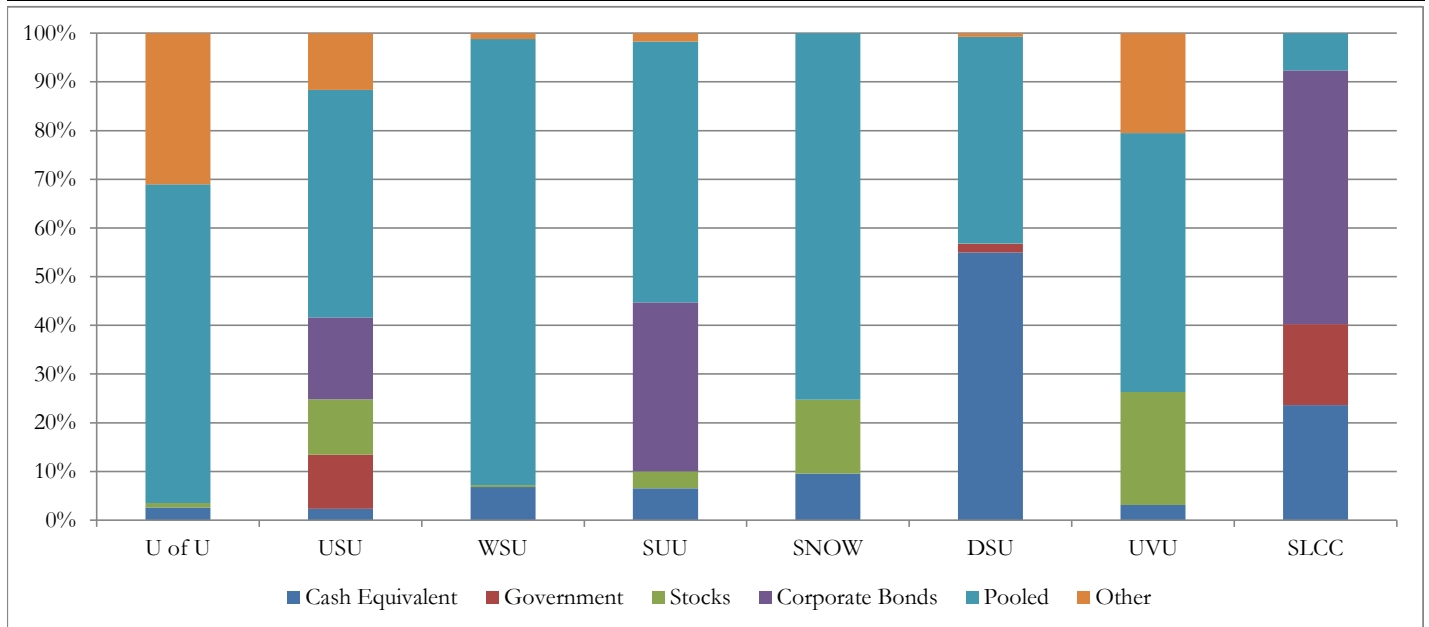
| Fiscal Year | U of U | USU | WSU | SUU | SNOW | DSU | UVU | SLCC |
|-------------|-----------------|---------------|---------------|---------------|--------------|--------------|---------------|---------------|
| 2014 | \$2,545,034,680 | \$509,842,614 | \$232,592,681 | \$88,984,557 | \$23,122,032 | \$33,786,167 | \$133,041,637 | \$123,847,089 |
| 2015 | \$2,859,459,437 | \$546,753,230 | \$236,918,384 | \$100,292,070 | \$25,550,512 | \$58,654,708 | \$167,209,635 | \$130,853,504 |
| 2016 | \$3,014,531,929 | \$600,208,072 | \$229,339,351 | \$85,590,938 | \$26,819,011 | \$47,722,839 | \$197,633,791 | \$134,326,129 |



Summary of all funds invested by each Institution over the previous three years. Data shows the trends that the Institutions are seeing in the value of their respective investments. In an attempt to present all Institutions at the appropriate visual scale, the University of Utah is displayed separately.

Endowment Investments

| Category of Investment | Class | U of U | USU | WSU | SUU | SNOW | DSU | UVU | SLCC |
|------------------------|-------|--------|--------|--------|--------|--------|--------|--------|--------|
| Cash Equivalent | A | 2.61% | 2.31% | 6.80% | 6.55% | 9.53% | 54.99% | 3.13% | 23.64% |
| Government | B | 0.00% | 11.10% | 0.00% | 0.00% | 0.00% | 1.74% | 0.00% | 16.60% |
| Stocks | C | 0.90% | 11.37% | 0.39% | 3.45% | 15.23% | 0.09% | 23.16% | 0.00% |
| Corporate Bonds | D | 0.00% | 16.88% | 0.00% | 34.75% | 0.00% | 0.00% | 0.00% | 52.11% |
| Pooled | E | 65.45% | 46.73% | 91.62% | 53.53% | 75.25% | 42.43% | 53.18% | 7.65% |
| Other | F | 31.04% | 11.63% | 1.19% | 1.73% | 0.00% | 0.76% | 20.53% | 0.00% |



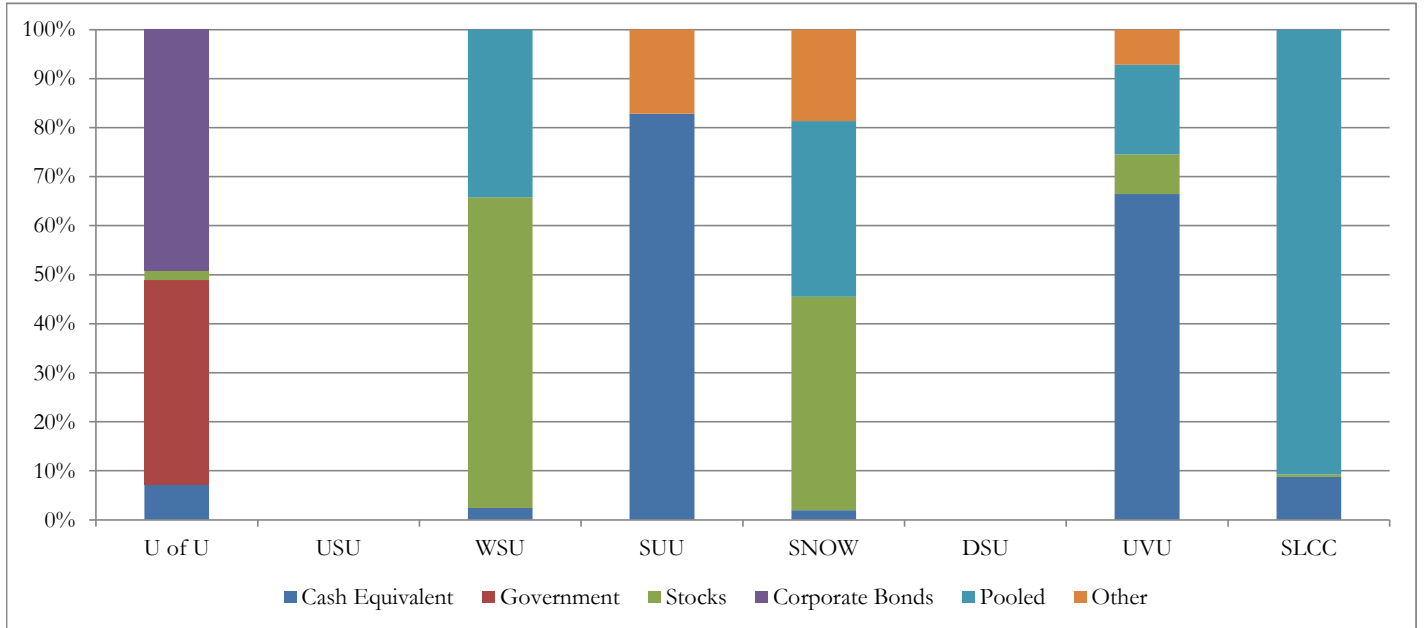
Investment allocation of endowment funds by category, as of June 30, 2016.

| Category of Investment | Class | U of U | USU | WSU | SUU | SNOW | DSU | UVU | SLCC |
|---------------------------------------|-------|------------------------|----------------------|----------------------|---------------------|--------------------|---------------------|---------------------|--------------------|
| Saving/Checking/Money Mkt Accounts | A | \$21,309,650 | \$3,939,766 | \$643,628 | \$368,252 | \$721,213 | \$1,574,086 | \$699,836 | 13,007.00 |
| Repurchase Agreements | A | - | - | - | - | - | - | - | - |
| Certificates of Deposit | A | - | \$0 | - | \$0 | - | \$0 | \$0 | - |
| Commercial Paper | A | - | - | - | - | - | - | - | - |
| Utah PTIF Accounts | A | \$3,274,963 | \$1,941,122 | \$6,969,298 | \$1,118,662 | - | \$13,815,747 | - | \$1,531,087 |
| Obligations of US Government | B | - | \$15,163,149 | - | - | - | \$485,739 | - | 976,039.00 |
| Obligations of State/Local Government | B | - | \$13,124,808 | - | - | - | - | - | 107,895.00 |
| Stocks | C | \$8,439,508 | \$28,976,586 | \$441,127 | \$783,082 | \$1,152,574 | \$25,277 | \$5,187,712 | - |
| Corporate Bonds | D | - | \$43,008,946 | - | \$7,894,160 | - | - | \$0 | 3,403,632.00 |
| Mutual Funds | E | \$613,752,042 | \$96,531,158 | - | \$12,161,885 | \$5,695,640 | \$11,874,865 | \$11,910,781 | \$499,655 |
| Commonfund Accounts | E | \$2,349,305 | \$22,543,742 | \$102,536,826 | - | - | - | - | - |
| Alternative | F | \$292,208,857 | \$29,598,405 | - | \$393,750 | - | \$211,652 | 4,598,451.00 | - |
| Other | F | - | - | \$1,327,399 | - | - | - | \$62 | - |
| Total | | \$941,334,325 | \$254,827,682 | \$111,918,278 | \$22,719,791 | \$7,569,427 | \$27,987,366 | \$22,396,842 | \$6,531,315 |
| Percent of Total | | 67.47% | 18.26% | 8.02% | 1.63% | 0.54% | 2.01% | 1.61% | 0.47% |
| USHE Total | | \$1,395,285,026 | | | | | | | |

Schedule of total endowment funds invested by each Institution, as of June 30, 2016. Endowment funds are invested according to policy guidelines of the Uniform Prudent Management of Institutional Funds Act (UPMIFA) and Regents Policy R541. Endowment investments by Institution are shown at the sub-category level, which roll up into the six categories in above.

Foundation Investments

| Category of Investment | Class | U of U | USU | WSU | SUU | SNOW | DSU | UVU | SLCC |
|------------------------|-------|--------|-------|--------|--------|--------|-------|--------|--------|
| Cash Equivalent | A | 7.11% | 0.00% | 2.39% | 82.83% | 1.99% | 0.00% | 66.49% | 8.72% |
| Government | B | 41.76% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% |
| Stocks | C | 1.93% | 0.00% | 63.44% | 0.00% | 43.49% | 0.00% | 8.10% | 0.54% |
| Corporate Bonds | D | 49.20% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% |
| Pooled | E | 0.00% | 0.00% | 34.17% | 0.00% | 35.86% | 0.00% | 18.22% | 90.74% |
| Other | F | 0.00% | 0.00% | 0.00% | 17.17% | 18.66% | 0.00% | 7.19% | 0.00% |



Investment allocation of foundation funds by Institution, as of June 30, 2016.

| Category of Investment | Class | U of U | USU | WSU | SUU | SNOW | DSU | UVU | SLCC |
|---------------------------------------|-------|----------------------|--------------|---------------------|--------------------|------------------|--------------|---------------------|--------------------|
| Saving/Checking/Money Mkt Accounts | A | \$12,705,637 | - | \$230,238 | \$1,239,411 | 4,783.00 | - | \$294,819 | \$809,169 |
| Repurchase Agreements | A | - | - | - | - | - | - | - | - |
| Certificates of Deposit | A | \$5,452,153 | - | - | - | - | - | - | - |
| Commercial Paper | A | - | - | - | - | - | - | - | - |
| Utah PTIF Accounts | A | - | - | \$48,119 | - | - | - | \$24,150,386 | - |
| Obligations of US Government | B | \$106,197,064 | - | - | - | - | - | - | - |
| Obligations of State/Local Government | B | \$454,486 | - | - | - | - | - | - | - |
| Stocks | C | \$4,923,060 | - | \$7,381,512 | - | 104,612.00 | - | \$2,978,444 | \$50,242 |
| Corporate Bonds | D | \$125,635,909 | - | - | - | - | - | - | - |
| Mutual Funds | E | - | - | - | - | 86,270.00 | - | \$6,700,426 | \$8,419,791 |
| Commonfund Accounts | E | - | - | \$3,975,605 | - | - | - | - | - |
| Alternative | F | \$0 | - | - | - | - | - | 2,643,700.00 | - |
| Other | F | - | - | - | \$257,000 | 44,893.00 | - | \$0 | - |
| Total | | \$255,368,309 | \$0 | \$11,635,474 | \$1,496,411 | \$240,558 | \$0 | \$36,767,775 | \$9,279,202 |
| Percent of Total | | 81.12% | 0.00% | 3.70% | 0.48% | 0.08% | 0.00% | 11.68% | 2.95% |
| USHE Total | | \$314,787,729 | | | | | | | |

Schedule of total foundation funds invested by each Institution, as of June 30, 2016. Foundation investments are approved by the Foundation's Board of Trustees, which operates under the requirements of nonprofit 501(c)(3) foundations. Foundation investments are shown at the sub-category level, which roll up into the six categories in above. The following should be noted: ■

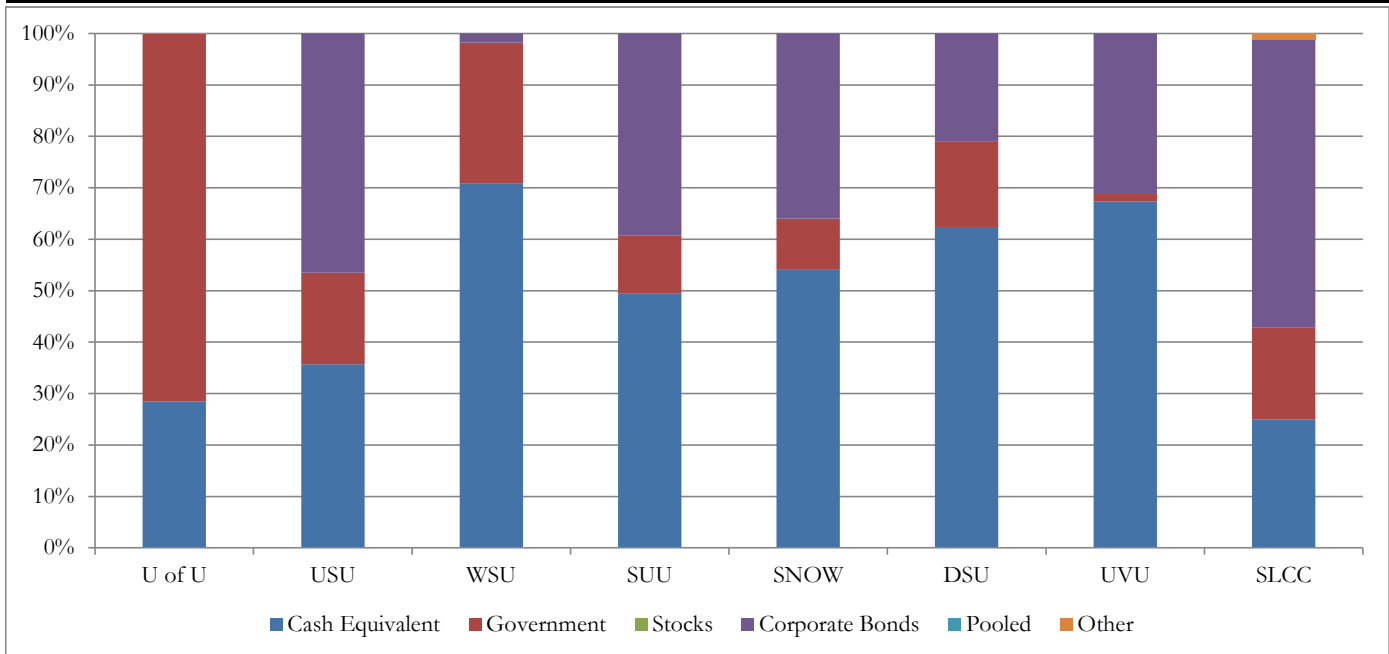
Foundation information for USU is reported as part of their financial statements.

■ DSU's Foundation is not part of the Institution.

■ UVU's Foundation is separate from the Institution, but is reported here as a courtesy.

Other Investments

| Category of Investment | Class | U of U | USU | WSU | SUU | SNOW | DSU | UVU | SLCC |
|------------------------|-------|--------|--------|--------|--------|--------|--------|--------|--------|
| Cash Equivalent | A | 28.51% | 35.67% | 70.79% | 49.48% | 54.02% | 62.36% | 67.35% | 24.93% |
| Government | B | 71.43% | 17.82% | 27.43% | 11.31% | 9.98% | 16.67% | 1.45% | 17.85% |
| Stocks | C | 0.06% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% |
| Corporate Bonds | D | 0.00% | 46.51% | 1.78% | 39.21% | 36.00% | 20.97% | 31.20% | 56.04% |
| Pooled | E | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% |
| Other | F | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 1.18% |



Investment allocation of other funds (not endowment or foundation) by Institution, as of June 30, 2016.

| Category of Investment | Class | U of U | USU | WSU | SUU | SNOW | DSU | UVU | SLCC |
|---------------------------------------|-------|----------------------|--------------------|--------------------|-------------------|-------------------|-------------------|--------------------|--------------------|
| Saving/Checking/Money Mkt Accounts | A | 103,359,809 | 40,830,616 | 9,242,218 | 5,756,136 | 565,845 | 11,651,293 | 11,581,659 | (308,674) |
| Repurchase Agreements | A | 96,500,000 | - | - | - | - | - | - | - |
| Certificates of Deposit | A | - | 59,530 | 13,203,700 | 1,014,111 | - | - | - | - |
| Commercial Paper | A | - | - | - | - | - | - | - | - |
| Utah PTIF Accounts | A | 318,402,858 | 82,322,867 | 52,440,849 | 23,599,580 | 9,702,794 | 656,385 | 81,683,659 | 29,868,661 |
| Obligations of US Government | B | 1,294,664,701 | 49,110,739 | 29,011,432 | 6,941,905 | - | 3,289,512 | - | 19,040,721 |
| Obligations of State/Local Government | B | 3,802,363 | 12,424,985 | - | - | 1,897,116 | - | 2,004,901 | 2,104,827 |
| Stocks | C | 1,099,564 | - | - | - | - | - | - | - |
| Corporate Bonds | D | - | 160,631,653 | 1,887,400 | 24,063,004 | 6,843,267 | 4,138,283 | 43,198,955 | 66,398,546 |
| Mutual Funds | E | - | - | - | - | - | - | - | - |
| Commonfund Accounts | E | - | - | - | - | - | - | - | - |
| Alternative | F | - | - | - | - | - | - | - | 1,411,531 |
| Other | F | - | - | - | - | 4 | - | - | - |
| Total | | 1,817,829,295 | 345,380,390 | 105,785,599 | 61,374,736 | 19,009,026 | 19,735,473 | 138,469,174 | 118,515,612 |
| Percent of Total | | 69.22% | 13.15% | 4.03% | 2.34% | 0.72% | 0.75% | 5.27% | 4.51% |
| USHE Total | | 2,626,099,305 | | | | | | | |

Schedule of total other investments by each Institution, as of June 30, 2016. The guidelines and requirements for these investments follow Utah Code 51-7- Utah Money Management Act. These funds are required to be invested in a qualified depository. Amounts are shown at the sub-category level, which roll up into the six categories listed in above.