UTAH SYSTEM OF HIGHER EDUCATION
Building a Stronger State of Minds

State Board of Regents
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September 6, 2017

MEMORANDUM

TO: State Board of Regents

FROM: David L. Buhler

SUBJECT: Utah Valley University – Endowment Asset Policy Exception

Issue

Utah Valley University (UVU) is requesting an exception to Regents' policy R541, *Management and Reporting of Institutional Investments* specifically related to Permissible Investments and Asset Allocations (R541-6.2.3.2), which permits "endowed funds in excess of $75 million but less than $100 million may invest up to 25 percent of its endowed funds in alternative investments."

Background

Under R541, the Board of Regents has delegated full responsibility to manage and report institutional investment compliance with this policy to the respective institutional Boards of Trustees. The policy also requires that the Board of Trustees adopt either Regent policy R541 as its investment policy or develop 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, prior to being implemented. Revisions to institutional endowment investment policies (including revisions to any associated investment guidelines or other policy direction) must also receive both Trustee and Regent approval (R541-6.1).

An institution that adopts R541 as its investment policy, may request Board of Regent approval for an exception to the policy guidelines, (R541-6.5) if the requested exception is "immaterial to the endowment portfolio as a whole and must meet a compelling instructional, public service, or other institutional need."

UVU and its Foundation total assets have recently increased significantly due to successful investments and fundraising for buildings. With expected fluctuations upon construction and possible market corrections, they are requesting their upper limit or cap of 25% be increased to 30% for alternative investments. Alternative investments may include private capital (venture, private equity), high yield or distressed debt, private real estate, natural resources, infrastructure, commodities, absolute return, and hedge funds.

The following attachments are included for review:

- UVU Cover Letter
- UVU Board of Trustees Approval
- Regents Policy R541
- Exhibit B - Permissible Asset Classes
- Exhibit C – Asset Allocation Targets
- UVU Foundation Statement of Financial Position and Activities

Representatives from the University will present the agenda item and will be prepared to answer any questions that the Board may have regarding the request for the exception.

<u>Commissioner's Recommendation</u>

<u>The Commissioner recommends the Finance and Facilities Committee review Utah Valley University's proposed exception to Regents' policy R541-6.2.3.2 to allow alternative investments to comprise up to 30% of its endowment and if satisfied that the institution has demonstrated a compelling instructional, public service, or other institutional need approve the exception.</u>

David L. Buhler
Commissioner of Higher Education

DLB/KLH/BLS
Attachments

UVU

UTAH VALLEY UNIVERSITY

VICE PRESIDENT FOR FINANCE & ADMINISTRATION

August 25, 2017

Commissioner David Buhler
Utah System of Higher Education
Two Gateway Center
Salt Lake City, Utah

Dear Commissioner Buhler,

Utah Valley University operates in compliance with USHE Policy R541 Management and Reporting of Institutional Investments. UVU is requesting to raise the cap on alternative investments from 25 percent to 30 percent.

UVUF's current cap on alternatives is 25% as per section 6.2.3.2 of the policy. UVUF's allowed cap per USHE policy has changed several times in recent years as the cap is based on total assets of the foundation. UVUF's total assets have increased significantly due to fundraising and successful investments. This total also fluctuates due to significant funds being raised for buildings that is then expended upon construction start and completion.

It's requested that UVUF be granted permission to have the ability to invest up to 30% in alternatives. This will accommodate possible, future market corrections avoiding a forced sell of assets if the market drops and our allocation rises above the current 25% cap.

According to the National Association of College and University Business Officers (NACUBO), this strategy is more aligned with what other institutions are doing, including concerns about stock market stability and returns, as well as limited upside in bond markets.

This request aligns with other state colleges and universities that have also recently modified their allocations to be allowed this same latitude.

If you have any questions or concerns please feel free to contact me.

Sincerely,

Val L. Peterson
Vice President
Finance and Administration

800 WEST UNIVERSITY PARKWAY · OREM, UTAH 84058-6703 · MS 196 *phn* 801 863 8424 *fax* 801 226 5207

UVU BOARD OF TRUSTEES
Agenda Item Coversheet

DATE:	**August 24, 2017**
TITLE:	**UVU Foundation Alternative Investments**
EXECUTIVE/RESPONSIBLE STAFF MEMBER:	**Scott Cooksey, Vice President Development and Alumni Relations CEO, Utah Valley University Foundation, Inc.**
SUBJECT:	**Increase % of assets allowed to be invested in the Alternative Asset class as defined by USHE**
BACKGROUND:	The UVU Foundation (UVUF) Investment Committee is comprised of UVUF board members and others with significant investment expertise and experience. The Committee manages the assets of UVUF and has an outstanding track record. The total assets of UVUF are growing rapidly due to our fundraising efforts and the overall growth of UVU. The UVUF investment policy is established by the UVUF Board of Directors and complies with USHE Policy 541. One specific area of compliance is section 6.2.3 of the policy regarding alternative investments. Alternative investments as defined by USHE include funds that derive returns primarily from high yield or distressed debt (hedged or non-hedged), private capital (including venture capital and private equity), natural resources, private real estate, or absolute return and long/short hedge funds. The USHE policy includes a maximum percent of the portfolio that can be invested in alternatives. UVUF's current cap on alternatives is 25% as per section 6.2.3.2 of the policy. UVUF's allowed cap per USHE policy has changed several times in recent years as the cap is based on total assets of the foundation. UVUF's total assets have increased significantly due to fundraising and successful investments. This total also fluctuates due to significant funds being raised for buildings that is then expended upon construction start and completion.

	It's requested that UVUF be granted permission to have the ability to invest up to 30% in alternatives. This will accommodate possible, future market corrections avoiding a forced sell of assets if the market drops and our allocation rises above the current 25% cap. According to the National Association of College and University Business Officers (NACUBO), this strategy is more aligned with what other institutions are doing, including concerns about stock market stability and returns, as well as limited upside in bond markets. This request aligns with other state colleges and universities that have also recently modified their allocations to be allowed this same latitude. Additionally, we would like to clarify the asset class definitions, as noted in the attachment. This will more closely align with traditional definitions in the investment industry, as well as what other state institutions have adopted. This request has been approved by the UVUF Board of Directors and will be submitted to the USHE Board of Regents upon approval by the UVU Board of Trustees.

ALTERNATIVES:	• **Approve** as presented, "I move to approve the UVU Foundation to be allowed to invest up to 30% in alternative investments and adopt an updated definition of each asset class. • **Amend** and approve, "I move to approve, as amended…" • **No action**, "I move that we go to the next agenda item…"
FINANCIAL IMPACT:	Increased returns on UVU Foundation investments
EXHIBITS:	a) USHE Policy 541, section 6.2.3 b) UVUF investment categories c) UVUF proposed alternatives percentage d) UVUF asset allocation June 30, 2017

UTAH SYSTEM OF HIGHER EDUCATION
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R541, Management and Reporting of Institutional Investments[1]

R541-1. Purpose: This policy implements the State Money Management Act, the rules of the State Money Management Council, and the Uniform Prudent Management of Institutional Funds Act This policy provides guidelines to institutions for establishing policy, process, and reporting of investments.

R541-2. References

2.1. Utah Code §53B-2-106, Duties and Responsibilities of the President

2.2. Utah Code Title 51, Chapter 7, State Money Management Act

2.3. Utah Administrative Code Title R628, Rules of the State Money Management Council

2.4. Utah Code Title 51, Chapter 08, Uniform Prudent Management of Institutional Funds Act

2.5. Regents Policy, R567-3, Internal Audit Activities Definitions

R541-3. Definitions

3.1. "**The Board**": The Utah State Board of Regents.

3.2. **Investments**: All institutional funds addressed under provisions of the State Money Management Act or the Uniform Prudent Management of Institutional Funds Act.

3.3. **Alternative Investments**: Funds that derive returns primarily from high yield or distressed debt (hedged or non-hedged), private capital (including venture capital and private equity), natural resources, private real estate, or absolute return and long/short hedge funds.

R541-4. Delegation of Responsibility: The Board delegates to each institutional Board of Trustees full responsibility to manage and report institutional investments in compliance with this general policy.

R541-5. Institutional Board of Trustees Responsibilities: Each institutional Board of Trustees shall adopt institutional policy and procedure regarding investments (including any changes in such policy and procedures), designate a public treasurer and approve the format of reports submitted for its review.

5.1. **Periodic Review and Approval**: Each institutional Board of Trustees shall receive and approve monthly investment reports.

5.2. **Policy and Procedures Furnished to the Board**: Each institution shall furnish the Board with a copy of its investment policies and procedures as approved by its institutional Board of Trustees. Such policy and procedures shall:

5.2.1. require institutional compliance with the State Money Management Act, Rules of the State Money Management Council, and Uniform Prudent Management of Institutional Funds Act; and

[1] Approved April 24, 1973, revised September 24, 1974, May 26, 1989, October 19, 1989, June 18, 1993, May 29, 1998, June 10, 2005,December 14, 2007, October 16, 2009, September 18, 2015 and March 31, 2017.

5.2.2. specify criteria for appointment of a public treasurer, define the public treasurer's authority in making institutional investments within the overall operating responsibility of the chief executive officer, and establish criteria for supervisory approval of the public treasurer's investment decisions; and

5.2.3. delineate specific procedures and required approvals for investment of institutional funds which provide for adequate internal controls, including an appropriate segregation of duties with respect to the authorization, custody, accounting and reporting of investment transactions; and

5.2.4. specify the format and schedule for reporting to its institutional Board of Trustees.

5.3. Subsequent Changes: Each institution shall submit to the Board all subsequent changes in investment policy.

R541-6. Endowment Funds: If any gift, devise, or bequest, whether outright or in trust, is made by a written instrument which contains directions as to investment thereof, the funds embodied within the gift shall be invested in accordance with those directions. Such gifts received by donation may be retained by an institution and shall be considered to be invested according to the terms of this policy. In the absence of a written instrument, non-qualifying investments shall be sold as soon as practical, not to exceed 30 days. The Commissioner may approve exceptions to the 30-day rule in the case of non-readily marketable investments.

6.1. In accordance with the Uniform Prudent Management of Institutional Funds Act, an institution's board of trustees may adopt its own 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. Institutions are not authorized to apply their own policies until both of the foregoing conditions have been met. Institutions following a separate trustee adopted and Regent approved endowment investment policy will be considered to be investing in accordance with the terms of this policy. Revisions to institutional endowment investment policies (including revisions to any associated investment guidelines or other policy direction) must also receive both trustee and Regent approval.

6.2. Permissible Investments and Asset Allocations: This section applies to those institutions that do not have an investment policy in place that has been adopted by their Board of Trustees and approved by the Board of Regents.

6.2.1. Institutions are permitted to invest endowment funds in the following:

Mutual funds registered with the SEC	0 - 100%
Investments sponsored by the Common Fund	0 - 100%
Investments authorized by Utah Code §51-7-11	0 - 100%
Corporate stock listed on a major exchange (direct ownership)	0 - 3%

6.2.2. An institution's overall endowment portfolio shall be invested in accordance with the following allocation ranges:

Fixed income and cash equivalents	25 - 100%
Equity Investments	0 - 75%
Alternative Investments	0 - 30%

6.2.3. Each institution utilizing alternative investments must comply with the following criteria:

6.2.3.1. Each institution with endowed funds in excess of $100 million may invest up to 30 percent of its endowed funds in alternative investments.

6.2.3.2. Each institution with endowed funds in excess of $75 million but less than $100 million may invest up to 25 percent of its endowed funds in alternative investments.

6.2.3.3. Each institution with endowed funds in excess of $50 million but less than $75 million may invest up to 20 percent of its endowed funds in alternative investments.

6.2.3.4. Each institution with endowed funds in excess of $25 million but less than $50 million may invest up to 15 percent of its endowed funds in alternative investments.

6.2.3.5. Each institution with endowed funds in excess of $5 million but less than $25 million may invest up to 10 percent of its endowed funds in alternative investments.

6.2.3.6. Institutions with endowed funds of less than $5 million are not permitted to invest any of their endowed funds in alternative investments.

6.2.4. Once an institution reaches an alternative investment threshold, it may retain the investment range authorized for that threshold as long as the market value of its endowed funds remains within 90 percent of the threshold.

6.2.5. Pooled or commingled investment funds (e.g., mutual funds or Common Fund investments) are to be categorized and calculated into the asset mix according to the primary purpose of those investment funds.

6.2.6. Pooled or commingled investment funds without a clear primary purpose (e.g., balanced funds) are to be categorized and calculated into the asset mix as equity investments.

6.2.7. Real estate investment trusts are to be categorized and calculated into the asset mix as equity investments.

6.2.8. The endowment portfolio shall be reviewed at the end of every quarter and if need be, a tactical plan of action to rebalance the portfolio shall be determined to bring the portfolio into compliance (rebalancing is only necessary if the permissible investment and/or asset allocation ranges are out of compliance). This action will constitute full compliance with the permissible investment and asset allocation provisions of this policy.

6.2.9. All calculations required to demonstrate compliance with section 6.2 are to be based on market values.

6.3. Investment Guidelines. The foregoing asset allocation standards are meant to serve as a general guide. The institutions must use them in conjunction with appropriate due-diligence and prudence. The following standard of care shall apply to investments of endowed funds by institutions:

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

6.3.2. An institution'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 the endowment.

6.3.3. Among circumstances that an institution shall consider in investing and managing endowment assets are the following which may be relevant to the endowment or its beneficiaries:

6.3.3.1. general economic conditions;

6.3.3.2. the possible effect of inflation or deflation;

6.3.3.3. the role that each investment or course of action plays within the overall endowment portfolio;

6.3.3.4. the expected total return from income and the appreciation of capital;

6.3.3.5. needs for liquidity, regularity of income, and preservation or appreciation of capital; and

6.3.3.6. an asset's special relationship or special value, if any, to the purposes of the endowment or to one or more of the beneficiaries.

6.3.4. An institution shall make a reasonable effort to verify facts relevant to the investment and management of endowed assets.

6.3.5. Any institution that elects to invest their endowment funds with another institution may do so with prior approval from their Board of Trustees and the Board of Regents and shall adopt the investment guidelines of the institution receiving the funds in place of the guidelines outlined in 6.2-6.3.

6.4. **Delegation to an Agent**: An institution may delegate investment and management functions that a prudent investor could properly delegate under the circumstances.

6.4.1. The institution shall exercise reasonable care, skill, and caution in:

6.4.1.1. selecting an agent;

6.4.1.2. establishing the scope and terms of the delegation, consistent with the purposes and terms of the endowment; and

6.4.1.3. periodically reviewing the agent's actions in order to monitor the agent's performance and compliance with the terms of the delegation.

6.4.2. In performing a delegated function, an agent owes a fiduciary duty to the endowment to exercise reasonable care to comply with the terms of the delegation. An institution that complies with the requirements of section 4.6.2.2 is not liable to the beneficiaries or to the endowment for the decisions or actions of the agent to whom the function was delegated.

6.4.3. In investing and managing endowed funds, an institution may only incur costs that are appropriate and reasonable in relation to the assets, the purposes of the endowment, and the skills of the institution or agent to whom investment management functions were delegated.

6.5. Exceptions: The Board of Regents may approve exceptions to R541. Such exceptions must be immaterial to the endowment portfolio as a whole and must meet a compelling instructional, public service, or other institutional need.

R541-7. Operating and All Other Non-Endowment Funds: Operating and all other non-endowment funds shall be invested in accordance with the State Money Management Act and Rules of the State Money Management Council.

R541-8. Conflicts of Interest: A conflict of interest occurs when an individual's private interests interfere in any way—or even appear to interfere—with the institution's interests as a whole.

8.1. Access Persons

8.1.1. Each institution's officers, directors, employees or members of an investment committee that are involved with the investment of endowment funds ("Access Persons") have a duty to be free of conflicting interests that might influence their decisions when representing the institution.

8.1.2. Consequently, as a general matter, an institution's Access Persons are not permitted to maintain any conflict of interest with the institution, and should make every effort to avoid even the appearance of any such conflict. 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 company work 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 institution.

8.1.3. Any Access Person who believes that he or she may have a potential conflict of interest must immediately report concerns to the appropriate institutional representative, mechanism, or process (ethics committee, etc.).

8.2. This general prohibition on conflicts of interest includes (but is not limited to) the following:

8.2.1. an institution's dealings with consultants, investment advisers, investment funds, and others shall be based solely on what is in the institution's best interest, without favor or preference to any third party, including close relatives; and

8.2.2. Access Persons who deal with or influence decisions of individuals or organizations seeking to do business with an institution 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 investment committee and board of trustees of the institution, and only after the interest or personal stake has been disclosed.

R541-9. Reports to Institutional Boards of Trustees: In establishing reports to its Board of Trustees, each institution shall implement the following:

9.1. Reports: Each institution shall submit monthly investment reports to the secretary of the Board of Trustees within 60 days of the month's end. The secretary will place the reports on the agenda of the next regular trustee meeting.

9.2. Copies of Reports Submitted to the Board: Within 30 days of trustee approval, each institution shall submit to the Board of Regents a copy of the reports submitted to its board of trustees.

R541-10. Annual Report: Annually, each institution shall submit, on forms provided by the Commissioner of Higher Education, a report summarizing all investments under its jurisdiction.

R541-11. Audits: Each institution shall annually audit its institutional investments. Institutions shall send the completed audit report to Board of Regents Audit Manager by January 15.

R541-12. Annual Summary: The Board shall submit an annual report to the Governor and the Legislature summarizing all investments by institutions under its jurisdiction.

EXHIBIT B

PERMISSIBLE ASSET CLASSES

Asset Class	Broad Asset Class
Public Domestic Equity	Public Global Equity
Developed Market Equity	Public Global Equity
Emerging Market Equity	Public Global Equity
Investment Grade Bonds	Rate Sensitive
High Yield Bonds	Opportunistic Credit
Bank Loans	Opportunistic Credit
Emerging Markets Debt	Opportunistic Credit
Private Equity	Alternative Assets
Real Estate	Alternative Assets
Natural Resources	Alternative Assets
Infrastructure	Alternative Assets
Commodities	Alternative Assets
Hedge Funds	Alternative Assets

Exhibit C

Asset Allocation Targets

Asset Class / Sub-Asset Class	Target (%)	Range (%)
Global Public Equity	**45**	**0-75**
Public Domestic Equity	*NA*	*NA*
Developed Market Equity	*NA*	*NA*
Emerging Market Equity	*NA*	*NA*
Fixed Income	**25**	**10-100**
Rate Sensitive	*NA*	*NA*
Opportunistic Credit	*NA*	*NA*
Alternative Assets	**30**	**0-40**
Private Equity	*12*	*0-20*
Real Estate	*13*	*0-20*
Natural Resources/Commodities	*8*	*0-20*
Infrastructure	*4*	*0-10*
Hedge Funds	*5*	*0-10*

UVU FOUNDATION

UTAH VALLEY UNIVERSITY

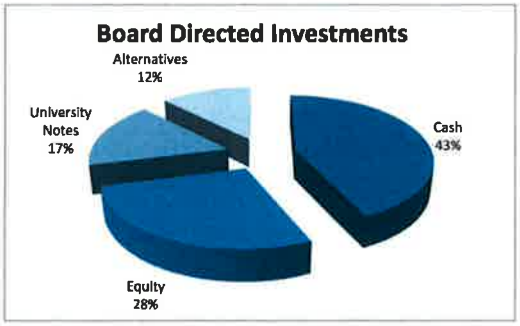
Statement of Financial Position and Activites
June 30, 2017

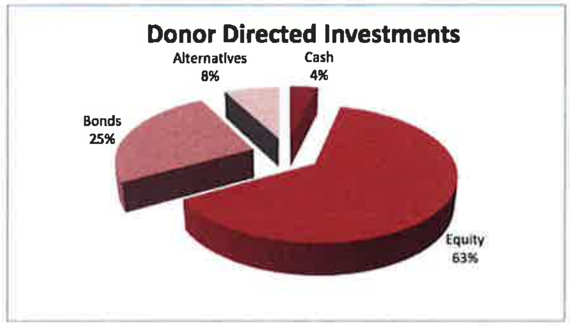
updated 8/8/2017

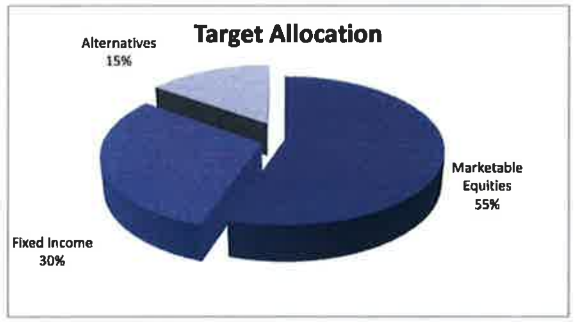
Asset Key	Assets		Beginning Balance 30-Jun-16	Cash& Money Mkt	Type of Investment Equity	Bond	Other	Ending Balance 30-Jun-17	Quarterly Jan-Mar Return	Fiscal Jul-Mar Return	Calendar Jan-Mar Return
	Board Directed Investments										
A	Investment Pool Cash	Cash flow funds	24,150,386	36,331,182				36,331,182	0.30%	0.90%	0.30%
B	Investment Meketa Investment Group	Invested Endowment & Sch	23,825,673	1,661,725	15,927,318	39,435	9,228,890	26,857,368	3.24%	12.85%	6.05%
C	Investment Key Bank	Invested Endowment & Sch	10,604,911	1,039,183	9,122,443			10,161,626	3.35%	18.09%	6.95%
	Palos Verde Housing Investment	Invested Endowment & Sch	-				2,000,000	2,000,000	0.00%	0.00%	0.00%
F	Woodbury Notes Rec	Note buyback donation	6,623,710			6,269,951		6,269,951	0.91%	2.74%	0.91%
G	Anderson Geneva Note	UVU Note Geneva Property	1,610,850			1,441,627		1,441,627	1.50%	4.50%	1.50%
G	Anderson Geneva Note 2	UVU Note Geneva Property	5,789,873			5,594,873		5,594,873	1.38%	4.13%	1.38%
G	Palos Verde Note	UVU Note Palos Verde Property	-			1,590,662		1,590,662	1.38%	4.13%	1.38%
	Subtotal Board Investments		72,605,403	39,032,091	25,049,761	14,936,547	11,228,890	90,247,269			
	Donor Directed Investments										
H	Certificates of deposit & savings	Scholarship & Endowment	11,395	-				-	0.02%	0.70%	0.20%
Ia	Investment - First Western	Ollivier Business/Nursing sch	23,642	1,912	-	19,409		21,321	2.01%	9.20%	3.82%
Ib	Investment - Paragon	Sch Endow- Herwig, Lindorf	548,548	126,586	166,602		257,394	550,582	0.43%	6.47%	3.59%
Ic	Investment -Real Trusts	Sch Endowment - Pollard/Wallin	62				67	67			
J	Present Value Charitable Trusts	70% equity 30% bond	3,131,502		1,945,400	833,743		2,779,143			
	Subtotal Donor Investments		3,715,149	128,498	2,112,002	853,152	257,461	3,351,114			
	Subtotal Performing Assets		76,320,552	39,160,589	27,161,763	15,789,699	11,486,351	93,598,403	3.06%	13.31%	5.92%
	Assets Held for Support of UVU								(Only includes Meketa, Key, First Western & Paragon)		
M	Other assets	Riverside UVU Membership	37,800				37,800	37,800			
	Cars		36,309				-	-			
	Other										
N	Cash surrender value Ins	UVU is Beneficiary	9,198				10,857	10,857			
O	Pledges Receivable	Net Allowance for Doubtful Accts	11,745,622				12,636,694	12,636,694			
	Subtotal Other Assets		11,828,928	-	-	-	12,685,351	12,685,351			
	Total Assets:		88,149,480	39,160,589	27,161,763	15,789,699	24,171,702	106,283,753			
	Total Liabilities:	Deferred annuity payments	296,556	266,629				266,629			
	Fund Balance:		87,852,924					106,017,125			
	Total Liabilities & Fund Balance:		88,149,480	266,629	-	-	-	106,283,753			

UVU FOUNDATION
UTAH VALLEY UNIVERSITY

Statement of Financial Position and Activites
Asset Allocation Percentages
June 30, 2017







* Alternatives currently include real estate and commodities

* Other Nonperforming includes Land, Cars, Memberships, Life Insurance, and Pledges

	Target	Allocation Range
Marketable Equities	55%	20%-65%
Fixed Income, including cash	30%	25%-50%
Alternatives: Portfolio Value		
<$50 million	15%	5%-15%
>$50 million	15%	5%-20%