



UTAH SYSTEM OF  
HIGHER EDUCATION

# MEMORANDUM

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May 19, 2022

## Higher Education Student Success Endowment Investment Policy Statement

The Higher Education Student Success Endowment was created by S.B. 172 Higher Education Student Assistance Amendments in the 2022 General Session of the Legislature. The endowment is composed of proceeds from the sale of the Utah Higher Education Assistance Authority loan portfolios, appropriations made to the endowment by the Legislature, if any, income from the investment of the endowment and other revenues received from other sources.

The endowment is managed by the State Treasurer. As a trustee, the Utah Board of Higher Education establishes an Investment Policy Statement that provides guidelines for the investment management and oversight of the endowment. A proposed policy statement is attached for the Board's review. The Board may adopt it and make future amendments based on feedback from the State Treasurer and his investment consultants.

A proposed Spending Policy Statement will be shared in a future Board meeting.

### **Commissioner's Recommendation**

The Commissioner recommends the Board adopt the May 2022 Higher Education Student Success Endowment Investment Policy Statement.

### **Attachment**

**Utah Board of Higher Education  
Higher Education Student Success Endowment  
Investment Policy Statement  
May 2022**

**Introduction and Purpose of the Endowment**

This Investment Policy Statement (“IPS”) applies to the Higher Education Student Success Endowment (“Endowment”) created by S.B. 172 Higher Education Student Assistance Amendments in the 2022 General Session of the Legislature. The endowment is composed of proceeds from the sale of the Utah Higher Education Assistance Authority loan portfolios, appropriations made to the endowment by the Legislature, if any, income from the investment of the endowment and other revenues received from other sources. The purpose of this IPS is to establish guidelines for the investment management and oversight of the endowment.

Investment and spending policies are designed to balance the current goals of the Utah Board of Higher Education (“UBHE”) with its future needs, in order to achieve parity in supporting both current and future generations of Utah System of Higher Education (“USHE”) students. Earning long-term returns that maintain the inflation-adjusted purchasing power of the endowment underpins this objective of intergenerational equity.

The UBHE shall act as trustee of the endowment and exercise the state’s fiduciary responsibilities. The money deposited into the endowment is irrevocable and may not be seized, attached or otherwise obtained by creditors of the UBHE.

**Investment Objectives**

The investment objective for the management of the Endowment is to achieve growth in the value of the assets that is sufficient to preserve the inflation-adjusted purchasing power of the assets over the long term. While the pursuit of this objective requires the assumption of investment risk, the intention is to avoid excessive risk, so that the Endowment can provide a reliable and sustainable flow of funds to advance the system priorities as established in UCA 53B-1-402(2)(a) and the support of prospective students or current students enrolled at an USHE institution.

On an annualized, net-of-fee basis, the total return of the portfolio will be expected to equal or exceed the spending rate as determined by the board in the Endowment Spending Policy Statement, plus inflation (Higher Education Price Index).

**Spending**

Each year, the Board of Trustees approves the endowment distribution rate that establishes the percentage of the value of the endowment that is made available for spending. They will seek to reduce the variability of annual Endowment distributions by factoring past spending and portfolio asset values into its current spending decisions. The Trustees will review its spending assumptions annually to decide if any changes are necessary for the Endowment’s spending policy, asset allocation or both.

## Management and Oversight

The state treasurer manages the Endowment fund's investments in accordance with this IPS, and reports investment activity to the Trustees. The Trustees meet at least semi-annually to discuss and review asset allocation policies, investment performance and current strategies proposed by the state treasurer. The state treasurer shall provide monthly investment performance reports.

The state treasurer has the responsibility to ensure that the assets of the Endowment are managed in a manner that is consistent with the policies and objectives set forth in this document and in compliance with all applicable laws.

Consistent with the policies and objectives set forth in this document, the state treasurer will:

- Provide recommendations and implement asset allocation policies approved by the Trustees for the Endowment;
- Recommend external, third-party investment managers;
- Review managers' performance on a regular basis;
- Recommend manager terminations, as necessary;
- Direct Endowment cash flows in accordance with the rebalancing policy; and
- Report periodically to the Trustees on the performance and asset allocation of the Endowment.

The state treasurer can employ professional management services in various fields that may include, but are not limited to, investment consultants, custodians and others that assist with the prudent monitoring and administration of the Endowment's assets.

## Asset Allocation

Thoughtful asset allocation is a focal point of an effective investment process. In that regard, the Trustees and state treasurer shall employ an appropriate combination of understanding of institutional financial risk tolerance, investment principles, informed market judgment and independent thinking in establishing an asset allocation policy. The asset allocation policy is designed to diversify investments across asset classes to provide a balance that will enhance total return while avoiding undue risk from concentration in any single asset class or investment style.

To ensure broad diversification among the major categories of investments, the Trustees have adopted the following asset allocation policy targets. The Trustees review this asset allocation framework annually, but due to the long-term nature of the Endowment, changes to the framework are expected to be infrequent:

Asset class	Sub-asset class	Target allocation
Equity		65%
	U.S.	40%
	Non-U.S.	25%
Fixed income		35%
	Investment grade	30%
	Below-investment grade	5%
Cash		0%

Fund assets will be managed as a balanced portfolio composed of two major components: an equity portion and a fixed income portion. The expected role of equity investments will be to maximize the long-term real growth of assets, while the role of fixed income investments will be to generate current income, provide for more stable periodic returns, and provide some protection against a prolonged decline in the market value of equity investments.

Cash investments will, under normal circumstances, only be considered as temporary holding and will be used for liquidity needs or to facilitate a planned program of dollar-cost averaging into investment in either or both the equity and fixed income asset classes.

### **Diversification**

Diversification across and within asset classes is the primary means by which the Trustees expect the Endowment to avoid undue risk of large losses over longtime periods. To protect the Endowment against unfavorable outcomes within an asset class due to the assumption of large risks, the Trustees will take reasonable precautions to avoid excessive investment concentrations. Specifically, the following guidelines will be in place:

1. With the exception of fixed income investments explicitly guaranteed by the U.S. government, no single investment security shall represent more than 5% of total Endowment assets.
2. With the exception of passively managed investment vehicles seeking to match the returns on a broadly diversified market index, no single investment pool or investment company (mutual fund) shall comprise more than 20% of total Endowment assets.
3. With respect to fixed income investments, the Endowment may not allocate more than 10% to investments that are below investment grade (Standard & Poor's BBB or Moody's Baa or higher).

### **Rebalancing**

It is expected that the Endowment's actual asset allocation will vary from its target asset allocation because of the varying periodic returns earned on its investments in different asset and sub-asset classes. The Endowment will be rebalanced to its target normal asset allocation under the following procedures:

1. The state treasurer will use incoming cash flow or outgoing money movements of the Endowment to realign the current weightings closer to the target weightings for the Endowment.
2. The state treasurer will review the Endowment semiannually (June 30 and December 31) to determine the deviation from target weightings. During each semiannual review, the following parameter will be applied:
  - a. If any asset class (equity or fixed income) with the Endowment is +/-5 percentage points from its target weighting, the Endowment will be rebalanced.
3. The state treasurer may provide a rebalancing recommendation at any time.
4. The state treasurer shall act within a reasonable period of time to evaluate deviation from these ranges.

## **Performance measurement**

The Trustees will monitor the Endowment's investment performance against the stated investment objectives. At a frequency decided by the Trustees, it will formally assess the Endowment and the performance of its underlying investments as follows:

1. The Endowment's absolute long-term real return objective.
2. A composite benchmark consisting of the following unmanaged market indexes weighted according to the expected target asset allocations stipulated by the Endowment investment guidelines:
  - a. U.S. Equity: CRSP US Total Market TR USD
  - b. Non-U.S. Equity: FTSE Global All-Cap ex-US Index
  - c. Investment Grade Fixed income: Bloomberg Barclays US Aggregate Float Adjusted TR
  - d. Non-Investment Grade Fixed Income: Bloomberg Barclays US Corporate High Yield Index
  - e. Cash: PTIF 365-day yield

In keeping with the Endowment's overall long-term financial objective, the Trustees will evaluate the Endowment performance over a suitably long-term investment horizon, generally across full market cycles or, at a minimum, on a rolling five-year basis.

Investment holdings reports shall be provided on a monthly basis. Investment performance reports shall be on a quarterly basis. The state treasurer is expected to be available to meet with the Trustees once per year to review the portfolio structure, strategy and investment performance.

## **Investment Policy Review**

To assure continued relevance and reasonableness of the guidelines, objectives, financial status and capital markets expectations as established in this IPS, the Trustees shall review the IPS annually. The Trustees reserve the right to amend this IPS at any time.