



# GENERAL REPORT

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## USHE Annual Money Management Report – FY 2019

### Background

On both a monthly and annual basis, institutions prepare investment reports that are reviewed and approved by the institution treasurer and internal auditors. The treasurer certifies that the institution is in compliance with the [Uniform Prudent Management of Institutional Funds Act](#)<sup>1</sup> (UPMIFA) and the [State Money Management Act](#)<sup>2</sup>. The internal auditor verifies compliance with state statutes, Regent policy, institutional policy, federal regulation, the 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 USHE 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 [Regent Policy R541](#)<sup>3</sup>;
- 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](#)<sup>4</sup>.

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<sup>1</sup> Uniform Law Commission, *Uniform Prudent Management of Institutional Funds Act*, <https://www.uniformlaws.org/committees/community-home?CommunityKey=043b9067-bc2c-46b7-8436-07c9054064a3>

<sup>2</sup> Utah State Legislature, *Utah Code 51-7, State Money Management Act*, <https://le.utah.gov/xcode/Title51/Chapter7/51-7.html>

<sup>3</sup> Utah System of Higher Education, *R541, Management and Reporting of Institutional Investments*, <https://ushe.edu/ushe-policies/r541-management-and-reporting-of-institutional-investments/>

<sup>4</sup> Utah State Legislature, *Utah Code 51-7, State Money Management Act*, <https://le.utah.gov/xcode/Title51/Chapter7/51-7.html>

## **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 USHE 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 varies by campus and 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 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](#)<sup>5</sup> (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 similarly, 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 DSU, the foundation is a completely separate entity from the institution. DSU does not maintain any institutional investments within its foundation.

Utah State University's foundation is considered to be a part of the university or a "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.

## Note

During FY 2019, Southern Utah University saw a decrease in their total investments of \$3,235, 301. When SUU has a shortfall, it will liquidate its investments to cover operations, such as payroll and operating expenses. During the year, two factors lead to the increased use of cash. The first was an \$8.7M cash outlay for capital assets in excess of net cash state appropriations and capital gifts and grants. Some of the major items were for the purchase of the Warthen home (new President's residence), Athletic Training & Performance Center, business building, and geosciences building. Secondly, there were \$2M in payments for debt service for lease/purchase of aircraft and hangers for the aviation program. It should be noted that the appropriations or gifts for some of these projects may have been received in a prior year. This can result in a timing difference between when the money is received and when the actual cash outlay occurs.

Between FY 2018 and 2019, DSU saw a decrease in their total investments of \$8,059,368, from \$59,103,497 in 2018 to \$51,044,129 in 2019. The FY 2018 amount included about \$14,000,000 in new bond funds whose purpose was to be used in new building construction. The use of these funds is the reason for the decrease in total investments for DSU between FY 2018 and 2019.

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<sup>5</sup> National Association of College and University Business Officers (NACUBO), *NACUBO-TIAA Study of Endowments*, <https://www.nacubo.org/Research/2020/NACUBO-TIAA-Study-of-Endowments>