140.013 Investment Policy for Endowment Pool

Bd. Min 7-22-11. Revised in entirety, Bd. Min. 6-26-12. (Note: Board approval on 6-26-12 replaced previous rules 140.010, 140.011, 140.012 and 140.013 with new language and reissued new rules 140.010 through and including 140.016.) Revised Bd. Min 6-14-13; Revised 9-12-13; Revised 6-25-15; Revised 2-4-16; Revised 4-14-16; Revised 6-23-17; Revised Bd. Min. 9-28-17; Revised Bd. Min. 2-4-21; Amended 9-2-21; Amended 6-29-23; Amended 9-12-24.

A. **Introduction** -- The University's Endowment Pool (also known as the Endowment Fund) contains gifts, bequests and other funds directed to be used to support a University program in perpetuity. Some donors require such a commitment as a condition of their gift ("true endowments"). Also, funds may be assigned to function as endowments by the Board of Curators or by University administration ("quasi endowments").

B. **Responsibilities and Authorities –** See CRR 140.010 "*Policy for Management and Oversight of Selected University Investment Pools*."

C. **Investment Objectives --** The Endowment Pool must be managed to provide ongoing support of endowed programs in perpetuity, in conformance with donor stipulations. To accomplish this, investment returns, net of inflation, should be sufficient over time to cover annual spending distributions while maintaining or growing the underlying purchasing power of each endowed gift.

Endowment Pool investments should be managed in a manner that maximizes returns while attempting to minimize losses during adverse economic and market events, with an overall appetite for risk governed by the objectives noted above. This will be accomplished through a portfolio that seeks meaningful diversification of assets. These investment objectives seek to prioritize the long-term structural needs of the Endowment Pool over short-term performance comparisons of the investment portfolio relative to peers.

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D. **Authorized Investments –** The Endowment Pool shall be invested in externally managed funds, consistent with the guidelines established in CRR 140.011, "*Policy for Investment Manager Selection, Monitoring and Retention*" and CRR 140.017, "*Allowable Investments,*" in the following asset classes:

Asset Class	Asset Class Target	Allowable Range
Absolute Return / Alpha	*15%*	*5%-20%*
Commodities	*3%*	*0%-13%*
Core Fixed Income	*10%*	*3%-20%*
Opportunistic	*0%*	*0%-7%*
Private Debt	*8%*	*3%-12%*
Private Equity	*17%*	*10%-22%*

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Public Equity	*38%*	*20%-48%*
Real Estate / Infrastructure	*9%*	*5%-14%*
Risk Balanced	*0%*	*0%-5%*
Cash and Cash Equivalents	*0%*	*0%-20%*
Total Portfolio	*100%*	

E. **Portfolio Rebalancing**
Asset allocations shall be monitored on an ongoing basis as changes in market behavior may cause variations from the target asset mix. Rebalancing of the portfolio shall be considered at least quarterly, and more often if necessary to maintain allocations within the allowable range. The need to rebalance shall take into account any logistical issues associated with fully funding a particular asset sector, as well as any tactical decisions to overweight or underweight a particular asset sector based on current market conditions. The University may utilize external managers to rebalance portfolio exposures consistent with targets and allowable ranges established by this policy. In those instances, conventional derivative instruments commonly accepted by other institutional investors, such as futures, swaps, options, forward contracts and reverse repurchase agreements may be utilized.

Actual asset class allocations shall not fall outside of the allowable ranges, with the exception of violations caused solely by periods of extreme market distress, when it may not be possible or advisable to immediately bring such allocations back to within the allowable ranges.

F. **Currency Risk Management**
In the context of a global investment portfolio, currency risk exists to the extent that investments contain exposures to foreign currencies. The desirability of this currency exposure is not necessarily aligned dollar for dollar with the desired exposure to assets denominated in foreign currencies. As such, external managers in any asset class may implement currency strategies to alter the currency exposure of the portfolio when deemed prudent to do so in the context of the particular investment mandate. In addition, the University may utilize external managers to implement currency strategies to alter exposures in an active or passive manner as part of a portfolio or asset class overlay when deemed prudent to do so.

G. **Spending Policy –** To provide ongoing support to endowed programs in perpetuity, the spending policy must be managed in conjunction with investment objectives and other factors in compliance with applicable law, such that the spending rate plus an inflationary assumption shall not exceed expected investment returns over time. At minimum, the spending policy should be reviewed in conjunction with asset/liability studies performed by the Investment Consultant not less than once every three years.

a. The formula used to determine the Endowment Pool spending distribution for each fiscal year shall apply a rate of 4.0% to a base equal to the 28-quarter trailing average of market values as of December 31st of the prior fiscal year. Endowment spending distributions shall be paid on a monthly basis.

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Deleted: <#>**Portable Alpha Program**
When any combination of market beta exposures (Public Equity, Sovereign Bonds, Inflation-Linked Bonds, Commodities, etc.) are obtained through the use of derivative instruments, a portion of the cash underlying the notional exposures may be used to fund an Alpha Portfolio. At a total portfolio level, the objective of a Portable Alpha Program is to generate excess returns through alpha exposures which, in aggregate, are diversifying to the Endowment Pool overall.
Overall management of the Portable Alpha Program is subject to the provisions of CRR 140.017 "Policy for Allowable Investments."
Sizing of Alpha Portfolio – Allowable Range
The allowable range of the Alpha Portfolio shall be 0-27% of the total Endowment Pool, which would represent total portfolio leverage of 100% to 127%.
Minimum Cash Margin
The Endowment Pool shall maintain a 10% margin of safety in addition to the level of Cash Margin determined necessary to cover drawdowns across an average of the three worst modeled economic and market stress scenarios as defined by the greatest depletion of Cash Margin.

b. In addition to the spending distribution noted above, the President shall have the discretion to distribute from the Endowment Pool an administrative fee each fiscal year to be used for support of internal endowment administration and development functions. Such administrative fee shall be calculated by applying a rate of up to 1.25% to a base equal to the 28-quarter trailing average of market values as of December 31st of the prior fiscal year. The administrative fee shall be paid on a monthly basis. In addition, internal investment management, accounting and legal expenses may be charged directly to the Endowment Pool.
c. The spending policy, spending distribution formula and administrative fee may be adjusted over time by the Board to respond to general economic conditions and other factors as appropriate and in compliance with applicable law.
d. Implementation of the spending policy is delegated to the Executive Vice President for Finance or her/his designees.