277.0 VIII-5.50 - POLICY ON ENDOWMENT FUNDS INVESTMENT OBJECTIVES

(Approved by the Board of Regents September 9, 2011)

I. Purpose

The purpose of this policy is to:

A. Establish guidelines for evaluating investment manager and fund manager (where appropriate) performance,
B. Specify a general framework for arriving at asset allocation and fund manager selection

h. legal, Securities Exchange Commission or other regulatory proceedings

5. Post-Review Actions. If the investment manager fails to meet investment benchmark criteria, or should consideration of the above non-quantitative attributes warrant, the investment advisor will be engaged to perform an assessment of investment manager performance and present a review, alternatives, and a recommendation to the Finance Committee.

6. Socially Responsible Investment Goals or Strategies. The Board of Regents must balance the needs of satisfying its obligations as fiduciaries over the Common Trust Fund with socially-responsible investment goals or strategies. Specifically, in instances where the Board of Regents would like to adopt socially-responsible investment goals or strategies, the Finance Committee of the Board of Regents is to collaborate with the investment manager to arrive at a workable goal that:
   a. Minimizes the exposure of Board of Regents goals on the performance evaluation of the Investment manager; and
   b. Minimizes or mitigates the impact of socially-responsible investment goals or strategies on the ability of the investment manager to serve its clients generally.

B. ***Direct Management of Investment***

1. Independent Investment Advisor. The Finance Committee will engage an independent investment advisor to assist and support the Finance Committee in:

   a. Evaluating the investment environment;
   b. Assessing an appropriate level of risk tolerance;
   c. Developing an asset allocation strategy, including re-balancing mechanisms, to be used in making investment decisions; and
   d. Identifying appropriate asset class benchmarks for use in evaluating the performance of investment fund managers.

2. Periodic Review of Assumptions and Strategies. A periodic review and reassessment of basic investment assumptions and asset allocation strategy should be done no less frequently than every five years.

3. Selection and Review of Fund Managers

   a. Selection. Selection of fund managers will be based on efficient and time-aware competitive selection processes that satisfy any and all relevant state or System procurement policies applicable. At the presentation of a new fund manager for the hiring approval of the Finance Committee, a performance benchmark is to be identified for use in evaluating the fund manager’s investment performance.

   b. Reporting. Each fund manager will be expected to provide an annual report to the Finance Committee summarizing investment performance for the past year and since engaged as a fund manager for the System. The report should compare investment performance compared with asset class benchmarks selected and approved by the Finance Committee.

c. Review by the Independent Investment Advisor. The independent investment advisor will also review the investment performance of the Common Trust Fund in the aggregate in terms of meeting the investment objectives for the portfolio as a whole, as well as providing comments and analysis of the performance of each individual fund manager.

4. Post-Review Actions. Fund managers whose investment performance falls below the appropriate benchmark more than 1 year out of any running 5 year will be reviewed for replacement. Fund managers that invest to a significant and ongoing degree in investments outside of the asset class for which the fund manager was selected will be reviewed for replacement. The Finance Committee will consider recommendations from staff or the independent investment advisor for the dismissal of existing fund managers.

IV. Conflicts of Interest

Investment managers hired to oversee the investment of the Common Trust Fund must have in place, or adopt, a conflict of interest policy which protects against and mitigates risks that the Investment manager, or its employees and volunteers, might have a personal financial interest, either in appearance, or in fact, in the decisions that they make involving the Common Trust Fund or the investment portfolio in which it participates