

Agenda  
**Board of Regents**  
**Special Meeting of the Full Board**  
Tuesday, June 26, 2012; 10:00 a.m. – 10:30 a.m.  
AUDIO CONFERENCE  
1-800-893-8850 / Pin 4054501

**I. Call to Order**

**II. Adoption of Agenda**

**MOTION**

**"The Board of Regents adopts the agenda as presented.**

**I. Call to Order**

**II. Adoption of Agenda**

**III. Approval of Revisions to the Consolidated Endowment Fund Policy**

**IV. Adjourn**

**This motion is effective June 26, 2012."**

**III. Approval of Revisions to the Consolidated Endowment Fund Policy**

Reference 1, 2 & 3

The President recommends that:

**MOTION**

**"The Board of Regents approves the amendments to the Consolidated Endowment Fund Investment Policy as presented. This motion is effective June 26, 2012."**

**RATIONALE AND RECOMMENDATION**

The UA Foundation Investment Committee manages the Consolidated Endowment Fund (CEF) in accordance with the CEF Investment Policy, which is approved by the Board of Trustees and the Board of Regents. The UA Foundation Investment Committee met on May 3, 2012 to set the target rate of return and asset allocation for the coming year and address other related issues.

In setting the target rate of return and asset allocation, the UA Foundation Investment Committee concluded that it is probably not prudent to continue increasing the risk in the portfolio in order to meet its current distribution requirements and fully fund intergenerational equity (the reserve for inflation-proofing the portfolio) at the estimated CPI inflation rate. However, the CEF Investment Policy contemplates fully funding intergenerational equity at the CPI inflation rate in addition to the distribution requirements. The policy also includes statements indicating that planned risk levels should be less than that of an 80% equity portfolio and maintaining the real value of the assets is of "paramount" concern. At the time this policy was drafted, these statements were not particularly problematic, but the volatility of the markets in recent years has brought this issue to the forefront. Setting a target rate of return and corresponding asset allocation at a level sufficient to fund the current distributions and full inflation-proofing

would exceed the risk level intended by the policy and, in the opinion of the UA Foundation Investment Committee, probably not prudent.

Reference 2 reflects the increase in risk over time that has been required to maintain a portfolio designed to produce an 8% return. The volatility level has increased almost four fold since 1991 from a standard deviation of approximately 3% in 1991 to 12% in 2010. This trend can also be seen in Reference 3, the CEF Portfolio's projected returns. The UA Foundation Investment Committee expects the projected return to be approximately 47 basis points short of the amount needed to fully fund intergenerational equity. Reference 1 is Section IV of the Consolidated Endowment Fund Investment Policy reflecting the proposed amendments to this policy, which are necessary to avoid technical non-compliance.

On May 3, 2012, the UA Foundation Investment Committee passed a motion recommending that the Board of Regents and the Board of Trustees approve the proposed amendments as presented in Reference 1.

#### **IV. Adjourn**

# University of Alaska & University of Alaska Foundation

## Consolidated Endowment Fund Investment Policy

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### IV. PRINCIPLES AND CONSIDERATIONS FOR FUND MANAGEMENT AND INVESTMENT

The Primary Investment Goal of the Fund is to provide a real rate of return (total return minus investment expenses, administrative fees and inflation) sufficient to support the purposes of the various endowments that make up the Fund in perpetuity. ~~Of paramount concern is the preservation of the value of the assets in real terms in order to maintain the purchasing power of the funds for support of the University without eroding the real, long-term value of the corpus.~~

The greatest investment risk for the Fund is the probability of not meeting its Primary Investment Goal. Therefore, in order to minimize this risk the Committee will consider in all aspects of its investment decision-making process (1) the probability of missing the objective and (2) the asset allocation, which is the primary determinant of long-term performance. Achievement of the Primary Investment Goal and management of funds will be driven by the core principles and considerations listed below.

*Charitable Purpose:* Endowment management and investment decisions shall be made with consideration to the purposes of the institution and the participating fund(s) and documented donor intent.

*Distributions (Spending Allowances):* Distributions from the endowment funds shall be made in accordance with spending policies adopted for the particular endowment or class of endowments by the responsible Board. In making such distributions and managing endowments the responsible board shall consider the duration and preservation of the fund, the purposes of the institution and the fund, the general economic conditions including inflation and deflation, the expected total return, other resources of the institution, and the applicable investment policies.

*Diversification:* The likelihood of realization of the Primary Investment Goal is enhanced substantially through diversification and the reduction of risk; therefore, the Committee will diversify assets among various classes of investments and managers.

*Fees and Expenses:* Fees and expenses may cause a significant drag on returns and appreciation, which can limit the Boards' ability to attain the Primary Investment Goal; therefore, the Committee will monitor fees and expenses associated with investment activities on an annual basis and incur only costs that are appropriate and reasonable.

*Inflation:* The Consumer Price Index shall be used as the basis for determining the real rate of return; and attainment of the Primary Investment Goal, ~~and for setting the Target Rate of Return and Target Asset Allocation.~~

*Liquidity:* The Fund has relatively modest cash outflow requirements; therefore, excessive amounts of liquidity are not required and modest portions of the Fund may be invested in non-liquid investments.

*Time Horizon:* The Fund has an infinite life; therefore, investment strategies may take a long-term perspective.

# University of Alaska & University of Alaska Foundation

## Consolidated Endowment Fund Investment Policy

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*Total Return:* The Boards have adopted a "Total Return" approach to managing endowments, unless otherwise directed by the donor; therefore, the Committee will manage the Fund's investments without regard to the distinction between current income and net realized or unrealized gains and losses, and will emphasize returns net of fees when assessing overall performance of the Fund and recommending spending rates.

*Verification of Facts:* A reasonable effort shall be made to verify facts relevant to the management and investment of funds.

*Volatility:* The Primary Investment Goal can best be achieved by assuming acceptable risk levels commensurate with long-term market volatility; therefore, the Committee will measure and seek to limit the overall level of volatility to an acceptable level as it makes specific asset allocation decisions.



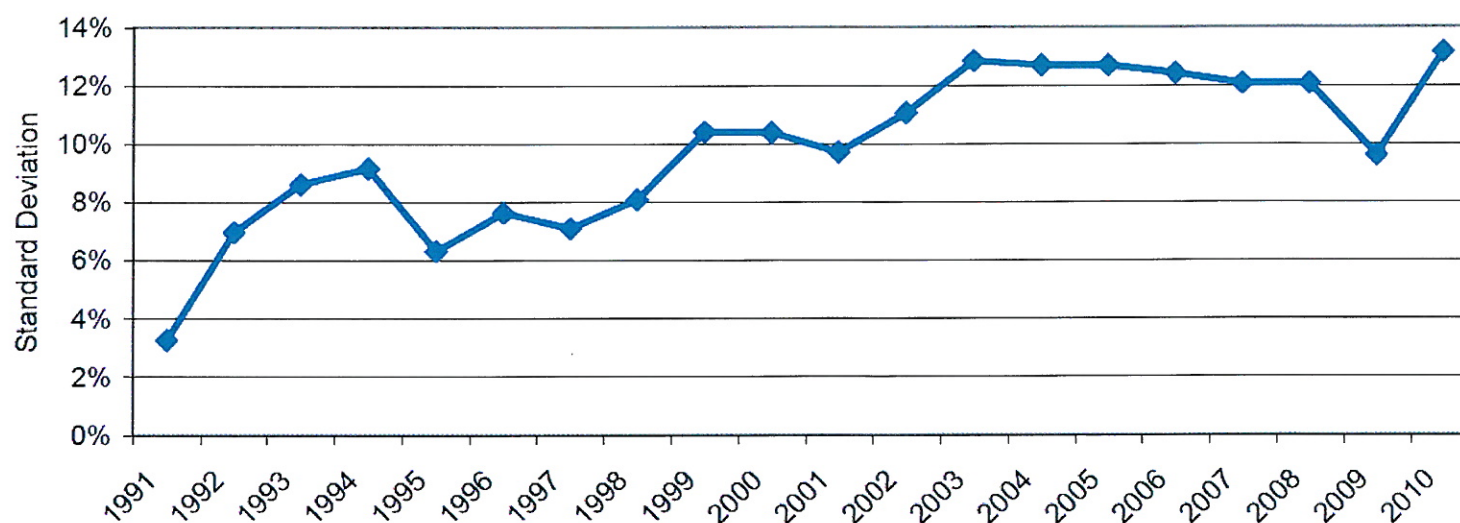
CALLAN

INVESTMENTS

INSTITUTE

## Risks for 8% Mixes

Historical Projected Standard Deviations for 8% Mixes



- **Asset Mix Risks Have Risen as Fixed Income Allocations Have Fallen**
  - The additional equity needed to achieve an 8% return increases risk
- **Risks Over Recent Years Have Stabilized at High Levels**

**Consolidated Endowment Fund  
Portfolio Target Returns**

	<b>2012</b>		<b>2013</b>		<b>2014</b>	
	<b>Foundation Pooled Endowment <u>Funds</u></b>	<b>UA Land Grant Endowment <u>Funds</u></b>	<b>Foundation Pooled Endowment <u>Funds</u></b>	<b>UA Land Grant Endowment <u>Funds</u></b>	<b>Foundation Pooled Endowment <u>Funds</u></b>	<b>UA Land Grant Endowment <u>Funds</u></b>
<b>Maximum Distribution Requirements:</b>						
Endowment Fee (current rate)	1.00%	0.50%	1.00%	0.50%	1.00%	0.50%
Investment Costs (estimated)	0.22%		0.22%	0.22%	0.10%	0.10%
Annual Spending Rate (current rate)	4.00%	4.50%	4.00%	4.50%	4.00%	4.50%
Distribution Requirements	<u>5.22%</u>	<u>5.22%</u>	<u>5.22%</u>	<u>5.22%</u>	<u>5.10%</u>	<u>5.10%</u>
<b>Planned Portfolio Growth:</b>						
Inflation Provision (Note 1)	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%
Other	<u>0.33%</u>	<u>0.33%</u>	<u>0.00%</u>	<u>0.00%</u>	<u>0.00%</u>	<u>0.00%</u>
Desired Return (Note 2)	8.05%	8.05%	7.72%	7.72%	7.60%	7.60%
Shortfall	<u>0.00%</u>	<u>0.00%</u>	<u>-0.29%</u>	<u>-0.29%</u>	<u>-0.48%</u>	<u>-0.48%</u>
Projected Return (Note 3)	<u>8.05%</u>	<u>8.05%</u>	<u>7.43%</u>	<u>7.43%</u>	<u>7.12%</u>	<u>7.12%</u>
<b>Portfolio Risk (Standard Deviation, Note 4)</b>	<u>13.68%</u>	<u>13.68%</u>	<u>13.92%</u>	<u>13.92%</u>	<u>14.30%</u>	<u>14.30%</u>

**Notes:**

1. The inflation provision based on Callan Associates forecast of inflation.
2. The return required to fund the current spending rate and set aside a provision for inflation equal to the forecasted CPI.
3. Projected Return is based on Callan Associates forecast of returns based on the portfolio's asset allocation and risk characteristics.
4. Projected by Callan Associates based on asset allocation targets approved by the Investment Committee
5. This schedule demonstrates the trend of expected risk and return and the impact on spending and accumulation decisions