

TO: Christian Gardner, Chair of Board of Trustees

FROM: Cathy Anderson, CFO

SUBJECT: University of Utah Endowment Pool Investment Allocation

We are requesting approval to modify the current Endowment Pool Investment Asset Allocation targets that were last approved by the Board of Trustees and Board of Higher Education in 2015. The University is required to follow Utah Code Title 51 Charter 8 Uniform Prudent Management of Institutional Funds Act (UPMIFA)

https://le.utah.gov/xcode/Title51/Chapter8/51-8.html?v=C51-8_1800010118000101

and Utah Board of Higher Education policy R541

<https://public.powerdms.com/Uta7295/tree/documents/2022249>

Since the approval of the University of Utah Endowment Pool Guidelines in 2015,

https://regulations.utah.edu/administration/guidelines_3/EndowmentPoolGuidelines.pdf

the University's Endowment Pool has grown from \$700 million to \$1.4 billion. Because of the increase in the pool, we now have a lower target to alternatives relative to peers with endowments greater than \$1 billion.

The University believes it has prudently invested in alternative assets by demonstrating a high level of fiduciary due diligence and oversight by our Investment Advisory Committee and Investment Staff along with the guidance from Fund Evaluation Group (FEG), an institutional investment consultant with a national client base of public higher education institutions.

We are requesting the ability to invest more funds in alternative investments and to realign other parts of the portfolio investments. This is in alignment with FEG recommendations and review by the Investment Advisory Committee

Asset Category	Current			Proposed ³		Reference
	12/2022	Target	Range	Proforma	Range	Peers > \$1B ²
GLOBAL EQUITY	41%	40%	30-50%	55%	30-65%	58%
<i>Public Equity</i>	27	25	15-50	25	15-50	25
<i>Private Equity</i>	14	10	0-15	30	0-40	33
GLOBAL FIXED INCOME/CREDIT	20	20	10-40	15	5-40	6
<i>Core - Rate Sensitive</i>	13	11	5-40	10	5-40	5
<i>Credit Sensitive</i>	7	9	0-20	5	0-15	1
REAL ASSETS	10	20	10-30	12	5-20	12
<i>Real Estate</i>		7	0-15	6	0-15	6
<i>Natural Resources/Infrastructure</i>		13	0-20	6	0-15	6
DIVERSIFYING STRATEGIES¹	17	25	0-30	18	0-30	18
CASH / OTHER	12	0		0	0-10	6
<i>Total Alternatives (R-541)</i>	48	54		63	Max 75	67

1) Diversifying Strategies: primarily hedge funds (hedged equity, relative value, event, macro, etc.)

2) NACUBO (National Association of College and University Business Officers) survey as of June 30, 2022

3) The Board of Trustees would approve Proforma targets within ranges established by the Board of Higher Education

Liquidity – important note:

- Revised investment policy guidelines will **ensure appropriate portfolio liquidity**
- Gifts have largely covered spending draws, supporting stable liquidity
- R-541 alternatives target 63%; maximum 75% (proposed IPS)
- Minimum liquidity 35% (i.e. readily available within 30 days)

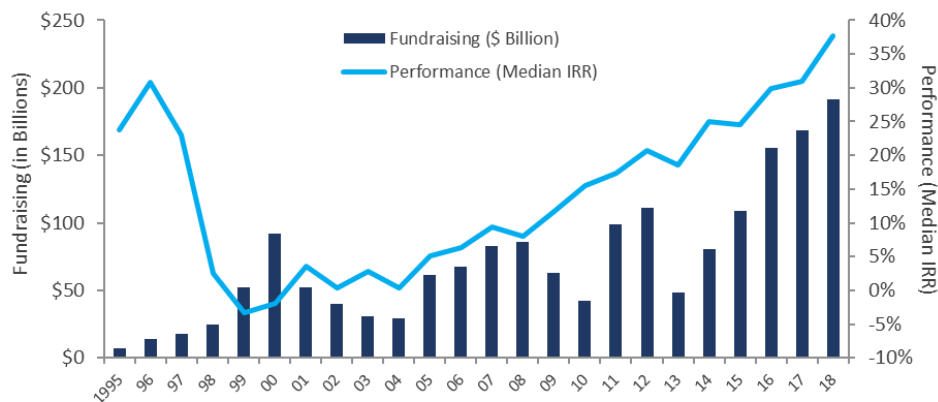
1) Since 2015, the University of Utah (UU) endowment doubled from \$700m to \$1.4B¹

- Grew to #101 among NACUBO² peers due to markets and generous additions
- Larger endowment has greater **access to high-demand funds**
- Private Capital opportunity set is large and growing³

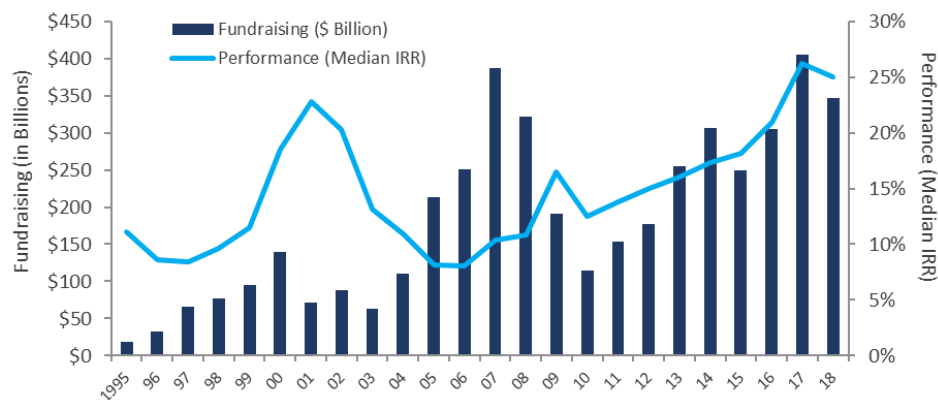
Investable Universe of U.S. Public & Private Companies



VENTURE FUNDRAISING VERSUS PERFORMANCE / As of September 30, 2021



BUYOUT FUNDRAISING VERSUS PERFORMANCE / As of September 30, 2021

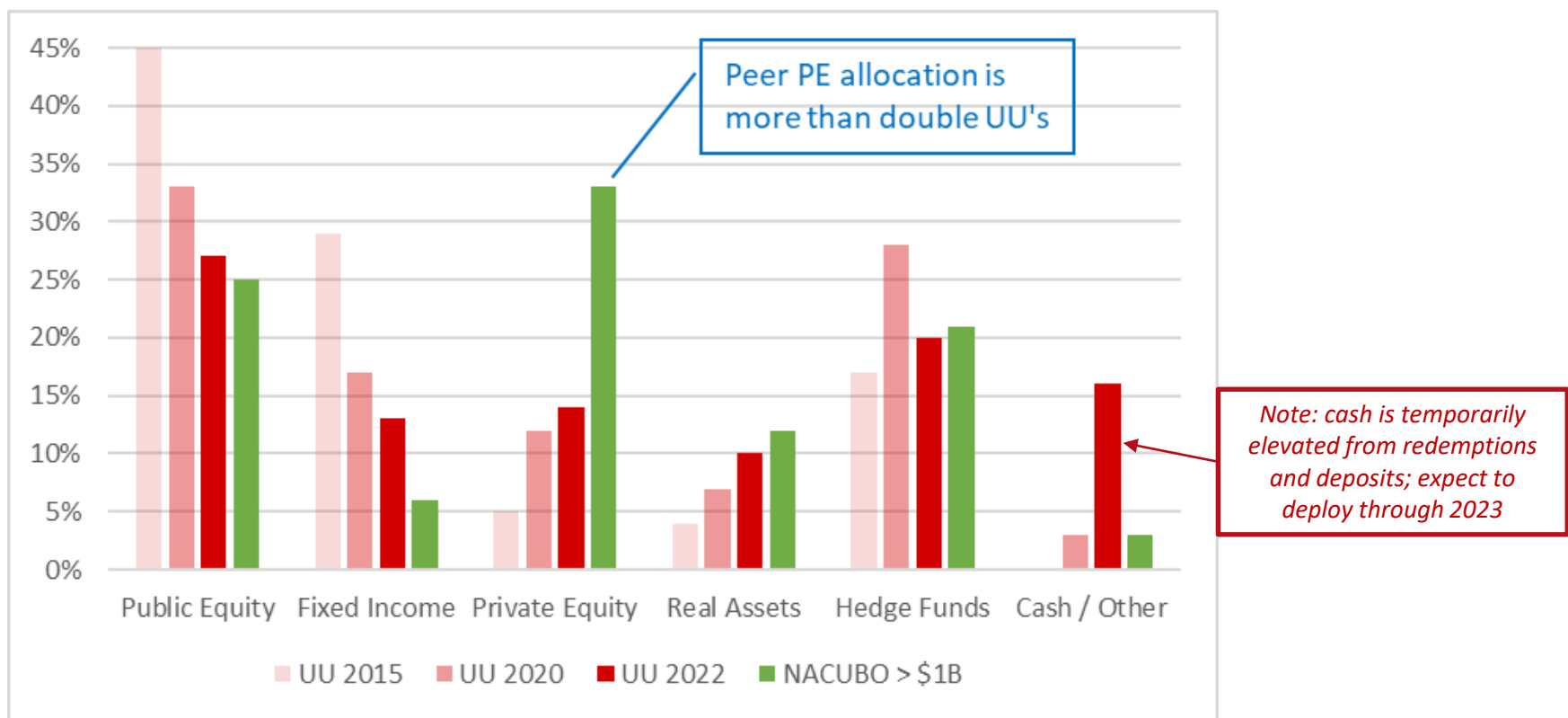


1) \$702m 12/31/2015; \$1,424m 3/31/2023 – preliminary values for alternatives; 2) National Association of College and University Business Officers; 3) chart source: Pitchbook 2021, 2019

2) **Prior asset allocation targets successfully implemented** gradually and prudently

- Approved by Board of Trustees (BoT) and Utah State Board of Regents¹
- Significant reduction in public equity and fixed income, increase in alternatives

3) While improved, some **allocations still differ significantly from peers**



1) As of July 2020, the Utah State Board of Regents ceased and merged into the new Utah Board of Higher Education

4) Changes have been **materially additive to performance**

- Asset classes that were reduced underperformed (red)
- Asset classes that increased outperformed, especially in private capital (green)

UU Annualized Return, periods ending 12/31/2022

	1 Year	3 Year	5 Year	7 Year
Core Fixed Income	-10.2%	-1.4%	0.7%	1.4%
Diversifying Strategies HFs	3.6%	8.2%	5.7%	4.4%
Public Equity	-19.2%	1.1%	2.4%	5.9%
Private Equity	-10.6%	18.4%	15.5%	14.1%

5) Relative to peers >\$1 billion, the **UU has a lower target to Alternatives**

- Alternatives classified under Utah R-541 (private, hedge funds, etc.)
- Projected future asset class **returns continue to favor alternatives**¹

	Tot Pvt Capital	Tot R-541 Alts
Univ Utah	28%	48%
NACUBO > \$1 Billion	44%	66%

1) See FEG Capital Market Assumptions in appendix

6) The UU portfolio has tracked its policy allocation¹ benchmarks over time

- However, UU’s more conservative risk profile has lagged NACUBO peers

<u>as of June 30, 2022</u>	<u>1-year</u>	<u>3-year</u>	<u>5-year</u>	<u>7-year</u>	<u>10-year</u>
UU Composite	-7.9%	6.1%	5.6%	5.3%	6.2%
Broad Policy Benchmark	-13.4%	3.7%	4.8%	5.0%	6.0%
Tgt Wgt Transition BM	-7.5%	5.8%	6.1%	5.7%	6.7%
NACUBO > \$1B	-4.5%	10.5%	9.4%	N/A	8.9%

PROPOSAL

Having prudently reached the goals set out in 2015, **we propose the following broader allocation ranges** (table next page)

- Provides flexibility to better respond to market opportunities and compete; does not seek to mimic peers or chase trends
- Anticipate **5-7 years to reach the proposed private allocation**
- **Projected return** of proposed increases to approx. **8% per annum**, more in-line with expected peer returns over time²
- Continued alignment with UU’s values, ethics, conservatism, and quality

1) See performance report for benchmark details: Target Weighted (TW) Transition Benchmark moves 10% from real assets to public equity to align with actual allocation and ESG

2) Source: FEG Capital Market Assumptions; Markov efficient frontier asset allocation modeling software (Monte Carlo simulation)