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Investment Policy Statement (IPS) for Endowment and Similar Funds

Purpose

Under this

IPS, the Board of Regents authorizes the Treasurer of the University to manage financial assets invested as University of Colorado endowments and similar funds, such as quasi-endowments, and term-endowments, within the described limits. This *IPS*

applies to endowments owned by the University of Colorado and managed directly by the Treasurer of the University, and to endowments owned by the University of Colorado and managed for the University by the University of Colorado Foundation, Inc.

This

IPS

does not apply to endowments owned by the University of Colorado, Foundation, Inc., a separate and independent legal entity with a 501 (c) 3 designation.

Background

The University Treasurer is responsible for protecting the financial resources of the University. Authorization for the function arises from constitutional and statutory authority to the Board of Regents mandating exclusive control and direction of all funds and specific authorization to elect a University Treasurer.

The Treasurer is responsible for implementing an investment strategies for financial assets in support of the "prudent" person standard, providing liquidity, safety and yield to the institution, appropriate to the time horizon of the investments.

Endowment and similar funds are funds whose principal, or corpus, is intended for

preservation in perpetuity, or, in the case of a quasi- or term-endowment, until the occurrence of a specific event. In addition, endowments should generate annual spendable returns to support current operations. These spendable returns should at least remain stable, in inflation-adjusted terms.

The University Treasurer is in a good position to evaluate the liquidity needs of an University endowment and similar funds, and to decide how a gift to the endowment of the Regents of the University of Colorado should be invested and managed, to best carry-out the responsibilities of the Regents and the intentions of the donor.

Upon acceptance of a gift, the Regents agree to comply with the restrictions imposed by the donor, if any. One example of a restriction is to limit whether a donor's gift may be commingled with other funds and managed as part of an investment pool, or if it must be managed separately. Other examples are to limit the specific asset class for the investments, or to specify a spendable return, or pay-out. In addition, the donor may restrict the use of any paid-out funds.

A detailed accounting of all University endowments and similar funds will be maintained to ensure compliance with restrictions imposed by donors and designations imposed by the Board of Regents on the use of funds and spendable returns. Although funds may be commingled for investment purposes, the identity of separate funds is maintained, and individual accounts kept recording the historical value of the principal of each fund in the pool.

Investment Goals

The investment goal for the endowment and similar funds owned by the Regents is that the historic value of each endowment will grow in value, over time, in an amount necessary to preserve its purchasing power, after taking into consideration the diluting effects of price inflation, and to provide sufficient financial resources for a prudent spendable return policy.

Matching Investment Horizons to Liquidity Requirements

The investment horizon decision is implemented through the selection of asset classes and an allocation to selected asset classes. These decisions must take into consideration the wishes of the donor, the time horizon of endowments, which is typically long-term, and, if there are no donor-imposed limits, the ability of the University to commingle investments.

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Diversification

This policy contemplates the use of domestic and international equities, real estate, and alternative investments along with fixed income vehicles, such as bonds, cash, and cash equivalents. The endowment portfolio should be broadly diversified across and within asset classes in order to minimize the impact of losses in individual investments. Diversification with respect to economic sector, industry, and specific issuer is anticipated within asset classes. Securities issued by the United States government and its Agencies are not subject to diversification requirements.

For the purpose of this policy, alternative investments include: venture capital, private equity, limited partnerships, and other speculative or less traditional investments, and such other, similar types of investments, as may be approved by the Treasurer of the University.

Oversight, Advice and Operating Procedures

The Board of Regents delegates to the University Treasurer the authority to oversee and manage the endowment and similar assets of the Regents of the University of Colorado. The Treasurer reports on the investments and performance of the endowments to the Board of Regents through quarterly reports to the Regent Audit and Financial Advisory Committee.

For endowments managed by the Treasurer's Office directly or by investment managers selected by the Treasurer's Office, the University Treasurer maintains a written statement of

Operating Procedures for the University of Colorado Endowment,

that includes specific investment guidelines, performance measurement standards, and mutual fund and investment manager selection criteria for the endowment and similar funds of the University of Colorado managed directly by the Treasurer of the University. This document governs the day-to-day operations of the staff of the Treasurer's Office and others hired by the Treasurer's Office.

For University-owned endowments and similar funds that are held in custody by and managed by the University of Colorado Foundation, Inc. for the Regents of the University of Colorado, the Treasurer of the University is responsible for reviewing proposed changes to the Foundation's investment policy spending policy and investment management fees (

Policy) and for determining whether these changes are suitable for endowments owned by the Regents of the University of Colorado. The Treasurer of the University is authorized to accept appropriate changes on behalf of the Regents and to bring to the attention of the Regents all related issues that they should consider. This review process is more fully described in the section of this *IPS* pertaining to the *Investment Agreement*

with the University of Colorado Foundation, Inc., for University of Colorado Endowments.

The University Treasurer may use the University of Colorado Investment Advisory Committee to advise on modifications to this *IPS* and related endowment procedures and issues.

Spendable Return Policy

The spendable return policy is based on total investment return. Under this approach the University may spend not only the current yield of an investment but also a prudent portion of investment appreciation. This approach conforms to the

Uniform Management of Institutional Funds Act,

which was adopted by the legislature of the State of Colorado and which prescribes a standard of care and prudence to guide governing boards in exercising their duties regarding

endowments and similar funds.

For all University endowments and similar funds without donor-imposed spending restrictions, the preferred policy is for the distributions of spendable returns for current use to not exceed 4.5% of the fair market value for the relevant portfolio, based on the average of the preceding twelve quarters. The Treasurer of the University is authorized to approve modifications to the distribution policy that will reduce the total distributions as low as 4%, or increase the number of data points or time horizon for the average total market value calculation.

For endowments with donor-imposed asset allocations, or distributions, the spendable return will conform with the donor's expressed wishes.

In addition to distributions to current accounts, management fees are generally paid from account balances. These fees are based on expenses for investment management, fund custody, and fund administration. The Treasurer of the University is authorized to pay reasonable fees.

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Investment Management

Agreement

With The University of Colorado Foundation, Inc. For Management of

The Consolidated Endowment Fund Owned By The Regents of The University of Colorado

The Board of Regents of the University of Colorado and the University of Colorado Foundation, Inc. entered into an

Agreement for the Foundation to manage the assets comprising the Consolidated Endowment of the University of Colorado in 1987, to implement a resolution of the Board of Regents adopted February 18, 1982. The Foundation holds these assets in custody for the Regents of the University of Colorado, since the Regents own the assets, and the Foundation provides investment management services to the University. This agreement is named the

Consolidated Endowment Fund Management Agreement (Agreement).

As part of the

Agreement signed in 1987, *the most recently dated issue of the Statement of Financial Policies, Objectives and Procedures* was considered to be an integral part of the agreement and is incorporated by this specific reference. Although the Foundation no longer maintains a document with this name, other documents have superseded it. The practice has been to apply the Foundation's investment policy, spending policy and investment management fees

to University-owned endowments held in custody by the Foundation. In addition, as part of the *Agreement*,

the Foundation agreed to provide the University with advance review of any proposed changes in these policies. The Board of Regents, by action of the IPS, designates the Treasurer of the University to perform this

review. The Treasurer will conduct this review, and will notify the Foundation of the results of the review within a reasonable timeframe.

This current investment management arrangement with the Foundation is very advantageous for the University because it provides excellent diversification opportunities across a wide-range of asset classes. Some of these asset classes would be difficult to access directly at reasonable fees, because of the small size of the University's endowment. The third significant advantage is that beneficiaries of endowments, such as, department chairs, administrators and faculty, receive similar-looking statements, irrespective of whether the endowment is a University endowment or a Foundation endowment, making it easier to plan to expend funds in accordance with the donor's wishes.

Under the current by-laws of the University of Colorado Foundation, Inc., the Treasurer of the University is designated as an ex-officio, voting member of the Foundation's Investment Committee. In this role, the University Treasurer has an opportunity to review, discuss with Foundation staff and other Committee members, evaluate and vote on

purposed changes to the investment policy. At the present time, this process helps the University Treasurer assess whether the changes meet the requirements of the

Agreement and this

Regents' IPS for Endowment and Similar

Funds.

The Foundation makes changes to its by-laws from time to time, and participation by the University Treasurer on the Foundation's Investment Committee is at the discretion of the Board of the University of Colorado Foundation, Inc.

Irrespective of whether the University Treasurer is a member of the Foundation's Investment Committee, the Treasurer of the University is authorized and required by the Board of Regents to request and receive pertinent information from the University of Colorado Foundation, Inc. regarding matters governed by the

Agreement and this IPS

It is of interest to note in this IPS that, the University Treasurer's current role as a member of the Foundation's Investment Committee, the University Treasurer may oppose a change in the Foundation's investment policy, however the change could be implemented with a favorable vote from the Committee, in accordance with the Foundation's bylaws.

In the event that the University Treasurer, upon consultation with the Regents, determines that the Foundation's investment policy, spending policy and/or fees are inappropriate for University-owned assets, the Treasurer will identify alternative investment strategies that conform with the guidance provided in the various sections of this

IPS

. This analysis may result in a decision by the University Treasurer to return direct custody of the Regents' assets to the Regents, and/or the Foundation may choose to return the Regents' assets to the Regents.

Authority

Funds donated to and managed by the University of Colorado are under the control and direction of the Regents of the University of Colorado, and are managed pursuant to

Sections 23-20-109 and 111, C.R.S. (1988), and the rules adopted by the Regents pursuant to Section 23-20-112, C.R.S. (1988); Laws of the Regents, 1990, Section 13.B.3. (c), and

Regents Handbook, Board Policy, 13-G, 13-P, and 13-Q.

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The Regents are specifically authorized to hold certain kinds of investments,

Sections 23-20-118 and 119, C.R.S. (1988), and to control and invest moneys from donations and from university lands, Sections 23-20-120 and 121, C.R.S. (1988). Per the Opinion provided by the Office of the Attorney General of the State of Colorado, funds held by the Regents of the University of Colorado are not subject to the provisions of *Colo. Const. Art X, Section 12* or

Section 24-36-103 and 24-22-107, C.R.S. (1988)

As part of this Investment Policy Statement, the Board of Regents specifically authorizes the University Treasurer to select and enter into agreements with investment managers and commingled funds or mutual funds to implement this Policy in accordance with the

Operating procedures for the University of Colorado Endowment,

the document that guides the management of endowment funds under the direct management control of the Treasurer of the University.

The Treasurer of the University adheres to the "prudent" person standard and specific statutory limitations that govern the University. Investments of endowment funds are made in a manner consistent with the Regents' Resolution on Institutional Neutrality and other applicable Regent Law upon its effective date.

Upon approval, this policy is subject to modification by action of the Board of Regents and remains effective until any modification is approved by the Board of Regents.

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