UNIVERSITY of DENVER	**UNIVERSITY OF DENVER POLICY MANUAL Investment Policy Statement and Spending Policy**	
Responsible Department: Business and Financial Affairs **Recommended By: Chancellor** **Approved By: Board of Trustees**	**Policy Number** 2.20.030	**Effective Date:** 8/24/16

I. INTRODUCTION

The purpose of this Investment Policy Statement (the "Policy") is (i) to guide University of Denver ("the University"), its Board of Trustees, its Investment Committee, and its Investment Office in effectively managing, monitoring and evaluating the University's Consolidated Endowment Fund (the "Endowment") and (ii) to define the Investment Committee's composition and responsibilities. This Policy was approved on August 24, 2016 and replaces the "Consolidated Endowment Fund: Investment Goals and Policies" last revised in October 2003.

II. POLICY OVERVIEW

DIVISION OF RESPONSIBILITIES

<u>Board of Trustees</u>

- The Chairperson of the Board of Trustees appoints members of the Investment Committee and designates the Investment Committee Chairperson. The Chairperson of the Investment Committee will report periodically to the Board of Trustees on the status of the investments in the Endowment. The Board will approve the policies of the Investment Committee.

<u>Investment Committee</u>

- The Investment Committee is responsible and accountable, as delegated by the Board of Trustees, for the prudent management of the Endowment's assets, including 1) developing and maintaining the Investment Policy in light of the University's strategic plan; 2) setting risk tolerances and controls; 3) approving allocation of assets; 4) appointing and evaluating the Investment Office; and 5) reporting to the Board periodically the results of the investment program. The Investment Committee will meet at least three times per year. This Committee shall consist of not fewer than four members, a majority of whom shall be Trustees. A quorum of the Committee is defined as a majority of members of the Investment Committee.

<u>Investment Office</u>

- The Investment Office is charged with the responsibility for developing, implementing, and administering the Investment Policy. In doing so, it will assist in the attainment of the stated objectives while complying with all Investment Policy guidelines and standards. The Investment Office will serve as the primary contact for all investment managers and the custodian.

STANDARD OF CARE

- In exercising its responsibilities, the Investment Committee and Investment Office will act in good faith and with the care an ordinarily prudent person in a like position would exercise under similar circumstances.
- A person with special skills or expertise, or selected in reliance upon his or her representation that he or she has special skills or expertise, will use those skills or that expertise in managing and investing institutional funds.

STANDARDS FOR PRUDENT INVESTING

- In investing and managing the Endowment, the Committee will consider both the purposes of the University and the purpose of any specific institutional fund.
- Management and investment decisions about an individual asset will be made not in isolation but rather in the context of the Endowment as a whole and as part of an overall investment strategy having risk and return objectives reasonably suited to the University.
- In managing the Endowment, the Committee will incur only those costs that are appropriate and reasonable in relation to the Endowment or any specific institutional fund, the purposes of the University, and the skills available to the University, and use reasonable efforts to verify

facts relevant to the management and investments of the Endowment or any specific institutional fund.

- Except as the donor's gift instrument otherwise requires, the following factors must be considered by the Investment Office, if relevant, in managing and investing the Endowment, including any specific institutional funds:
  (i) general economic conditions;
  (ii) the possible effect of inflation or deflation;
  (iii) the expected tax consequences, if any, of investment decisions or strategies;
  (iv) the role that each investment or course of action plays within the University's overall Endowment portfolio;
  (v) the expected total return from income and the appreciation of investments;
  (vi) other resources of the University;
  (vii) the needs of the University and a given institutional fund to make distributions and to preserve capital; and
  (viii) an asset's special relationship or special value, if any, to the purpose of the University.

RETURN OBJECTIVE

- The Endowment will be managed to maximize annualized returns net of all costs over rolling 10-year periods while adhering to the University's stated risk parameters.

RISK CONSIDERATIONS

- The Endowment will be deployed in a manner that seeks to avoid 25% or greater peak-to-trough declines in inflation-adjusted unit value.
- The Endowment will be structured to avoid annualized shortfalls exceeding 3%, relative to the mean return of endowments with greater than $1 billion in assets reporting to NACUBO, over rolling 10-year periods.

LIQUIDITY

- Under normal circumstances, at least 30% of the Endowment's assets are intended to be held in vehicles utilizing lockups of 12 months or shorter.
- As a general rule, at least 60% of the Endowment's total assets are intended to be held in vehicles utilizing lockups of 60 months or shorter, recognizing that private partnership cash flows are unpredictable. Lockup is defined as an expected period until all or substantially all of the value from an investment vehicle can be received in cash by the Endowment.
- Under normal circumstances, private partnership NAV plus private partnership unfunded capital commitments will not exceed 65% of the Endowment's market value.

STRATEGIES

- The long-term horizon of the University allows for a large allocation to equity-oriented strategies where the potential for long-term capital appreciation exists. Other assets, including but not limited to hedging, derivative, or diversification strategies, will also be used to reduce risk and overall portfolio volatility.
- The Endowment will be diversified across asset classes and managers.

APPENDIX A - OTHER POLICIES

USE OF DERIVATIVES

Consistent with the risk considerations specified in the Investment Policy Statement, the Investment Committee authorizes the use of any type of derivative instruments, including, without limitation, over-the counter and exchange-traded derivative instruments that may exist on the date hereof or that may be created
in the future. Such instruments may be employed:

(i) for hedging purposes

(ii) as an alternative to the underlying direct investments where such derivative instruments offer:

a) advantages with respect to timing, flexibility, lower execution costs or improved control or

b) other benefits, or

(iii) in any other circumstance in which the Investment Committee believes that the use of such instruments is in the best interest of the University providing that instruments with unlimited liability will be prohibited.

PROXY VOTING POLICY

All proxies are voted by the managers with the sole purpose of maximizing shareholder value.

POLICY CHANGES

The Investment Committee will review this policy annually each fall.

SPENDING POLICY

Enclosed on the following page.

	UNIVERSITY OF DENVER **POLICY MANUAL** **<u>Consolidated Endowment Fund: Management and Distributions</u>**

<u>Responsible Department:</u> Business and Financial Affairs **<u>Recommended By:</u>** C. Woody **<u>Approved By:</u>** Chancellor Coombe	**Policy Number** 2.20.020	**Effective Date:** Jan. 12, 2012

I. INTRODUCTION

The purpose of the University endowment spending policy is to establish a procedure for determining the annual flow of funds from the corpus earnings of each endowment to the operating budget and other restricted funds at the University. The primary goal is to achieve a proper balance between the present and future needs of the University. To strike an appropriate balance between these, the University's spending policy should consider the following objectives:

- To ensure that the real value (i.e. purchasing power) of the revenue does not decline over the long term.
- To provide current programs with a predictable and relatively stable stream of revenue.
- To reduce the lagging effect of up or down markets in the spending formula.
- To appropriate distributions taking into account general economic conditions and the effect of inflation or deflation.

The University of Denver and its Board of Trustees is committed to administering and investing all endowment funds in compliance with all relevant federal and state laws and industry standards. The Board of Trustees monitors, adjusts, and approves the policy and the spending distribution rate on an annual basis, by maintaining the spending distribution rate within the prescribed policy over time; the institution balances current program support needs and the long-term intergenerational purchasing power of the endowment.

II. GENERAL POLICIES

A. Efficient Management

1. In order to provide for efficient management of endowment assets and to reduce the risk associated with closely tying a particular endowment fund to the performance of separate investments, endowment assets should be pooled for investment purposes to the greatest extent possible. Pooled assets will be called the Consolidated Endowment Fund (CEF) and individual endowment will be issued shares at the end of the month in which they buy into the CEF. Share values will be computed at the end of each month and new purchases will be made at the end of the month per share market value.

2. All assets of the endowment fund deserve professional management. Therefore, except in separately invested endowments where donors or other interested parties have traditionally been granted a role in selecting investments and have, in turn, accepted the associated risk, the University should, as quickly as is practicable, turn over all assets that are publicly traded securities to professional managers to whom the Investment Committee would provide direction. This may require that the assets first be liquidated before funds can be assigned.

3. Endowment fund assets that are not assigned to professional managers and are not publicly traded also need to be managed. These assets should be assessed for potential to yield greater returns or for possible sale, and asset management recommendation should be presented by staff to the Investment Committee on a regular basis.

III. DISTRIBUTING ENDOWMENT EARNINGS

A. The University's policy governing distributions from endowments is designed to be in accordance with UPMIFA as adopted by the State of Colorado. UPMIFA requires the institution to address the duration and preservation of the endowment fund by appropriating a prudent amount for expenditure from endowment funds within the restrictions of any gift agreements and consider the following factors.

- duration and preservation or the endowment fund
- purpose of the institution and the endowment fund
- general economic conditions
- possible effect of inflation or deflation
- expected total return from income and the appreciation of investments
- other resources of the institution
- the investment policy of the institution

B. Distributing Endowment Earnings
It is the policy of the University to distribute, per quarter, 1.125% of the twelve quarter trailing average of the Consolidated Endowment Fund (CEF) unit value applied to the number of units outstanding.

C. *Underwater* Endowment Distributions
UPMIFA's predecessor, the Uniform Management of Institutional Funds Act, contained an express restriction that an institution could not make distributions (other than from

"accounting income" such as dividends, interest and rents) from an endowed fund if the distribution would reduce that fund below its "historic dollar value," there defined as the original gift value, unadjusted for changes in purchasing power. That express restriction was deleted from UPMIFA, although the official comments state that an institution should take into account the donor's intent that an endowed fund should be maintained permanently and that maintenance of purchasing power over time, is a part of such permanence, to be taken into account in developing and administering a policy of distributions from endowed funds. The deletion of the prohibition of distributions that would reduce a fund below its "historic dollar value" permits an institution to avoid artificial restriction on distributions that may result from the fact that contributions are received at all stages of the investment cycle.

D. Donor Intent

Donor intent as specifically stated in the fund agreement takes precedence over UPMIFA standards or University spending policies. If the fund agreement uses general terminology such as "retain principal" or "spend only income", then spending will follow the University spending policies that are in compliance with UPMIFA.