

ICR 1

Office of the Treasurer
December 9, 2019

Members, Investment Committee of the Board of Trustees:

APPROVAL OF ENDOWMENT INVESTMENT POLICY

Recommendation: that the Investment Committee approve the attached Endowment Investment Policy.

Background: The recommended policy reflects a change to the spending distribution policy to narrow the effective spending band to 3.5-5%, from 3-6%. The redline attachment on the following page highlights the minor changes to the spending distribution policy language within the Endowment Investment Policy.

The recommended change will enhance predictability of spending distributions and results from a review of the University's spending distribution policy by the Investment Staff, Investment Consultant, and Endowment Advisory Committee.

Action taken: Approved Disapproved Other _____

Redline Attachment: Approval of Endowment Investment Policy

Spending Distribution Policy

The Investment Committee has established a “hybrid” spending distribution policy, which includes both the market value of the endowment and the level of inflation in determining the spending distribution each year. The annual spending distribution will be calculated by taking a weighted average comprising 60 percent of the prior year’s spending distribution, adjusted for inflation¹², and 40% of the amount that results when the target annual spending distribution rate of 4.0% is applied to the average market value of the Endowment over the preceding 36 months. The spending distribution amount determined by the formula will be constrained so that the calculated rate is at least 33.5%, and not more than 65%, of the current Endowment market value. The hybrid spending distribution formula is depicted below:

$$\begin{aligned} & 60\% * (\text{Prior Year Spending Distribution} * [1 + \text{Annual Percent Change in CPI-U}]) \\ + & 40\% * (4\% * \text{Average Market Value for Preceding 36 Months}) \end{aligned}$$

Note: the calculated spending distribution rate must fall between 33.5% and 65% of the current market value of the Endowment.

¹² Inflation will be measured by the U.S. Department of Labor Bureau of Labor Statistics Consumer Price Index for All Urban Consumers (CPI-U).