INVESTMENT POLICIES

1601 STRUCTURE & ADMINISTRATION OF INVESTMENT FUNDS

Subject: Investments
Effective: December 1986
Revised: March 2011
Last Reviewed: April 2017
Resp. Office: Investment
Approval: Trustees

PURPOSE

To provide policy governing the structure and administration of Investment Funds.

BACKGROUND

The vast majority of the University's endowment is invested in the Associated Investments Fund (AIF), a pooled investment vehicle in which individual endowments and trusts hold individual shares or units. The AIF is managed by the Office of Investments under the supervision of an Investment Board appointed by the Trustees. Funds are invested with external managers in accordance with a strategic asset allocation that aims to maximize total return from both current income and capital appreciation without excessive risk.

The University also maintains a sizeable operating reserve. These funds are under the supervision of the Vice President for Finance and Treasurer. Depending on the expected time horizon, these funds are invested in some combination of the Temporary Investments Fund, the Intermediate Term Fund or the AIF.

POLICY

1. All Endowment Funds will be invested in the AIF.

2. Short-term funds, except those held as a buying reserve for individual funds, will be invested in the Temporary Investments Fund (TIF) or the Intermediate Term Fund (ITF).

3. Funds to be invested in the AIF will be admitted at the current market valuation at the beginning of the next calendar month admission date after receipt and sale of the gift.

4. All Building Funds with cash balances derived from external gifts or donations, will earn TIF income.

1602 INVESTMENT MANAGEMENT - ERISA INVESTMENTS

Subject: Investments
Effective: December 1986
Revised: May 2007
Last Reviewed: April 2017
Resp. Office: Investment
Approval: Trustees

PURPOSE

To establish policies to govern the investment management of the University's and Health System's noncontributory defined benefit plans.

POLICY

1. The Chief Investment Officer, as designated by The Trustees of the University of Pennsylvania, is the Investment Fiduciary for the noncontributory defined benefit plans (Retirement Allowance Plan of the University of Pennsylvania and the Retirement Allowance Plans of the Hospital of the University of Pennsylvania, Pennsylvania Hospital, Presbyterian Hospital and Phoenixville Hospital).

2. Investment policies, as established by the Investment Board, are on file in the Office of Investments.

1603 INVESTMENT MANAGEMENT

Subject: Investments
Effective: January 1989
Revised: May 2007
Last Reviewed: April 2017
Resp. Office: Investment
Approval: Trustees

PURPOSE

To establish policies governing the management of investments for all investments other than those of the University's noncontributory defined benefit plan.

POLICY

1. The endowment is overseen by the Investment Board, as appointed by the Board of Trustees, with a minimum of six standing members and a maximum of eight. In addition to the standing members, the Chairman of the Board of Trustees and the President are also members of the Investment Board ex officio. The Investment Board is responsible for establishing the strategic asset allocation (long-term policy) and agreed ranges for tactical asset allocation.

2. Day to day management of the endowment is overseen by the Office of Investments under the leadership of the Chief Investment Officer. The Chief Investment Officer has been authorized by the Investment Board to: (i) evaluate, select and terminate investment managers, consultants and depositories; (ii) make tactical asset allocations within the range established by the Investment Board; and (iii) reallocate and rebalance assets among existing managers.

3. The Chief Investment Officer and other such senior investment officers as may be designated by the Executive Vice President from time to time are authorized to set investment guidelines and execute fee arrangements and related contracts with investment managers, consultants and depositories.

1604 INVESTMENT REPORTING

Subject: Investments
Effective: December 1986
Revised: May 2006
Last Reviewed: April 2017
Resp. Office: Investment
Approval: VP for Finance

PURPOSE

To establish policies to govern the preparation of, and responsibility for, investment reporting.

POLICY

1. The preparation of periodic investment reports is the joint responsibility of the Offices of the Treasurer and Investments. The Office of the Treasurer is responsible for monthly updating of the University's accounting systems; monthly preparation of final statements for investments and monthly posting of AIF unrealized gains, realized gains and income to appropriate funds. The Office of Investments is responsible for investment performance and asset allocation information.

2. Investment reports issued to donors, beneficiaries and interested parties on individual trust funds, which include tax information, are the responsibility of the Office of the Treasurer. These reports will be prepared in consultation with the Office of Investments, as appropriate.

1605 SPENDING RULE

Subject: Investments
Effective: December 1986
Revised: March 2011
Last Reviewed: April 2017
Resp. Office: Budget and Management Analysis
Approval: Trustees

PURPOSE

The University's endowment spending rate policy balances the objective of maximizing budgetary support to endowed programs while ensuring that the purchasing power of the endowment is protected against inflation. The actual payout in any given year is determined by a formula designed to smooth the impact of short-term market moves on endowment payout.

POLICY

The Office of Budget and Management Analysis, in consultation with the Budget Steering Committee, is responsible for recommending the annual effective payout rates on financial aid endowments and non-aid endowments to the Trustees' Committee on Budget and Finance.

1. All endowment funds will be subject to the spending rule policy unless stipulated by the donor.

1606 CHARGES TO INVESTMENT INCOME

Subject: Investments
Effective: December 1986
Revised: May 2008
Last Reviewed: April 2017
Resp. Office: VP Finance
Approval: Trustees

PURPOSE

To recover the direct administrative cost (expenses of the offices directly supporting the investment function) and indirect administrative cost (expenses incurred by University administrative and responsibility centers in support of programs that are funded by investment income) from investment income.

POLICY

Direct Investment Administrative Expense (Administration):

1. The Office of the Vice President for Finance is responsible for determining those costs that should be included as direct investment administrative expenses. These include, but are not limited to, the costs of the Office of Investments, the Investment Services section of the Office of the Treasurer, Office of Audit, Compliance & Privacy, stewardship expenses, and legal expenses from the Office of the General Counsel.

2. The allocation of the direct administrative expense shall be made on a pro-rata market value basis.

3. Waiver of the direct investment administrative charge can be granted only by the Vice President for Finance.

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Philadelphia, Pennsylvania 19104-6205
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MEMORANDUM

To: Council of Deans
Senior Planning Group
Senior Roundtable

From: Stephen D. Golding

Date: August 6, 2015

Subject: Policy for Investment and Withdrawal of Unrestricted Endowment

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Despite the upheaval in the credit and equity markets over the past two years, Penn has been fortunate in avoiding cash investment and overall liquidity issues for both the University's operating cash pool and the endowment. However, given the unsettled state of the economy and to allay the risks associated with the illiquidity of long-term investments, we do think it important to re-communicate existing guidelines and to establish some new policies for investment of unrestricted funds, and at the same time enable leadership of the University's Responsibility Centers to pick an appropriate type of investment that meets their investment objectives and time horizon.

The AIF is designed to be a long-term investment vehicle, and the cost of earning greater returns than a short-term cash investment like TIF is some degree of both volatility and illiquidity. The AIF is invested in a variety of different asset classes and vehicles. Some of these investments are illiquid and involve long-term contractual lock-ups. This is particularly true of the so-called alternative asset classes which include private equity, real estate and natural resources. Over time, it is expected that these less liquid investments will grow to 25% of the portfolio from the present 13% (if you include certain hedge fund investments, our illiquidity profile is even greater).

Large unanticipated outflows from the endowment could pose both liquidity and asset allocation challenges (the latter occurring as liquid assets are sold down to meet redemptions, leaving remaining investors with a substantially higher-than-target allocation to illiquid asset classes as well as a collective liability for any unfunded commitments). Universities and other non-profit organizations that have liquidated portions of their endowment pools to meet operating needs due to the economic downturn have experienced irreparable harm to the long-term health of their endowments.

Thus, the AIF is not an appropriate vehicle for investments with relatively short time horizons. At Penn, to protect all investors, it is critical that investing schools, centers and departments use the AIF only for investments that are truly long-term in nature. Further, we need to ensure that any withdrawals from the AIF deemed necessary are well-planned and coordinated with the Treasurer's Office and the Office of Investments.

To that end, we are instituting a formal policy to cover the investment of unrestricted funds into the AIF and withdrawal of unrestricted investments from the AIF.

Effective immediately, all new investment of funds into the AIF must be made for a minimum duration of five (5) years. Unrestricted funds previously invested in the AIF will be expected to remain within the AIF for at least five (5) years from the original date of investment; however, we can work with schools or centers that have planned for earlier withdrawal. Additionally, we are requesting that any school or center considering withdrawal or liquidation of unrestricted funds from the AIF ("quasi endowments") notify the Vice President for Finance and Treasurer prior to initiating any such action – three months in advance for withdrawals of $1 million or more; one month in advance for withdrawals of less than $1 million. We are also requesting that, as part of your budget preparation, you highlight any planned withdrawals or liquidations to meet capital or operating needs to enable us to do necessary cash flow planning.

Withdrawal of funds for restricted term endowments are dictated by the terms of the donor agreement. Restricted permanent endowments are not subject to withdrawals.

In order to provide an alternative for a shorter-term investment of funds by schools, centers and departments, the Office of Investments has created an intermediate-term investment option, a mutual fund consisting primarily of fixed-income investments and securities of varying maturities, which is expected to have returns greater than the TIF-based rate routinely applied to school and center bank and capital funds. Since there is a possibility of some short-term volatility (including negative returns), we are limiting investments in the intermediate-term fund to a minimum duration of two (2) years.

The Treasurer's Office and Office of Investments will be following up with more information regarding the intermediate-term investment option.

If there are any questions, please feel free to contact me.

cc: Craig R. Carnaroli
Dr. Vincent Price
Kristin Gilbertson