

Agenda
Board of Regents
Special Meeting of the Full Board
Tuesday, June 26, 2012; 10:00 a.m. – 10:30 a.m.
AUDIO CONFERENCE
1-800-893-8850 / Pin 4054501

I. Call to Order

II. Adoption of Agenda

MOTION

"The Board of Regents adopts the agenda as presented.

I. Call to Order

II. Adoption of Agenda

III. Approval of Revisions to the Consolidated Endowment Fund Policy

IV. Adjourn

This motion is effective June 26, 2012."

III. Approval of Revisions to the Consolidated Endowment Fund Policy

Reference 1, 2 & 3

The President recommends that:

MOTION

"The Board of Regents approves the amendments to the Consolidated Endowment Fund Investment Policy as presented. This motion is effective June 26, 2012."

RATIONALE AND RECOMMENDATION

The UA Foundation Investment Committee manages the Consolidated Endowment Fund (CEF) in accordance with the CEF Investment Policy, which is approved by the Board of Trustees and the Board of Regents. The UA Foundation Investment Committee met on May 3, 2012 to set the target rate of return and asset allocation for the coming year and address other related issues.

In setting the target rate of return and asset allocation, the UA Foundation Investment Committee concluded that it is probably not prudent to continue increasing the risk in the portfolio in order to meet its current distribution requirements and fully fund intergenerational equity (the reserve for inflation-proofing the portfolio) at the estimated CPI inflation rate. However, the CEF Investment Policy contemplates fully funding intergenerational equity at the CPI inflation rate in addition to the distribution requirements. The policy also includes statements indicating that planned risk levels should be less than that of an 80% equity portfolio and maintaining the real value of the assets is of "paramount" concern. At the time this policy was drafted, these statements were not particularly problematic, but the volatility of the markets in recent years has brought this issue to the forefront. Setting a target rate of return and corresponding asset allocation at a level sufficient to fund the current distributions and full inflation-proofing

would exceed the risk level intended by the policy and, in the opinion of the UA Foundation Investment Committee, probably not prudent.

Reference 2 reflects the increase in risk over time that has been required to maintain a portfolio designed to produce an 8% return. The volatility level has increased almost four fold since 1991 from a standard deviation of approximately 3% in 1991 to 12% in 2010. This trend can also be seen in Reference 3, the CEF Portfolio's projected returns. The UA Foundation Investment Committee expects the projected return to be approximately 47 basis points short of the amount needed to fully fund intergenerational equity. Reference 1 is Section IV of the Consolidated Endowment Fund Investment Policy reflecting the proposed amendments to this policy, which are necessary to avoid technical non-compliance.

On May 3, 2012, the UA Foundation Investment Committee passed a motion recommending that the Board of Regents and the Board of Trustees approve the proposed amendments as presented in Reference 1.

IV. Adjourn