

OSU Treasury Managed Endowment Investments Proposal

Introduction

Before the Oregon State University Foundation (Foundation) was established and while Oregon State University (University) was a part of the Oregon University System (System), gifts made to the University were owned by the System and managed in several investment pools. The University's Endowment gifts (gifts where the corpus was to be held in perpetuity and earnings used currently), and other large gifts that were held as Quasi-Endowments (gifts treated like an endowment and corpus held in perpetuity), were held in the System Pooled Endowment Fund and invested by the Oregon State Treasury pursuant to investment policies adopted by the System board and the Oregon Investment Council (OIC). Since the University separated from the System on July 1, 2014, the University's Endowment and Quasi-Endowment assets are now owned by the University and continue to be held and invested by the Oregon State Treasury pursuant to the System/OIC policies that automatically became University policies under SB 270.

University Endowment Investments as of September 30, 2014

The table below details the University's endowment investments as of September 30, 2014:

Higher Education Pooled Endowment Fund Oregon State University Proportional Share 9/30/2014		
	<u>Market Value</u>	<u>Asset Allocation</u>
<u>Growth</u>		
BlackRock S&P 500 Index	\$ 4,815,500	13.1%
Columbia Acorn	690,683	1.9%
Arrow street Capital	4,554,527	12.4%
Genesis Asset Management	1,216,017	3.3%
BlackRock ACWI IMI B	73	0.0%
HRJ Growth Capital II	1,693,472	4.6%
JP Morgan Venture Capital IV	2,163,107	5.9%
Total Growth	15,133,380	41.2%
<u>Diversifiers</u>		
Western Asset Core Plus Bond Fund	5,044,647	13.7%
Cash	13,120,967	35.7%
Total Diversifiers	18,165,614	49.4%
<u>Inflation Hedge</u>		
Capital Dynamics REF III	1,016,063	2.8%
Morgan Stanley Prime Propert	241,397	0.7%
BlackRock TIPS NL B	2,188,335	6.0%
Total Inflation Hedges	3,445,795	9.4%
Endowment Fund Payable	(6,247)	0.0%
OSU Share of Pooled Endowment	36,738,542	100.0%
Separately Managed Assets	2,693,002	
Total OSU Endowment Market Value	\$ 39,431,544	
OSU calculated share of the HE Endowment Fund is based upon a unitized valuation methodology. Unit values are calculated monthly as determined by the closing market value of the underlying assets.		

Proposal

Currently, the Oregon State Treasury charges three basis points (bps) or \$11,022 (\$39,431,544 - \$2,693,002 = 36,738,542 * 3 bps) annually for managing these funds. University management has been in discussions with Foundation management to facilitate an agreement whereby these endowment investments would be managed by the Foundation. The University and the Foundation agree that, given that the Foundation is currently managing some \$500 million plus endowment investments and already has in place the professional investment management personnel and practices necessary to manage an Endowment fund, the University, working with counsel, would develop a plan to transfer that responsibility to the Foundation. This will avoid duplicating the endowment investment management work of the Foundation at the University and place the endowment assets of the University in a solid management structure, which includes an investment committee that is made up of investment professionals who have a deep interest in the success of the endowed pool. Also included with the Foundation's management of the funds is a successful stewardship system that will provide donors with an annual report including financial information about their endowment along with details on how their gift is making a difference to the University.

As part of the Foundation's operating budget a 150 bps fee is assessed on the Foundation's endowment funds. This fee accounts for approximately 25% of the Foundation's budget and has been instrumental in funding an operation that raises over \$100 million on an annual basis. The Foundation would treat the endowment funds under management for the University in the same manner. For the University, this would equate to annual fees in Year 1 of approximately \$551,078 and is a step to build a new long-term funding source for the Foundation, as part of the University's ongoing commitment to build a best in class advancement program and to prepare for the next comprehensive campaign. It also positions the Foundation to provide direct support for the following key initiatives that are critical to the University's mission:

- **OSU-Cascades Master Plan:** A Master Plan for the development of the OSU-Cascades campus is part of the University's commitment to quality, integrated long-range planning and would greatly enhance the ability to raise funds for OSU-Cascades by providing a comprehensive long-range vision for OSU-Cascades. Development of the Cascades Campus remains one of OSU's highest strategic priorities to meet the State's 40:40:20 educational attainment goals. Estimated cost of the Master Plan is \$2,000,000 per analysis by OSU-Cascades. It is proposed that \$156,500 of the fees be allocated to the University for 30 years in order to support securing the \$2,000,000 in funding.
- **Student-Athlete Excellence Scholarship Fund:** A key University initiative and a key part of the Governor's and the Higher Education Coordinating Commission's educational goals is to increase the number of degrees awarded to underrepresented students, women and Pell-eligible students. The Foundation will spend \$220,000 per year, for a minimum of 30 years, for a Student-Athlete Excellence Scholarship Fund to enhance our ability to recruit high quality student-athletes from those key student populations to the University.

The Foundation continues to provide extraordinary support for the University, beyond simply managing funds, as evidenced by the successful \$1.1 billion campaign. The utilization of some of the management fee income from the OSU Endowment Funds for the OSU-Cascades Master Plan and a Student-Athlete Excellence Scholarship Fund will help serve the mission of the

University. In addition, funds from the 150 bps fee will provide the Foundation with additional funding to support operations and fund raising efforts. There is an understanding that the model used to support advancement needs to be reviewed as we complete the campaign in order to ensure the long-term success of both enterprises as they work to support Oregon State University's mission and goals.

In order to move this proposal forward, staff would develop an investment management contract that would include provisions requiring that the Foundation report quarterly on investment performance to the OSU Board of Trustees Finance & Administration Committee (Committee) and require biennial review of the investment policies of the Foundation (or more frequent if modifications are made by the Foundation) in order to ensure that they remain congruent with the University's goals and objectives. Staff would review the Foundation's current investment policies and the contract terms with the Committee in a future meeting before ratification of the contract.

Staff Recommendation to the Committee

Staff propose that the OSU Board of Trustees' Finance & Administration Committee authorize staff to work with the Foundation to develop an investment management contract for the Foundation to manage the endowment and quasi-endowment funds of the University. Staff will review the current investment policies of the Foundation and contract terms with the Committee before executing the contract.