



TEXAS TECH UNIVERSITY SYSTEM

## Senate Higher Education Committee

Interim Hearing on Endowments  
March 25, 2010

*Jim Brunjes*  
*Vice Chancellor and Chief Financial Officer*  
*Texas Tech University System*



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## Endowment Funds

- Endowed gifts are funds given to the institutions with a donor-imposed restriction that the corpus is not to be expended but is to be invested for the purpose of producing earnings.



## Responsibility of the Board of Regents

- Fiduciary responsibility to comply with the restrictions imposed by the donors of endowment funds.
- Legal responsibility to ensure the management of the endowment and other institutional funds is in compliance with state law, including the Uniform Prudent Management of Institutional Funds Act ("UPMIFA") as per Section 163, *Texas Property Code*.
- According to Board policy, no endowment shall be considered for management unless it is under the sole control of the Board, with full discretion as to investment of principal and expenditure of the funds eligible for distribution pursuant to donor agreement.



## Investment Goals and Objectives

- The financial goal for management of endowment and long-term institutional funds is to preserve the real (inflation-adjusted) purchasing power of principal and earnings after accounting for endowment spending, inflation, and costs of investment management.
- The total return goal for the LTIF is to exceed the CPI plus 5%.
- The total return goal for each investment manager is to exceed the total return of its respective benchmark.
- Each investment manager will be evaluated against a peer universe.



## Asset Allocation

- Asset allocation is the primary driver of the variability of investment returns. To achieve the goal and objective of the fund, the fund's assets may be invested in categories diversified both by asset class, economic sector, industry, global region, and market capitalization.
- The purpose of diversification is to limit the risk associated with any single security or class of securities.
- Based upon recommendations from the Investment Advisory Committee, the Chief Investment Officer is responsible for implementing the asset allocation and is authorized to set actual target weights for each asset class, subject to the approved ranges.



## Investment Selection

- In managing and investing the LTIF, the Board IAC, and institutional personnel shall consider:
  - General economic conditions
  - The possible effects of inflation and deflation
  - The expected tax consequences of investment decisions or strategies
  - The role that each investment or course of action plays within the overall investment portfolio of the fund
  - The expected return based on levels of liquidity and investment risk that are prudent and reasonable under present circumstances, maintaining awareness that such circumstances may change over time
  - The expected total return from income and appreciation of investments
  - The needs of the TTU System and the fund to make distributions and to preserve capital



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## Spending Policy

- The spending policy reflects an objective to distribute as much total return as is consistent with the overall investment objective while protecting the inflation-adjusted value of the principal. The following factors are considered in the spending policy:
  - Duration and preservation of the LTIF
  - Purposes of the TTU System and the LTIF
  - General economic conditions
  - Possible effect of inflation or deflation
  - Expected total return from income and the appreciation of investments
  - Other resources of the TTU System
  - Overall investment policy
- The distribution of spendable earning to each unit of the LTIF shall not exceed 6% nor less than 4% of the average of NAV of the LTIF for the most recent 12 quarters, currently 4.5%.



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## Standards

- Pursuant to regent rules standards of conduct for investment managers and advisors are adhered to.
- Pursuant to regent rules conflict of interest on investments and restrictions on investments for Board of Regent members, Investment Advisory Committee members, and Employees of the TTUS Office of Investments.
- All institutions are required to disclose these standards.