University of Colorado Foundation

FREQUENTLY ASKED QUESTIONS ABOUT THE UNIVERSITY OF COLORADO FOUNDATION

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When was the University of Colorado Foundation founded, how is it organized and what is its purpose?

Friends and philanthropic supporters of the University of Colorado founded the University of Colorado Foundation in 1967 for the sole purpose of advancing CU's mission. Today, the Foundation's primary activities are managing endowment and other gift and treasury funds for the benefit of CU, donor stewardship, gift administration and compliance, and providing support for central and campus-based advancement operations at CU. The Foundation is a Colorado nonprofit corporation and operates as a 501(c)(3) organization for charitable purposes. The Board of Regents, CU's governing board, has designated the Foundation as the single portal for philanthropic giving to CU.

How does the Foundation benefit CU's students and faculty?

Distributions from endowments and current gift funds held by the Foundation for the benefit of CU help fund faculty research, chairs and professorships and provide scholarships and other student aid across the CU system. The Foundation endeavors to preserve the value of the endowments in perpetuity so donor funds will always be available to advance CU's mission as one of the nation's most innovative public research universities.

Who governs the Foundation?

The Foundation is governed by a 23-member Board of Directors that is separate and independent of the University. CU's president and a member of the Board of Regents serve as ex-officio, non-voting members of the board. The Foundation's president and chief executive officer is appointed by, and reports to, the Board of Directors. Directors are eligible to serve two three-year terms. Directors also serve as CU Foundation Trustees and the chair of the Board of Directors presides at meetings of the CU Foundation Trustees.

What is the purpose of the CU Foundation Trustees?

The CU Foundation Trustees constitute the national philanthropic council for CU and include many of CU's best friends and most loyal supporters. Trustees focus on learning about CU, advocating for CU, connecting others to CU and investing in CU. The Foundation convenes meetings of the Trustees for the benefit of CU Advancement. The CU Foundation Trustees have no governance or fiduciary responsibilities related to the Foundation.

Who is responsible for setting the Foundation's investment policies?

The Foundation's Board of Directors is responsible for establishing the Foundation's investment policies. The board has charged its Investment Policy Committee with the task of annually reviewing and recommending updates to the Foundation's investment policies based on best practices for college and university endowment management and the needs of the University. The board then considers the Investment Policy Committee's recommendations, receives input from Foundation and University staff and consults with the Foundation's independent investment advisor before finalizing and approving the Foundation's investment policies.

What safeguards are in place to assure that members of the Foundation's Board of Directors and Investment Policy Committee are free of conflicts?

All Foundation directors, officers and committee members are subject to the Foundation's Code of Ethics Policy and Conflicts of Interest Policy. These policies require that these fiduciaries put the interests of the Foundation ahead of all competing interests and not use their position with the Foundation for personal or private gain for themselves, friends, family members or any other organization in which they have an interest. In addition, the Investment Policy Committee's charter states that all committee members "must be free of any relationship that, in the opinion of the Board of Directors, may interfere with the member's individual exercise of independent judgment." Members of the Foundation's Board of Directors and Investment Policy Committee are not affiliated with Agility, the Foundation's outsourced chief investment officer, or with any of the firms or funds in which the Foundation's portfolio is invested.

How are the Foundation's investment policies used?

The Foundation's investment policies prescribe how the Foundation's long term and short term investment pools are to be invested. The long term investment pool, known as the LTIP, includes CU's endowments and CU treasury funds. The LTIP's investment policy specifies asset class allocation ranges and limits on risk. It also establishes performance benchmarks that the Foundation uses to measure the investment manager's performance.

What are the Foundation's investment objectives for its Long Term Investment Pool?

The Foundation's financial goals for the LTIP include being able to provide a steady and increasing stream of funding for CU from the endowments and maintaining the real, inflation-adjusted purchasing power of the endowments over time. The Foundation invests the LTIP in a balanced portfolio designed to maximize growth while positioning it to withstand market volatility and downturns. The current LTIP Investment Policy Statement states that the LTIP seeks to attain an average annual total return in excess of a policy benchmark, net of investment management expenses. The current policy benchmark is a blend of 80% MSCI All Country World Index and 20% Barclays Capital U.S. Aggregate Bond Index. The policy benchmark is comprised of stable, widely referenced and readily available indices. Because the policy benchmark is expected over the long term to exhibit a similar level of volatility, or standard deviation, as the LTIP, it provides the Foundation's board and Investment Policy Committee with a fair and appropriate benchmark for measuring the LTIP's long term performance.

Why does the Foundation's LTIP investment policy require a diversified portfolio of various asset classes?

The Foundation's Board of Directors has a fiduciary obligation to manage the endowment consistent with applicable legal rules and best industry investment practices. The Uniform Prudent Management of Institutional Funds Act (UPMIFA) requires that fiduciaries of endowments invest in a diverse mix of asset classes. Consistent with its fiduciary obligations and the law, the Board of Directors has determined that a diversified portfolio holding global public equities, global private capital, real assets, fixed income and cash, and global hedge funds is the best way to ensure the long term growth of the LTIP with less risk than investing in a single asset class. The board's judgment is based on a consideration of several important factors, including the advice of the highly qualified members of its Investment Policy Committee, its independent advisors at Monticello Associates, the Foundation's senior staff, representatives of CU's Board of Regents, President's Office and Treasurer's Office, and legal counsel. The Board of Directors is also mindful that the Foundation's investment policy is consistent with the best practices of its peers – the 90 other university and college endowments with assets greater than $1 billion.

Why does the Foundation employ an investment management firm?

When the Foundation's endowment was relatively small, the Foundation relied upon volunteer members of its investment committee to manage the investment portfolio. As the LTIP grew in size and complexity, the Foundation engaged Monticello Associates to provide professional investment advice. In 2004, the Foundation hired an in-house team of investment professionals to manage the LTIP. In 2009, the Foundation's Board of Directors decided to contract for the management of its investment portfolio with Agility, an investment management firm that specializes in managing the investment portfolios of foundations and endowments. The Foundation made this decision for several reasons. The Foundation discovered that many of its peer institutions were adopting the outsourced chief investment officer ("OCIO") model primarily because an OCIO firm can bring highly qualified and broadly experienced teams and other institutional resources to the management of large endowment portfolios, and OCIOs can do it more effectively and efficiently than in-house staff and volunteers can. Using an OCIO also solved the challenge of trying to adequately compensate and retain qualified investment managers on staff. The Foundation's research also showed that use of an OCIO would be less expensive than employing a full investment staff in-house.

How does the Foundation assess its investment management firm's performance?

The Foundation's Investment Policy Committee is comprised of directors, trustees, alumni, University staff, a Regent and community members recruited for their particular investment expertise. It meets quarterly with Agility's leadership team to review recent and long term investment results, discuss portfolio strategy and undertake a deep dive into one of the asset classes of the portfolio. The Foundation's independent advisors at Monticello Associates also attend the quarterly investment committee meetings to provide an independent assessment of the LTIP's portfolio structure, the investment returns and Agility's performance.

In 2016, the Foundation conducted a thorough review of Agility's performance, asking all Foundation stakeholders to rate Agility's performance related to investment returns, fees and fee structure, manager sourcing, selection, monitoring and compensation, due diligence, risk and liquidity, and customer service. Agility received high marks in each measure.

In 2019, the Foundation engaged the consulting arm of the Association of Governing Boards of Colleges and Universities ("AGB") to examine the Foundation's current investment strategies and processes, including the Foundation's relationship with Agility. AGB Consulting's scope of work included an assessment of the Foundation's use of an OCIO, Agility's fee structure, the possibility of insourcing investment management and the Foundation's asset allocation directives in its Investment Policy Statement. AGB Consulting recommended that the Foundation should remain committed to the OCIO model and retain Agility as the Foundation's OCIO for the foreseeable future.

Why doesn't the Foundation invest the LTIP in low cost index funds tied to the U.S. equity markets? Wouldn't that policy lead to higher returns at lower cost?

The Foundation's Board of Directors and Investment Policy Committee have considered and analyzed this strategy. The Foundation's Board of Directors believes that allocating all or a substantial portion of the LTIP's assets to one or more U.S. equity index funds is not prudent. That does not mean, however, that the LTIP never utilizes passive investment strategies. The LTIP uses index funds on a tactical basis to meet particular asset allocation objectives.

UPMIFA generally requires diversification of asset classes and evaluation of the risk/reward characteristics of the portfolio as a whole. The Foundation's Board of Directors believes that investing primarily in U.S. public equities would not be prudent or in line with the asset-class diversification requirements of UPMIFA.

Investing CU's endowment exclusively in public equity index funds also would expose them to the risks of a market correction that could put many of the endowments underwater for an extended period. Underwater endowments must suspend distributions, cutting off the funds that CU's students, faculty and researchers rely upon each year, and frustrating donor intent.

The Foundation's approach is not unique. None of the Foundation's peer institutions (approximately 90 institutionally related foundations, colleges and universities with endowments valued at over $1 billion) have portfolios invested primarily in passive index funds.

How does the Foundation generate revenue and spend its resources?

The Foundation has two primary sources of revenue: an assessment on the endowments the Foundation manages for the benefit of CU and a distribution from the Foundation's short term investment pool. The endowment assessment is equal to 1.5% of each endowment's fair market value as of December 31 each year. The Foundation's fiscal year 2023 operating budget includes $35 million in revenue from the endowment assessment and $12 million in revenue from the short term investment pool distribution. Of the $47 million in total revenue anticipated in fiscal year 2023, the Foundation will use $6 million to fund its operations and it will transfer $35.5 million to the University as a contribution to fund CU Advancement's operations and IT infrastructure investments. The remaining $5.5 million in operating revenue will contribute to growth of the Foundation's unrestricted net assts balance.

From time to time, at the request of the University, the Foundation makes grants from its unrestricted net assets to fund programs and projects across the CU system. Since 2008, the Foundation has made more than $150 million in investments across the four CU campuses from its unrestricted net assets.

Does the Foundation assess a fee on gifts?

No. Unlike many of its peer institutions, the Foundation does not charge a fee or tax on endowment, current or capital gifts when received.

The Foundation, like most of its peer institutions, does make an annual assessment on all of the endowments it holds for the benefit of the University and transfers the assessment proceeds to the University to help fund CU Advancement's operations.