

University of Wisconsin Hospitals and Clinics Authority

Investment Policy Statement

Operating Funds

November 2013

**University of Wisconsin Hospitals and Clinics Authority (UWHCA)
Investment Policy Statement
Operating Funds**

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**University of Wisconsin Hospitals and Clinics Authority (UWHCA)
Investment Policy Statement
Operating Funds**

Statement

Scope and Purpose

This statement reflects the investment policy, objectives and guidelines for the Operating Funds of UWHCA (Operating Funds) as adopted by the Board of Directors of UWHCA (Board). It is intended to:

1. Define and assign responsibilities of the parties involved.
2. Establish a clear understanding of the investment goals and objectives and a basis for evaluating investment results.
3. Establish asset allocation guidelines.
4. Offer guidelines and limitations to investment managers.

Assignment of Responsibilities

Finance Committee Responsibilities

Except to the extent otherwise stated herein, the Finance Committee (Committee) shall have the delegated authority to act on behalf of the Board to oversee the management of the Operating Funds and, in carrying out its responsibilities hereunder, shall have all of the powers and authority of the Board. The Committee shall discharge its duties with the same care, skill, prudence and diligence under circumstances then prevailing, that a prudent person, acting in a like capacity and fully familiar with such matters would use in the investment of a fund of like character and with like aims. The specific responsibilities of the Committee include:

1. Review and recommend investment policies and objectives for the Board approval.
2. Ensure that the Operating Funds are managed in accordance with any applicable laws and/or regulations pertaining thereto.
3. Prudently and diligently select and/or replace investment professionals, including investment advisor(s), manager(s), custodian(s), trustee(s) and any other service providers that it deems necessary.

4. Determine appropriate benchmarks for each investment category and investment manager.
5. Regularly monitor and evaluate the investment managers based on various criteria including performance relative to benchmarks, risk-adjusted performance, style consistency and any changes in personnel or ownership of the firm and assure adherence to policy guidelines in coordination with UWHCA management.
6. Adjust tactical (short term) asset allocation within the ranges as set forth in Appendix A to capitalize on trends and opportunities that develop in the markets.
7. If deemed appropriate, retain an objective, third-party advisor to assist UWHCA management and the Committee in managing the overall investment process. If so engaged, the advisor will be responsible for guiding UWHCA management and the Committee through a disciplined and rigorous investment process to enable them to meet their fiduciary responsibilities. The Committee will also critique the advisor's performance on an ongoing basis.
8. Determine the extent to which indexing versus active management is appropriate and select and/or replace index mutual funds and/or exchange traded funds as necessary.

Investment Objectives and Guidelines

General Investment Objectives

In general, the primary investment objective is to preserve principal with a secondary objective of generating income within reasonable and prudent levels of risk. The Board believes that the achievement of investment returns should be viewed in a long-term context. The Board recognizes that rates of return are volatile on a year-to-year basis and that investment returns will not progress uniformly over time. Thus, volatility will be tolerated in as much as it is consistent with the volatility of a comparable market index. Additional objectives:

1. Maintain sufficient liquidity to meet anticipated cash flows.
2. Understanding that risk is present in all types of securities and investment styles, the Board recognizes that some risk is necessary to produce long-term investment results that are sufficient to meet the investment objectives. However, unnecessary levels of risk-taking are to be avoided.
3. Diversification, in so far as it may reduce portfolio risk, is desired.

4. The Board recognizes that it may be necessary to forego opportunities for potential large gains to achieve a reasonable risk posture.

Specific Investment Goals

It is expected that, over time, the total return on the Operating Funds will meet or exceed the return of a composite market index comprised of passive market indices combined in the same percentage as the actual allocation of the Operating Funds.

The investment goal above is the objective of the aggregate Operating Funds, and is not meant to be imposed on each investment account.

Asset Allocation Guidelines

The Board believes that long-term investment performance, in large part, is a function of asset mix. To that end, with an emphasis on diversification and balancing risk and reward, investment management of the Operating Funds shall be in accordance with the asset allocation guidelines set forth in Appendix A and formally measured and reported on a quarterly basis.

Investment Guidelines

Allowable Assets

1. University of Wisconsin Foundation (UWF) pooled funds
2. Cash Equivalents
 - Treasury Bills
 - Money Market Funds
 - Commercial Paper
 - Banker's Acceptances
 - Repurchase Agreements
 - Certificates of Deposit
3. Fixed Income Securities
 - U.S. Government and Agency Securities
 - Corporate Notes and Bonds
 - Mortgage Backed Bonds
 - Asset Backed Bonds
 - Municipal Bonds
 - Exchange Traded Funds
 - Index Funds

The Committee may direct investments into mutual funds or exchange traded funds that invest in any combination of the allowable assets listed above. In that instance, the fund

will have authority to engage in transactions or invest in securities that may otherwise not be within the parameters of this policy statement, so long as those transactions are allowable as described in the fund's prospectus.

Guidelines for separately managed fixed income accounts and cash equivalents are provided in Appendix A and Appendix B. Those guidelines that the Board has established are intended to apply at the time of purchase. The Board recognizes that subsequent market valuation changes may cause an investment that was allowable at the time of purchase to subsequently fall outside of these stated guidelines. In those instances, except as otherwise specifically noted, it is expected that the investment manager will either reduce the investment prior to the end of the quarter or provide UWHCA management or the Committee a written report at quarter-end that details each security holding that is not in compliance and the rationale for continuing the investment.

Prohibited Investments

Prohibited individual investments are any investments that are not specifically authorized within this statement (except for assets held in a UWF pooled fund, mutual fund or exchange traded fund as described under Allowable Assets). Those include, but are not limited to, the following:

1. Equity Securities
2. Commodities and Futures Contracts
3. Private Placements
4. Lettered or Restricted Stock
5. Limited Partnerships
6. Venture Capital
7. Tangible Personal Property
8. Direct Real Estate
9. Art/Precious Metals
10. Short Selling
11. Margin Transactions
12. Oil and Gas Payments/Drilling Partnerships

Derivative Investments

Unless a specific type of derivative security is allowed in this Statement of Investment Policy, Objectives and Guidelines, the investment manager must obtain written permission from the Committee to include derivative investments in the Operating Fund's portfolio. The investment manager must present complete, detailed documentation as to the expected return and risk characteristics of such investment vehicles.

Securities Lending

Securities lending is not permitted under this policy except for that which may be done by a mutual fund or in the University of Wisconsin Foundation Endowment Fund.

Investment Manager Selection

At the direction of the Committee, UWHCA management will conduct due diligence prior to selection of investment managers which will include evaluation of quantitative issues such as tracking error and overall performance relative to benchmark and peers (consistency, up and down markets, and risk-adjusted). In addition, qualitative issues will be evaluated including size of firm, ownership of firm, organizational stability and tenure of manager. Note that the selection process may also consider other services that a bank or investment company may be providing to UWHCA (e.g. providing credit).

University of Wisconsin Foundation (UWF) as Investment Manager

UWF manages pooled investment funds on behalf of multiple University of Wisconsin affiliated entities. Historically, UWHCA has invested Operating Funds with UWF in pooled funds known as the Expendables and Endowment Funds.

1. Expendables Fund: The UWF Expendables portfolio is a short-term pool of dollars similar to a savings or money market account. The primary goal of this fund is principal preservation. It pays a short-term interest rate equal to the 30-day LIBOR rate. Interest earned is reinvested in the fund.
2. Endowment Fund: The UWF Endowment portfolio is an internationally diversified pooled fund. Asset selection is at the full discretion of UWF. The asset allocation consists of domestic, international and private equities, hedge funds, fixed income and real assets (certain of which would otherwise be prohibited under this policy). As such, it serves as a vehicle by which UWHCA can diversify its portfolio to include limited exposure to more aggressive, higher yielding investment categories. It is the intention of the Board to permit a limited amount of exposure to the Endowment Fund for purposes of diversification, return and risk management, as further addressed in Appendix A.

Investment Manager Goals and Responsibilities

A qualifying investment manager must be a registered investment advisor under the Investment Advisors Act of 1940, or a bank or insurance company. Each investment manager must acknowledge in writing its acceptance of responsibility as a fiduciary. Specific goals and responsibilities of the investment managers include:

1. Meet or exceed the market index selected and agreed upon by the Committee that most closely corresponds to the respective manager's investment style. Investment managers will be judged against a fully invested benchmark.
2. Manage the level of risk in the portfolio, consistent with the level of risk associated with the benchmark.
3. Discretionary investment management including decisions to buy, sell, or hold individual securities while observing and operating within all guidelines outlined in this statement. Any deviation requires written approval by the Committee.
4. Use the same care, skill, prudence and diligence that experienced investment professionals acting in a like capacity would use in accordance and compliance with the Uniform Prudent Investor Act and all applicable laws, rules, and regulations.
5. Reporting quarterly account valuations and investment performance reports to UWHCA management and, as requested, to the Committee.
6. Communicating any significant changes to investment strategy, ownership, fund managers, or any other factors that may affect implementation of investment process or their progress toward investment objectives.
7. Voting proxies and related actions in a manner consistent with the long term interest and objectives of the portfolios as defined in this policy. Keeping detailed records of the voting, complying with all applicable regulatory actions regarding the voting and providing detailed voting records to UWHCA as requested.
8. Executing all transactions for the portfolio subject to "best price and execution". If a manager utilizes brokerage from the portfolio to effect "soft dollar" transactions, detailed records will be kept and communicated to the UWHCA management or its investment advisor, if applicable.
9. Provide a quarterly written report detailing any and all security holdings that are out of compliance with this statement of investment policy and the rationale for continuing to hold such security in the portfolio.

Conflicts of Interest

All investment decisions and actions performed on behalf of UWHCA by any of the selected investment professionals shall be performed solely for the benefit and best interests of UWHCA. If any investment professional has a conflict of interest that might impair its ability to carry out decisions and actions in the best interest of UWHCA, it must be disclosed in writing to the Committee.

Appendix A

University of Wisconsin Hospitals and Clinics Authority (UWHCA) Investment Policy Statement Operating Funds

Guidelines for Asset Allocation

Tier	Asset Category	Index/Benchmark	Target Range	
			Minimum	Maximum
FIXED INCOME				
I	Money Market	90-Day T-Bill	20%	50%
II	Short-Term 1-3 Year	Barclay's 1-3 Year Government/Credit	20%	50%
III	Intermediate 3-5 Year	Barclay's Intermediate Government/Credit	20%	50%
IV	Long Term 5 + Year	Barclay's Aggregate	0%	25%
UW FOUNDATION				
N/A	Expendables Fund	30-day LIBOR	0%	50%
N/A	Endowment Fund	Blend of MSCI All Country World and Barclay's Global Aggregate Bond	0%	25%

Note: Ranges have been established permitting tactical overweighting and underweighting in each asset category in order to capitalize on trends and opportunities that develop in the market.

Appendix B

University of Wisconsin Hospitals and Clinics Authority (UWHCA) Investment Policy Statement Operating Funds

Guidelines for Separately Managed Fixed Income Accounts and Cash Equivalents

1. For Tier II investments as defined in Appendix A, funds may be invested only in bonds rated at minimum A by Standard & Poor's or an equivalent rating by Moody's Investors Service or Fitch Ratings. Investments in asset backed and mortgage backed bonds are limited to those rated AAA by Standard & Poor's or an equivalent rating by Moody's Investors Service or Fitch Ratings.
2. For Tier III and IV investments as defined in Appendix A, funds may be invested only in bonds rated investment grade by one of Standard & Poor's, Moody's Investors Service or Fitch Ratings. Additionally, 70% of the investments must be rated A or better.
3. The maximum investment by an investment manager in any one sector is limited as follows:

<u>Sector</u>	<u>Maximum % Tier</u>	<u>Maximum % Tier</u>
	<u>II and III</u>	<u>IV</u>
U.S. Government and Agency	100%	100%
Corporate Notes and Bonds	70%	70%
Mortgage Backed Bonds	10%	60%
Asset Backed Bonds	25%	25%
Municipal Bonds	15%	15%

4. No more than 30% of the total fixed income investments of a manager's portfolio will be invested in a particular sub-sector of the corporate sector. Sub-sectors are currently defined as Industrial, Utility, Finance and Other/International.
5. No more than 5% of the total fixed income investments of a manager's portfolio will be invested in any one obligor at the time of purchase and no more than 7% is allowed at any subsequent date (excluding U.S. Government and Agency obligations).
6. Individual security holdings of eligible government agencies may not exceed 30% of an investment manager's total portfolio.
7. The average option adjusted duration for a fixed income manager's portfolio should be equal to $\pm 25\%$ of the agreed upon fixed income benchmark.

8. Operating Funds invested in commercial paper must be rated A1/P1 (or equivalent) or better.
9. Money market funds selected shall only include those that are SEC Rule 2a-7 compliant. In addition, the investment cannot exceed 10% of that particular money market fund's total assets.
10. Investments in mutual funds and exchange-traded funds cannot exceed 10% of that particular fund's total assets.
11. Repurchase agreements must be backed by U.S. Treasury or Agency securities having at all times (determined on a daily basis) a market value at least equal to 102% of the amount invested.
12. Banker's acceptances and certificates of deposit must be issued by a bank which has, or whose parent holding company has, combined capital and surplus of \$100 million and a minimum rating on unsecured senior debt of A by Standard & Poor's or an equivalent rating by Moody's Investors Service or Fitch Ratings.
13. No more than 10% of the total fixed income investments of a manager's portfolio will be invested in Rule 144A securities. These securities must also have a minimum issue size of \$150 million and must meet all other existing guidelines.

University of Wisconsin Hospitals and Clinics Authority Investment Management Structure

