

UWHCA Board of Directors
Proposed Modifications to Investment Policy
November 5, 2014

Background

On December 4, 2013 the UWHCA Board approved an Investment Policy which, among other things:

1. Delineated allowable and prohibited investment categories
2. Established asset allocation ranges for those various categories
3. Delegated authority for ongoing investment oversight to the Finance Committee

UWHCA management has recently obtained investment allocation data for a cross-section of academic and non-academic medical centers and health systems. A summary of that data including comparison to UWHCA’s allocation guidelines is attached. It suggests that UWHCA has some latitude to amend its policy and allocation and remain as, or more, conservative than its peers from a risk management perspective. Given the downward pressure on patient revenues, it seems prudent to consider such amendments to provide UWHCA the opportunity, over time, to capture a greater return in the investment markets.

Proposed Changes to Policy Ranges

Management proposes to amend Appendix A of the Investment Policy as follows:

Appendix A asset categories	Current Permitted Range	Proposed Permitted Range
Tier 1 - Cash/ultrashort	20-50%	10-50%
Tier II - Short term fixed income	20-50%	10-50%
Tier III - Intermediate fixed income	20-50%	15-50%
Tier IV - Long term fixed income ³	0-25%	No change
Overall Tier II-IV range limits	40-80%	25-90%
Tier V – Global equity (direct)	0%	0-25%
UW Foundation Expendables Fund	0-50%	No change
UW Foundation Endowment Fund ¹	0-25%	No change

¹UW Foundation Endowment Fund targets an allocation of 60% equity, 25% fixed, 15% alternatives.

Overall Impact

Re-allocation of assets using the new ranges is expected, over a five-year horizon, to improve investment income by approximately 1.1% per year (\$8 million).

Requested Action

Management and Finance Committee of the Board requests that the Board approve amendments to the Investment Policy to modify the asset allocation ranges in Appendix A as delineated above and corresponding changes to the body of the Policy.

University of Wisconsin Hospitals and Clinics Authority

Peer Comparison of Asset Allocations

Liquidity of peer hospitals/systems grouped by DCOH level	Average DCOH of the group	Average Investment Allocation of the Group (%)			
		Cash	Fixed income	Equities	Alternatives
DCOH < 150	116	15	25	40	20
DCOH 180-240	205	11	36	31	21
DCOH 270-400	327	7	32	43	18
DCOH >400	502	6	28	40	26
All (average)	261	10	30	40	20
UWHC current policy range ¹	218	20-50%	40-80%	0-15%	0-5%
UWHC proposed policy range ²	218	10-50%	25-90%	0-40%	0-15%
UWHC current allocation	218	20	60	15	5
UWHC proposed allocation ³	218	10	60	25 ⁴	5

Notes:

1. Permitted equity and alternative investments are presently limited to those obtained through investment in UW Foundation Endowment Fund. This change would also permit direct investments.
2. See Appendix A of the policy for further delineation of fixed income ranges by duration (short, intermediate, long, etc.)
3. Subject to Finance Committee approval. Information only for Board.
4. Includes 15% through UW Foundation Endowment Fund plus 10% direct purchased.

**RESOLUTION OF THE BOARD OF DIRECTORS OF
THE UNIVERSITY OF WISCONSIN HOSPITALS AND CLINICS AUTHORITY**

APPROVAL OF MODIFICATIONS TO INVESTMENT POLICY

The Board of Directors of the University of Wisconsin Hospitals and Clinics Authority (UWHCA) hereby approves the requested modifications to the Investment Policy with regard to permitted ranges by asset category specified in Appendix A, as delineated below, and to similarly amend the body of the policy where those matters are described.

Appendix A asset categories	Current Permitted Range	Proposed Permitted Range
Tier 1 - Cash/ultrashort	20-50%	10-50%
Tier II - Short term fixed income	20-50%	10-50%
Tier III - Intermediate fixed income	20-50%	15-50%
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