

Presentation to

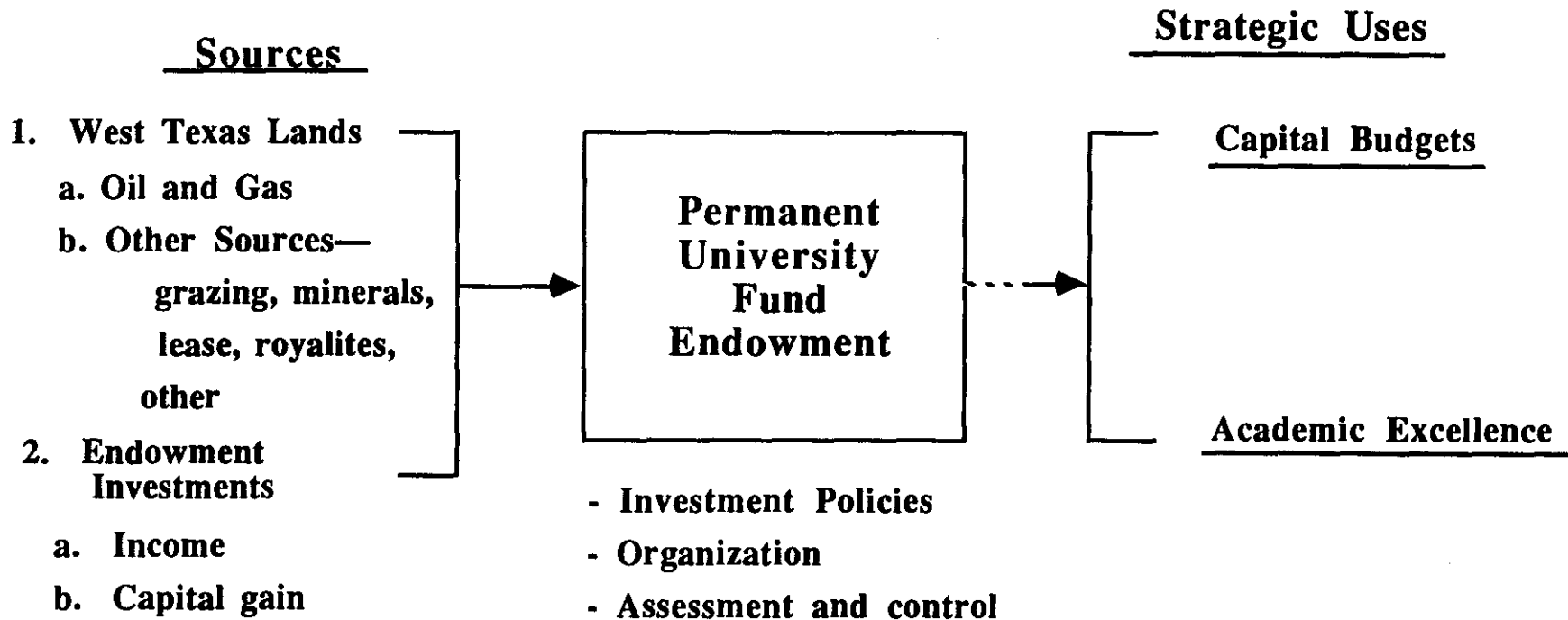
The Board of Regents
The University of Texas System

Permanent University Fund Endowment:
Investment Policy Overview

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June 14, 1990

**Permanent University Endowment Fund—
Resources Flow Chart**



Overview of Investment Policies—Pre 1982

Issues

- a. Constant yield on portfolio
- b. Lost equity opportunities
- c. Stagflation

Guidelines

- a. Prudent Man's Rules
- b. Maintain book value of endowment
- c. In-House Investment Staff Only

Criteria

- a. U. S. Government Securities
- b. Approved equity buy
- c. Government agencies and selected Federal government guarantees

Table 10

**Growth of Principal in the
Permanent University Fund
(in millions of \$)
[at cost value]**

	Principal	Actual Yield Rate	Constant Yield Rate (1967 = 100)
1954	\$ 214.3	--	--
1959	340.9	3.04	3.48
1964	432.8	3.60	3.875
1969	551.8	4.25	3.87
1974	724.3	5.51	3.73
1979	1,143.8	7.13	3.28

Overview of Investment Policies—Post 1982

Issues

- a. Inflation
- b. Long-term strategic goals

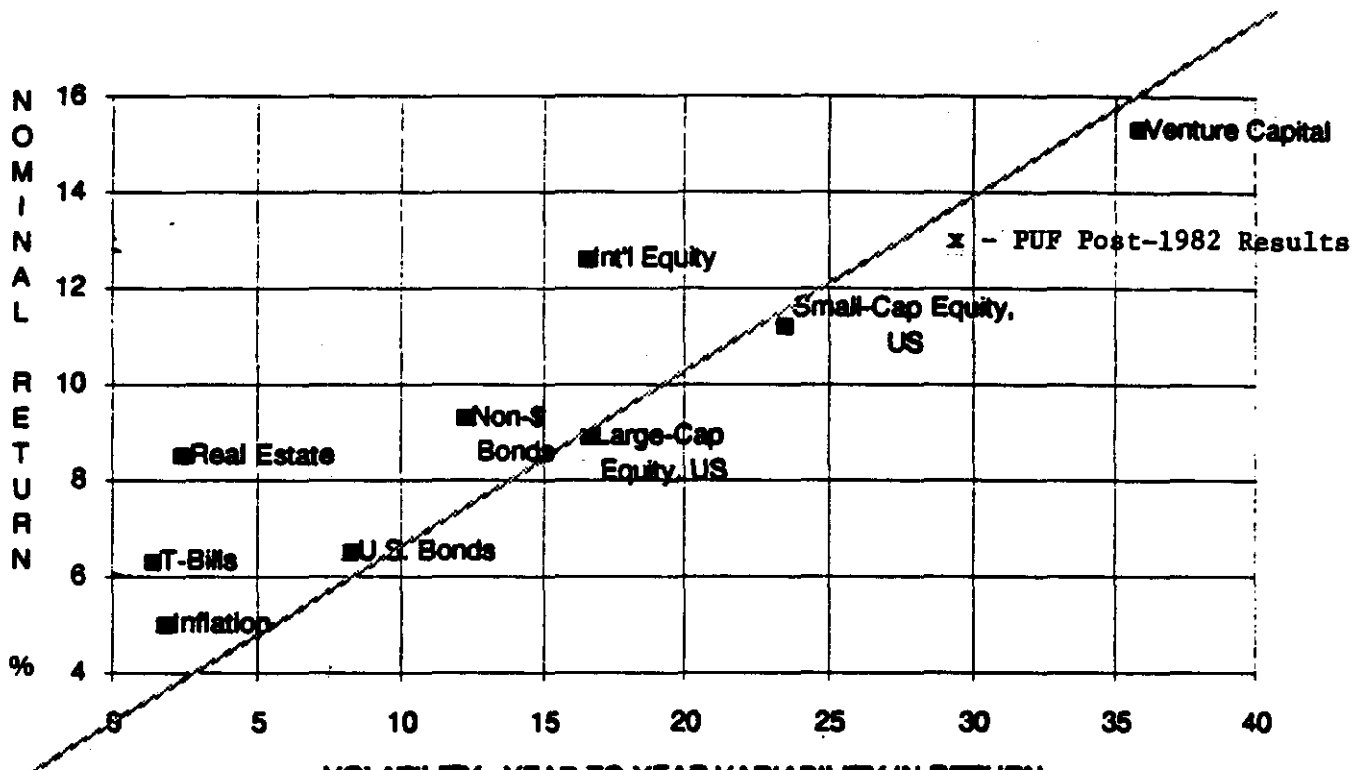
Guidelines

- a. Prudent Man's Rules
- b. Performance monitoring
- c. In-house and outside professional Investment Managers

Criteria

- a. Fixed Investments Portfolio
- b. Equity Portfolio

RETURN & VOLATILITY BY INVESTMENT TYPE 1960-1987



**VOLATILITY= YEAR-TO-YEAR VARIABILITY IN RETURN,
WITHIN ONE STANDARD DEVIATION**
Source: Ibbotson & Sinquefeld, 1989

Reasons for Investment Policy Review—1990

1. Changing Mix of Permanent University Fund Sources
 - a. From West Texas lands income to endowment market value increases.
 - b. From endowment investments income to capital gains increases.

Reasons for Investment Policy Review—1990

2. Changing Strategic Uses

- a. Capital budget and academic excellence for all University of Texas institutions.
- b. Problem of maintenance and replacement of facilities, laboratories.
- c. Need for teaching technology investments.
- d. Continuing academic excellence funds growth needs because of decreasing rates of revenues from State sources.

Reasons for Investment Policy Review—1990

3. Preparing for Changing Economic Environments
 - a. Current speculative markets are transitioning to more traditional long-term returns.
 - b. Changing investment opportunities that are different from 1982.

Short-Term Policy Review

1. PUF Goals Review

- a. Pre-1982— Maintain Book Value**
- b. Post-1982— Optimize current period investment performance**
- c. 1990— ?**
(Earn on average over the long term a realized real rate of return of X%.)
(Preserve long term market value growth of PUF.)
(Other)

2. Possible Investment Opportunities for 1990 Portfolio Diversification

- a. International Equity**
- b. Private Placement**
- c. Venture Capital**
- d. Oil Funds**
- e. Leveraged Buy Outs**
- f. Real Estate**
- g. Texas Growth Fund**
- h. Small-Capital Equity**

3. PUF Performance Monitoring and Assessment Review

- a. Current performance standards transitioning to more risk management standards**

Endowment Asset Data

From Cambridge Associates
 ° Investment Pool Asset Allocation 6-30-90

<u>Responding Institutions</u>	<u>Equity Real Estate</u>	<u>Venture Capital</u>	<u>Leveraged Buyouts</u>	<u>Oil and Gas</u>	<u>Other</u>	<u>Total</u>
By Investment Pool Size						
\$25 million and under	2.6%	0.1%	0.0%	0.0%	1.2%	3.9%
Over \$25 million to \$100 million	1.6%	0.6%	0.2%	0.4%	0.5%	3.3%
Over \$100 million to \$400 million	2.8%	1.1%	0.4%	0.1%	0.5%	4.9%
Over \$400 million	4.2%	4.0%	1.4%	1.2%	1.2%	12.0%
PUF Comparison in \$ millions	147	140	49	42	42	420