OFFICE OF THE BOARD OF TRUSTEES

Public Meeting Notice

June 9, 2016

TO: Southern Oregon University Board of Trustees, Finance and Administration Committee

FROM: Sabrina Prud'homme, University Board Secretary

RE: Notice of Regular Meeting of the Finance and Administration Committee

The Finance and Administration Committee of the Southern Oregon University Board of Trustees will hold a regular meeting on the date and at the location set forth below.

Topics of the meeting will include the Vice President's report offering updates on enrollment topics and a review of the financial dashboard. There will be discussion and action on the 2016-2017 budget, a review of the third quarter investment report and a proposed endowment policy.

The meeting will occur as follows:

Thursday, June 16, 2016
4:00 p.m. to 6:00 p.m. (or until business concludes)
Hannon Library, DeBoer Room, 3rd Floor, Room #303

The Hannon Library is located at 1290 Ashland Street, on the Ashland campus of Southern Oregon University. **If special accommodations are required or to sign-up in advance for public comment, please contact Kathy Park at (541) 552-8055 at least 72 hours in advance.**

Churchill Hall, Room 107 • 1250 Siskiyou Boulevard • Ashland, Oregon 97520-5015

(541) 552-8055 • governance.sou.edu • trustees@sou.edu

Board of Trustees
Finance and Administration Committee Meeting
June 16, 2016

Call to Order and Preliminary Business

Materials for this section updated 061316.

Board of Trustees
Finance and Administration Committee Meeting

Thursday, June 16, 2016
4:00 p.m. – 6:00 p.m. (or until business concludes)
DeBoer Room, Hannon Library

AGENDA

Persons wishing to participate during the public comment period shall sign up at the meeting.
Please note: times are approximate and items may be taken out of order.

	1	**Call to Order and Preliminary Business**	Chair Nicholson
	1.1	Welcome and Opening Remarks	
	1.2	Roll Call	Sabrina Prud'homme, SOU, Board Secretary
	1.3	Agenda Review	Chair Nicholson
	1.4	Consent Agenda: Approval of May 19, 2016 Meeting Minutes (Action)	
	2	**Public Comment**	
~ 10 min.	**3**	**Vice President's Report**	Craig Morris, SOU, Vice President for Finance and Administration
	3.1	Committee Dashboard Review	
	3.2	Enrollment Dashboard and Completions Report	Chris Stanek, SOU, Director of Institutional Research
	3.3	President's Residence	Craig Morris
~ 70 min.	**4**	**Fiscal Year 2016-2017 Budget (Action)**	Craig Morris; Mark Denney, SOU, Associate Vice President, Budget and Planning
~ 15 min.	**5**	**Proposed Endowment Investment Policy**	Chair Nicholson; Penny Burgess, USSE, Director of Treasury Management Services
~ 25 min.	**6**	**2016 Third-quarter Investment Report**	Penny Burgess
	7	**Adjourn**	Chair Nicholson

SOU Southern OREGON UNIVERSITY

Board of Trustees
Finance and Administration Committee Meeting

Thursday, May 19, 2016
4:00 p.m. – 6:00 p.m. (or until business concludes)
DeBoer Room, Hannon Library

MINUTES

Call to Order and Preliminary Business
Chair Nicholson called the meeting to order at 4:04 p.m.

The following committee members were present: Paul Nicholson, Lyn Hennion, Jeremy Nootenboom, Dennis Slattery and Steve Vincent. Trustee Les AuCoin participated by videoconference. Trustee April Sevcik was not in attendance. Board Chair, Bill Thorndike and President Roy Saigo (ex officio) also attended the meeting.

Other meeting guests included: Jason Catz, General Counsel; Craig Morris, Vice President for Finance and Administration; Dr. Susan Walsh, Provost and Vice President for Academic and Student Affairs; Mark Denney, Associate Vice President for Budget and Planning; Steve Larvick, Director of Business Services; Chris Stanek, Director of Institutional Research; John Stevenson, User Support Manager; Shane Hunter, Senior Financial Management Analyst; Janet Fratella, Vice President for Development; Ryan Brown, Head of Community and Media Relations; Treasa Sprague, Administrative Services Coordinator; Vicki Forehand, SOU; Sabrina Prud'homme, Board Secretary; and Kathy Park, Executive Assistant.

Trustee Hennion moved to approve the April 14, 2016 meeting minutes as drafted. Trustee Slattery seconded the motion and it passed unanimously.

Public Comment
There was no public comment.

Vice President's Report
Craig Morris presented the financial dashboard, noting that supplies and services (S&S) is still trending ahead of the burn rate from last year, primarily due to the costs of the presidential search. Every other category is meeting or exceeding its target. He pointed out that a box on the dashboard may rotate information of interest each month.

In addressing the enrollment dashboard and completions report, Chris Stanek said he adjusted the dashboard based on prior feedback and added FTE enrollment for summer sessions. In comparing the admissions applications from fall 2015 and 2016, Mr. Stanek said the number of applications decreased slightly but the number of confirmed students increased slightly.

Discussion ensued on identifying veterans and whether the current method of identification for funding purposes is appropriate. There are about 150-175 veterans at

SOU but not all of them are counted in the funding model. The HECC does not count military-related students in the funding model.

Mr. Stanek then addressed the completions report. Responding to Chair Nicholson's inquiry, Mr. Stanek said the number of degrees awarded for residents affects points in the funding model. Although the numbers for bachelor degree applications is down 7.4 percent, the numbers will increase significantly as degree applications are processed over the next few weeks.

Mr. Stanek said the mix of resident to nonresident bachelor degree applications and awards is 70:30. For master degrees, the distribution is 55:45. For certificates, the distribution is 80:20. Overall, the distribution is 67:33 resident to nonresident.

Mr. Stanek then provided a general enrollment synopsis, adding that SOU is down about 7 percent in FTE for the summer, compared to last summer at the same point in time. Trustee AuCoin mentioned the Oregon Promise and that it is likely prospective students are delaying the submission of their applications until they find out if they qualify for two years of tuition-free college under that program. In applications, Mr. Stanek added that SOU is down about 4 percent compared to last year. He attributed that to a number of dynamics, including late applications related to the Oregon Promise and following an all-time high watermark for applications.

Mr. Morris then provided an update on the capital request to the HECC, reminding the committee that the seven university presidents worked together and submitted a consolidated request. He explained that the request listed projects by tier and that tier-one projects are the only ones that may make it through the HECC to the governor's office and that all other projects will carry over to the next biennium.

SOU had one project in tier-one (Central Hall deferred maintenance) and one in tier-two (boiler replacement). Mr. Morris agreed with the other vice presidents of finance and administration that SOU's boiler replacement project could be included in tier-two, with the understanding that they would support SOU's submission of the boiler project as an emergency request in the February legislative session. Chair Nicholson pointed out this course of action presupposes the legislature will have funds to distribute in February. Mr. Morris said he was comfortable with taking the risk because the project is only $2.7 million and is easily packaged as an emergency.

Responding to Trustee Nootenboom's inquiry about consequences if the boiler project is not funded as an emergency request, Mr. Morris said it would be submitted as a request in the next biennium. If there was a boiler failure in the interim, SOU would have limited hot water and heat but would be fine during a normal winter. SOU would also have other available options, such as deferred maintenance funding from the legislature and access to a line of credit.

Periodic Management Report
Steve Larvick highlighted a few figures and mentioned some accounting changes: shifting bad debt allowance from an expense to an offset to revenue, and reclassification of funds coming from the North Campus Village (NCV) project.

Within education and general (E&G), with the overall enrollment growth and labor cost reductions, the ending fund balance projection is 1 percent better (at 11.8 percent) than the earlier estimate. Mr. Larvick addressed the negative ending fund balance for the auxiliary enterprises, attributing it to the ongoing deficit projected in athletics, the impact of the BOLI settlement and projected campus food service expenses exceeding net revenue. There was nothing unusual in the designated operations figures and he projected the ending fund balance to hold at 21.8 percent.

With the committee's main focus being on the ending fund balance for E&G, Chair Nicholson said the 11.8 percent ending fund balance was cause for comfort, compared to 9.1 percent for FY15 and 10.9 percent previously projected for FY16. He also said the 7.6 percent ending fund balance for All Current Unrestricted Funds, although down .2 percent from the initial FY16 budget, was not concerning. Mr. Morris added that, in the E&G forecast, it was assumed SOU will pay down the $380,000 in athletics' post season travel expense, so there will not be an increase in the year-end numbers. So, that 7.6 percent fund balance will be closer to 7.8 percent when all is done.

Pro Forma Review
Mr. Morris then reviewed the pro forma, saying nothing has changed much since last month. There is an increase from 3.1 to 5.4 percent in the forecast for the 2020-2021 fund balance because of labor adjustments. This figure will also increase if there are even modest increases in enrollment and state allocations.

Mr. Morris mentioned the 15.1 percent ending fund balance forecast for FY16-17 and said the committee needs to discuss where that should fall. There are budget impacts coming over the next biennium (e.g., a big increase in PERS and unknown state allocations and enrollment numbers). The budget office is forecasting something somewhat flat to position SOU to cover anything that is a surprise and have plenty of deep reserves to weather enrollment and state allocation fluctuations.

Responding to Trustee AuCoin's concern about making allowances for an economic correction, Mr. Morris said the only way SOU can protect itself from fluctuations is to build its reserves. The State Board of Higher Education's standard for the E&G ending fund balance was between 5-15 percent. A drop below 5 percent is an indicator that strong measures need to be taken to change that direction and a university should think about investing in the organization if its fund balance is above 15 percent.

Answering Trustee Hennion's inquiry, Mr. Morris said the $468,000 entry for one-time classified staff funding is a one-time allocation from the legislature to help cover the cost of salary increases.

Mr. Morris highlighted the retrenchment's ending fund balance of 7.8 percent and compared it to the 11.8 percent forecast for FY15-16. Trustee Vincent said that, prior to the establishment of independent governing boards, fund balances were at risk of being taken by the legislature. Mr. Morris said that is still the case and there is nothing SOU can do to protect against that. President Saigo commended Mr. Morris for holding SOU to the retrenchment plan. He advised the committee to be cautious and spend conservatively.

Trustee Slattery asked about the impact of the auxiliaries' negative fund balance and its relation to SOU's fund balance. As far as the institution's operations are concerned, Mr. Morris said the focus is on the Budgeted Operations fund. The auxiliaries' negative fund balance is primarily on the balance sheet as opposed to cash; they have adequate cash reserves but have depreciation and liabilities that decrease the fund balance.

Revenue and Fund Balance Discussion
Mr. Denney began his presentation by noting projected revenue is a product of enrollment projections and previously-approved tuition and fee rates. He would look to the committee for guidance on where the ending fund balance should be, which would allow development of an expenditure budget.

Mr. Morris explained that the revenue budget is known but the expense budget still needs to be developed. The S&S number greatly exceeds what SOU can afford and will be pared down. When the committee provides its guidance on the ending fund balance, the budget office will revise the S&S budget along with requests for additional funding into an expense budget that meets the criteria the committee sets. Chair Nicholson added that, once an expense budget is created, the budget office works its way back into the individual departments.

Trustee AuCoin expressed a concern about setting a budget without knowing which expenditures would be cut and wished to review expenditures that were cut from the budget in case the committee thought something critical was eliminated. Chair Nicholson understood the discomfort and said the challenge is that tuition and fee levels have been approved are being wrapped in with enrollment levels to develop a revenue budget. He noted the timing still needs to be worked out, as both could not be done simultaneously.

Discussing revenue, Mr. Denney explained the tuition figure decreased, despite the increase in tuition rates, because the $65 per student credit hour for online courses was moved from the tuition category to the fee category. The proposed FY17 revenue is approximately $200,000 less than the pro forma, due in part to low bookstore sales and increases in interest earnings and collections from students on delinquent tuition.

Mr. Denney extracted figures for projected revenue and expenditures from the pro forma to develop a proposed FY17 budget that would result in a 14.7 percent ending fund balance. Increasing or decreasing the ending fund balance would result in either increasing or decreasing expenses to equal the bottom line recommended by the committee. Mr. Morris added that all departments have S&S budgets, part of which is for ongoing operations ($60 million) and a smaller amount ($2.7 million) for requests if additional money is available; the president's cabinet will decide which of the latter requests get funded. According to Mr. Denney, if all requests were funded, the ending fund balance would be approximately 9 percent.

Responding to Trustee Slattery's inquiry on the return of investment on the requests included in the $2.7 million, Mr. Morris said the budget office will develop good criteria to make a decision. At the June committee meeting, he could disclose what was done—the amount of extra money available, the asks, and the ones funded and not funded.

Mr. Morris recommended thinking about the long-term picture and upcoming challenges to determine how big the fund balance should be to set reserves that are adequate enough to cover the challenges. Dr. Walsh added that the asks are prioritized before submission and, in some cases, what not to support is an easy decision if it is not a priority to the program submitting the request. Chair Nicholson clarified that the committee will set a firm guideline but Mr. Morris could potentially come back if there is a recommended variation from that guideline.

Mr. Morris added that some of the $2.7 million in requests are permanent, not one-time requests (e.g., staff), and he did not think funding all such requests would be wise. Trustee Slattery pointed out, however, that knowing what those requests are and which of them the cabinet would recommend funding would impact the philosophy of the ending fund balance. Trustee AuCoin concurred, adding that he is uncomfortable making a decision unless the committee can agree on a fund balance now and come back and revisit it after reviewing the expenditure budget and the requests.

Discussion ensued on the desired target for the ending fund balance - concern with not micromanaging budget managers, meeting retrenchment goals, possible disadvantages of having a large fund balance, having details on approved and denied funding requests, not starving the university such that there are no investments in it, structuring the budget to add specific unfunded requests if certain enrollment targets are met, and recommended targets.

Chair Nicholson said he thought it would be appropriate for the committee, even without having details on the $2.7 million in requests, to decide that the reserve should be at a certain amount, with the understanding that staff will come back to request a slight increase or decrease based on the requests. The consensus of the committee was that the staff should develop a budget with an ending fund balance between 12-14 percent and the staff would return in the June meeting with recommendations to increase or decrease the fund balance.

Athletics Discussion
Mr. Denney began the discussion by saying that athletics remains a challenge but is a significant recruitment and enrollment tool, as athletes do tend to graduate, at double the university average. Unlike other auxiliaries, when athletics' costs increase, it does not have a fee it can assess to cover costs. Athletics receives support from the student incidental fee, the university, and it generates a small amount of revenue on its own. Athletics has its own budgeted operations (e.g., athletics courses), designated operations (e.g., sports camps) and auxiliary operations (e.g., intercollegiate athletics and the fitness center).

Mr. Denney explained the broad intercollegiate athletics budget, focusing on FY16 projections and the FY17 proposed budget. Athletics has had a couple of years with high costs in post season travel, only some of which are reimbursed by NAIA. The increase in labor costs is primarily due to the addition of two new teams and coaching staff, an increase in COLA and OPE, and equity adjustments in salary for some coaches. Nothing was budgeted last year for post season travel; the FY17 proposed budget includes $237,586 for post season travel, which is a rolling 5-year average and will be built into the budget each year. The final proposed budget is -$598,813. A significant ask in the $2.7 million in requests is to cover this deficit.

Mr. Morris added that if there is not an increase in the allocation to athletics, it will continue to have successful years and bury its fund balance in millions of dollars of unfunded deficits. If the allocation is increased, SOU will beg the conversation from faculty over allocating $600,000 toward athletics and suggest that a better return on investment might be to invest in academic programs.

Trustee Hennion asked if a reserve is funded for post season travel, which she thought was prudent, could it count as part of SOU's overall reserves for fund balance purposes but still keep it separate as a reserve for that particular use. Mr. Morris responded affirmatively, saying it could also be allocated to athletics as a reserve and allow it to build against the deficit. It could be in the auxiliaries' reserves or the E&G reserve but Mr. Morris would recommend the former.

Mr. Denney asked the students to participate with the university in a reserve, but the students chose not to do so because they are building their own reserve for the student incidental fee. If enrollment stays strong and the students build their reserve as expected, he hopes the students will participate next year.

To help support the decision, Trustee Vincent suggested looking at the drag effect of athletes and consider this funding as an investment in increased enrollment and tuition. Dr. Walsh stressed that this is not investing in growing athletics, rather it is paying for post season travel expenses.

Housing Budget
Mr. Denney presented an overview of the housing budget, including the organization, funding sources, key partnerships and the budget structure. In past years, the housing budget included transfers to athletics and the general fund, which contributed to deficits in the housing budget, but that amount has been decreasing over the past couple of years. He then discussed the FY17 proposed budget. In FY17, the bulk of the revenue is a transfer in from the NCV and reimbursement for NCV labor. The FY17 proposed budget includes a surplus of $1,010,692, some of which will be used to pay the BOLI settlement. The NCV is projecting about $1.1 million in net operating profit, which is budgeted to be transferred out to other university fund accounts.

Adjourn
Before adjourning the meeting, Chair Nicholson informed committee members that the committee's July meeting will be moved from July 21 to July 14 and the August meeting will be cancelled.

Chair Nicholson adjourned the meeting at 6:04 p.m.

Public Comment

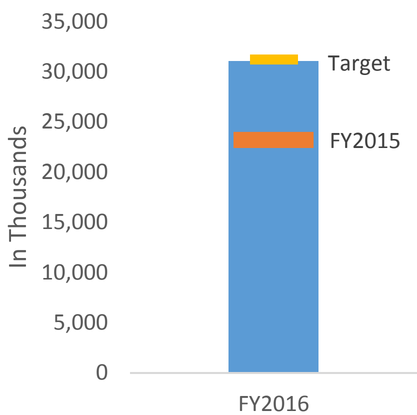
Vice President's Report

Financial Dashboard

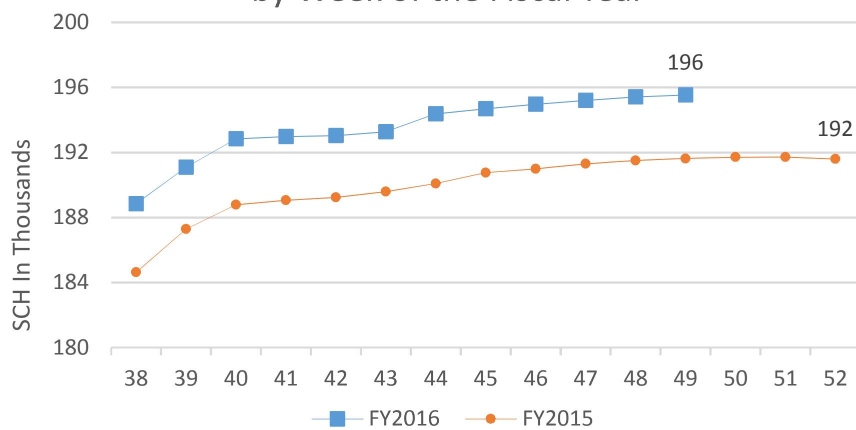
For FY16

As of May 31, 2016

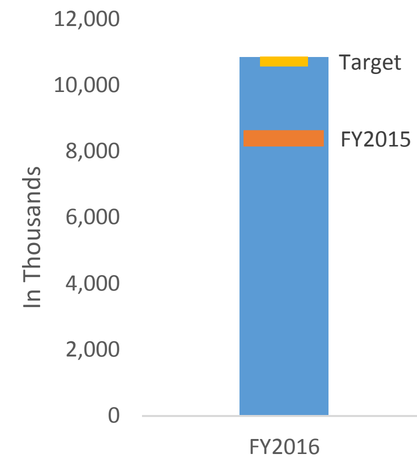
Public University Funds Operating Cash



Total Student Credit Hours by Week of the Fiscal Year



E&G Fund Balance



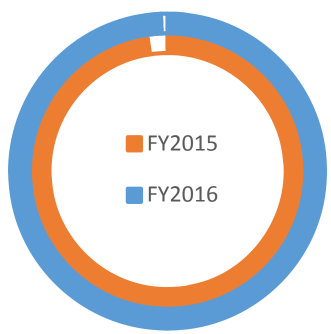
FY16 Allowance for Doubtful Accounts

Added $600k to Allowance, or about 1% of current year charges.

$510k in net Write Offs

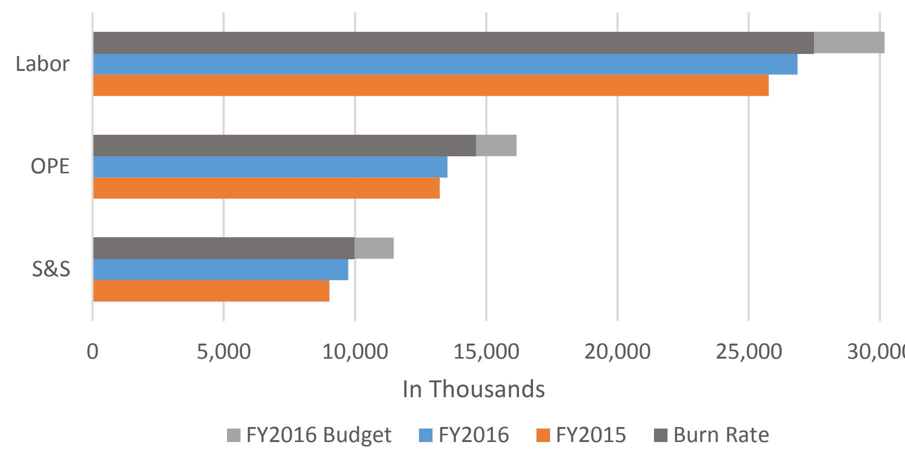
Allowance for Doubtful Accounts stands at $3.6M

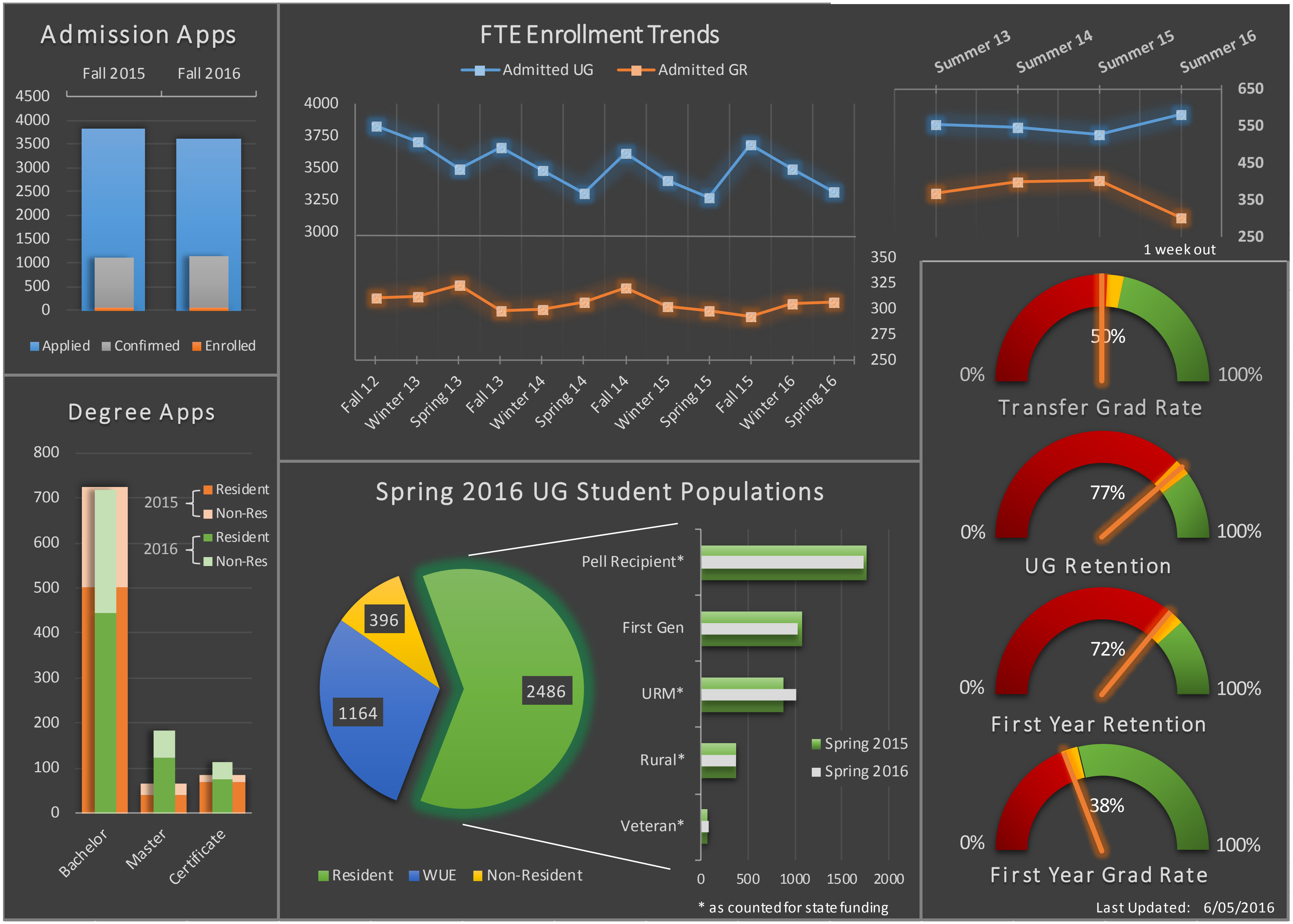
E&G YTD Revenues



FY2016 Collected 55,935,787
(99% of budget)

E&G YTD Select Expenses




Admission Apps
Fall 2015
Fall 2016
4500
4000
3500
3000
2500
2000
1500
1000
500
0
Applied
Confirmed
Enrolled
FTE Enrollment Trends
Admitted UG
Admitted GR
4000
3750
3500
3250
3000
350
325
300
275
250
Fall 12
Winter 13
Spring 13
Fall 13
Winter 14
Spring 14
Fall 14
Winter 15
Spring 15
Fall 15
Winter 16
Spring 16
Summer 13
Summer 14
Summer 15
Summer 16
650
550
450
350
250
1 week out
Degree Apps
800
700
600
500
400
300
200
100
0
2015
Resident
Non-Res
2016
Resident
Non-Res
Bachelor
Master
Certificate
Spring 2016 UG Student Populations
396
1164
2486
Pell Recipient*
First Gen
URM*
Rural*
Veteran*
Spring 2015
Spring 2016
0
500
1000
1500
2000
Resident
WUE
Non-Resident
* as counted for state funding
50%
0%
100%
Transfer Grad Rate
77%
0%
100%
UG Retention
72%
0%
100%
First Year Retention
38%
0%
100%
First Year Grad Rate
Last Updated: 6/05/2016

Degree Completions by Discipline Level Categories
Academic Year 2014-15 vs. Academic Year 2015-16
May Applications and YTD Awards

	Degree Applications				Degree Awards (as of YTD)	
	2014-15 Apps	2015-16 Apps	Change	% Change	2014-15 Degrees	2015-16 Degrees
Bachelor Degrees (2.0 base pts)	**874**	**852**	**-22**	**-2.5%**	**809**	**150**
Resident: Entered as First Year	273	165	-108	-39.6%	247	35
Discipline Level 1 (base pts x 1.00)	79	115	36	45.6%	74	8
Discipline Level 2 (base pts x 1.25)	119	50	-69	-58.0%	109	17
Discipline Level 3 (base pts x 1.85)	75	-	-75	-100.0%	64	10
Resident: Entered as Transfer (base pts x 0.675)	335	351	16	4.8%	314	52
Discipline Level 1 (base pts x 1.00)	93	103	10	10.8%	86	11
Discipline Level 2 (base pts x 1.25)	193	203	10	5.2%	182	31
Discipline Level 3 (base pts x 1.85)	49	45	-4	-8.2%	46	10
Non-Resident (no state funding)	266	336	70	26.3%	248	63
Master Degrees (1.0 base pts)	**200**	**206**	**6**	**3.0%**	**236**	**34**
Resident	122	134	12	9.8%	130	18
Discipline Level 1 (base pts x 1.27)	2	6	4	200.0%	3	2
Discipline Level 2 (base pts x 1.72)	110	115	5	4.5%	118	15
Discipline Level 3 (base pts x 2.46)	10	13	3	30.0%	9	1
Non-Resident (no state funding)	78	72	-6	-7.7%	106	16
Graduate Certifications (0.2 base pts)	**124**	**134**	**10**	**8.1%**	**250**	**33**
Resident	99	91	-8	-8.1%	199	22
Discipline Level 1 (base pts x 1.27)	5	4	-1	-20.0%	8	-
Discipline Level 2 (base pts x 1.72)	94	87	-7	-7.4%	191	22
Discipline Level 3 (base pts x 2.46)	-	-	-	0.0%	-	-
Non-Resident (no state funding)	25	43	18	72.0%	51	11
				Total Awards	**1,295**	**217**

Notes: $1137.43 allocated per pt for degrees in FY 2016 appropriation and represented 20% of the total non-base PUSF, 80% was allocated from SCH production.

Degree Completions by Sub-population Categories
Academic Year 2014-15 vs. Academic Year 2015-16
May Applications and YTD Awards

	Degree Applications				Degree Awards (as of YTD)	
	2014-15 Apps	2015-16 Apps	Change	% Change	2014-15 Degrees	2015-16 Degrees
Bachelor Degrees (2.0 base pts)	**874**	**852**	**-22**	**-2.5%**	**809**	**150**
Resident: Entered as First Year	273	165	-108	-39.6%	247	35
Area of Study Premium†	20	19	-1	-5.0%	17	4
Underrepresented Minority*	41	44	3	7.3%	37	9
Pell Grant Recipient*	179	144	-35	-19.6%	160	18
Veteran Status*	2	1	-1	-50.0%	3	-
Rural High School Graduate*	112	66	-46	-41.1%	100	5
Resident: Entered as Transfer (base pts x 0.675)	335	351	16	4.8%	314	52
Area of Study Premium†	36	35	-1	-2.8%	36	5
Underrepresented Minority*	52	59	7	13.5%	49	7
Pell Grant Recipient*	255	282	27	10.6%	235	45
Veteran Status*	5	9	4	80.0%	5	1
Non-Resident (no state funding)	266	336	70	26.3%	248	63
Master Degrees (1.0 base pts)	**200**	**206**	**6**	**3.0%**	**236**	**34**
Resident	122	134	12	9.8%	130	18
Area of Study Premium†	7	16	9	128.6%	8	1
Non-Resident (no state funding)	78	72	-6	-7.7%	106	16
Graduate Certifications (0.2 base pts)	**124**	**134**	**10**	**8.1%**	**250**	**33**
Resident	99	91	-8	-8.1%	199	22
Area of Study Premium†	1	-	-1	-100.0%	1	-
Non-Resident (no state funding)	25	43	18	72.0%	51	11
				Total Awards	**1,295**	**217**

† Area of Study Premium increases point value by a factor of 120% for degrees in STEM and Health and a factor of 220% for degrees in Bi-lingual Education.
* pts for sub-pops are additive and applied after all other adjustments: if recipient exists in one sub-pop 0.8 pts added, if two 1.0 pts, if three 1.1 pts, if four 1.2 pts.

Notes: $1137.43 allocated per pt for degrees in the FY 2016 appropriation and represented 20% of the total non-base PUSF, 80% was allocated from SCH production.
Total points for FY 2016 = 1821.6 representing the three year trailing average of degree completions from Ay 2012-13 through 2014-15.

Fiscal Year 2016-2017 Budget (Action)

Materials for this section updated 061316

Southern Oregon University
Budgeted Operations Pro Forma

	2011-13 Biennium		2013-15 Biennium			2015-17 Biennium		2017-19 Biennium		2019-21 Biennium	
(in thousands of dollars)	**2011-12 ACTUAL (000's)**	**2012-13 ACTUAL (000's)**	**2013-14 ACTUAL (000's)**	**2014-15 ACTUAL (000's)**	**2015-16 BUDGET (000's)**	**2015-16 FORECAST (000's)**	**2016-17 BUDGET (000's)**	**2017-18 FORECAST (000's)**	**2018-19 FORECAST (000's)**	**2019-20 FORECAST (000's)**	**2020-21 FORECAST (000's)**
Budgeted Operations											
State Appropriations	12,642	13,195	13,762	17,065	20,393	20,640	21,523	21,033	21,769	21,664	22,422
One-time Classified Staff Funding											
Tuition, net of Remissions	32,837	33,526	33,278	33,043	33,672	34,530	35,614	36,682	37,783	38,916	40,084
Other	1,657	1,851	3,008	1,915	1,863	2,525	1,860	1,916	1,973	2,032	2,093
Total Revenues & Transfers In	47,136	48,572	50,048	52,023	55,928	57,695	58,997	59,631	61,525	62,613	64,599
Personnel Services	(42,343)	(42,360)	(43,948)	(42,953)	(45,447)	(44,450)	(48,069)	(51,434)	(53,491)	(55,631)	(57,856)
							1,300	1,391	1,447	1,505	1,565
Supplies & Services	(6,809)	(9,388)	(7,229)	(8,054)	(7,890)	(8,602)	(8,466)	(8,635)	(8,808)	(8,984)	(9,164)
Program Investment					(582)	(582)	(600)	(250)	(250)	(250)	(250)
Total Expenditures & Transfers Out	(49,152)	(51,748)	(51,177)	(51,007)	(53,919)	(53,634)	(55,835)	(58,928)	(61,102)	(63,360)	(65,705)
Net from Operations and Transfers	(2,016)	(3,176)	(1,129)	1,016	2,009	4,061	3,162	703	423	(747)	(1,106)
Net Transfers	(166)	328	1,855	1,998	(652)	(1,985)	(1,846)	(1,900)	(1,900)	(1,900)	(1,900)
Change in Fund Balance	(2,182)	(2,848)	726	3,014	1,357	2,076	1,316	(1,197)	(1,477)	(2,647)	(3,006)
Beginning Fund Balance	5,751	3,569	1,019	1,745	4,759	4,759	6,835	8,151	6,955	5,478	2,830
Ending Fund Balance	3,569	1,019	1,745	4,759	6,116	6,835	8,151	6,955	5,478	2,830	(175)
% Operating Revenues	7.6%	2.1%	3.5%	9.1%	10.9%	11.8%	13.8%	11.7%	8.9%	4.5%	-0.3%
Retrenchment Plan			1.9%	7.6%		7.8%	10.2%	11.0%			
Annualized Student FTE	4845	4,650	4,426	4,400		4,488	4,488	4,488	4,488	4,488	4,488
Enrollment Growth (YoY)	2.5%	-4.2%	-5.1%	-0.6%		2.0%	0%	**0.0%**	0.0%	0.0%	0.0%
Tuition Increase (YoY)							3.0%	3.0%	3.0%	3.0%	3.0%
Other Revenue (% of Tuition)							5.2%	5.2%	5.2%	5.2%	5.2%
Personnel Costs YoY							8.1%	7.0%	4.0%	4.0%	4.0%
S&S Costs YoY							-1.6%	2.0%	2.0%	2.0%	2.0%
Position Vacancy Adj.							2.7%	2.7%	2.7%	2.7%	2.7%
Net Transfers								(1,900)	(1,900)	(1,900)	(1,900)

Primary Assumptions:

Goal of 5% ending fund balance by FY15 and 10% or better by FY17

State Allocations - per HECC + SELP loan pass-thru and ETIC (2019-21 use previous biennia + 3%)

Enrollment FTE (decrease) - FY16 (1.1%), FY17 0%, FY18 0% , FY19 0%, FY20 0%, FY21 0%

Tuition increase - 3% FY17, 3% FY18, 3% FY19, FY20 3%, FY21 3%

Personnel Services Increase (includes PEBB & PERS increases) - 4% FY17,7% FY18,4% FY19, 4% FY20, 4% FY21

Budgeted Operations

Initial Budget Development

The Initial Budget is a starting point, from which the Proposed budget is developed. It is presented as a reference point from which to better understand what is included in the Proposed Budget.

<u>Development of the Initial Budget</u> – SOU utilizes two differing processes in developing the Initial Budget

1. Zero Based – for Labor, all approved positions are built from zero – taking the incumbent's current salary, known COLA, Year-In-Rank, and Step increases, and building Benefits (OPE) based on known rates, without regard to current budget – relying on the position control process to only budget for approved positions.
2. Roll Forward – for Supplies and Services (S&S) to take the current budget, strip out all non-base budget transfers, and roll forward the Base S&S budgets for all Divisions and Departments with current year guidance: Flat, % increase, or % Decrease. For FY17, the guidance was to remain flat.
3. The Initial Budget includes the Student Success Initiatives, and therefore did include some minor increases to S&S spending.

Initial Budget

	FY16 Orig Budget	FY16 Projected Final Outcome	FY17 Pro Forma From May	FY17 Initial Budget	% Change	FY17 Initial Budget vs. FY16 Adopted		
						COLA, YIR/Step and Oth Personnel	Student Success Investment	Primary adjustments from FY16 Budget
Revenue								
Tuition	33,671,718	34,529,515	35,566,000	35,623,169	106%	-	-	-
State Aid	20,392,670	20,640,021	21,490,000	21,522,508	106%	468,591	582,258	1,050,591
Other	1,863,193	2,524,993	2,500,000	1,862,093	100%	-	-	-
Total Revenue	55,927,581	57,694,529	59,556,000	59,007,770	106%	468,591	582,258	1,050,591
Labor								
Total Salary/Pay	29,438,918	29,518,656		31,494,782	107%	1,318,688	334,145	1,622,833
Vacancy Factor								
Net Salary/Pay	29,438,918	29,518,656		31,494,782	107%	1,318,688	334,145	1,622,833
Total OPE	16,008,323	14,931,186		16,414,453	103%	974,338	172,113	1,146,451
Vacancy Factor								
Net OPE	16,008,323	14,931,186		16,414,453	103%	974,338	172,113	1,146,451
Total Labor	45,447,241	44,449,842	46,228,000	47,909,235	105%	2,293,026	506,258	2,769,284
Supplies & Services								
Services & Suppllies	11,618,881	11,152,289		10,959,422	94%	-	76,000	76,000
Debt Investment	414,636	391,059		414,636	100%	-		-
Capital Outlay	240,704	236,365		140,704	58%	-		-
Internal Sales Reimb	(3,801,376)	(2,595,864)		(3,572,607)	94%	-		-
Total Direct S&S	8,472,845	9,183,849	9,182,000	7,942,155	94%	-	76,000	76,000
Total Expenditures	53,920,086	53,633,691	55,410,000	55,851,390	104%	2,293,026	582,258	2,845,284
Net of Operations	2,007,495	4,060,838	4,146,000	3,156,380		(1,824,435)	-	(1,794,693)
Transfers								
Net Transfers	(652,034)	(1,985,249)	(2,000,000)	(1,244,528)		-	-	-
Change in Fund Balance	1,355,461	2,075,589	2,146,000	1,911,852		(1,824,435)	-	(1,794,693)
Beginning Fund Balance	4,758,052	4,758,052	6,835,000	6,835,000				
Ending Fund Balance	6,113,513	6,833,641	8,981,000	8,746,852				
EFB % of Revenue	10.9%	11.8%	15.1%	14.8%				

Proposed Budget Development

The Proposed Budget is presented to the Finance Committee for review and approval to be forwarded to the Full Board as the approved Budget

<u>Development of the Proposed Budget</u> – The Proposed Budget builds upon the Initial Budget by including budget adjustments and initiatives not otherwise included in the Initial Budget.

1. In addition to the two processes used to develop the Initial Budget, Budget Managers were instructed to submit both adjustments and Initiatives if they were outside the strict parameters established for the Initial Budget.
    a. For Labor, such adjustments or Initiatives could include adjustments to the Full Time Equivalency (FTE) of an existing approved position, or an entirely new position, not yet approved, or even an adjustment to a pooled position such as student labor.
    b. For Supplies and Services, an adjustment or initiative could recognize an increase in the cost of items currently being purchased, or new expenditure items. It could also recognize a change in costs due to organizational changes or changes over time.
2. These Adjustments and Initiatives were reviewed, analyzed for accuracy and consistency with historical data and were prioritized by Administration.
3. They were then aligned with strategic priorities, and added (in net) to the Initial Budget to create the Proposed Budget, that was in line with ending fund balance guidance from the Finance Committee.

For the Proposed Budget, adjustments/initiatives are grouped into three categories: Academic Support, Student Support, or Institutional Support.

Proposed Budget

	FY16 Orig Budget	FY16 Projected Final Outcome	FY17 Pro Forma From May	FY17 Initial Budget	FY17 Proposed Budget	% Change	FY17 Initiatives included in FY17 Proposed			
							Academic Support Initiatives	Student Support Initiatives	Insitutional Support Initiatives	Total Initiatives
Revenue										
Tuition	33,671,718	34,529,515	35,566,000	35,623,169	35,614,499	106%	(8,670)	-	-	(8,670)
State Aid	20,392,670	20,640,021	21,490,000	21,522,508	21,522,508	106%	-	-	-	-
Other	1,863,193	2,524,993	2,500,000	1,862,093	1,860,343	100%	(600)	(1,150)	-	(1,750)
Total Revenue	55,927,581	57,694,529	59,556,000	59,007,770	58,997,350	105%	(9,270)	(1,150)	-	(10,420)
Labor										
Total Salary/Pay	29,438,918	29,518,656		31,494,782	31,681,696	108%	22,884	113,560	50,470	186,914
Vacancy Factor					(739,645)				(739,645)	(739,645)
Net Salary/Pay	29,438,918	29,518,656		31,494,782	30,942,051	105%	22,884	113,560	(689,175)	(552,731)
Total OPE	16,008,323	14,931,186		16,414,453	16,455,647	103%	18,011	3,039	20,144	41,194
Vacancy Factor					(560,283)				(560,283)	(560,283)
Net OPE	16,008,323	14,931,186		16,414,453	15,895,364	99%	18,011	3,039	(540,139)	(519,089)
Total Labor	45,447,241	44,449,842	46,228,000	47,909,235	46,837,415	103%	40,895	116,599	(1,229,314)	(1,071,820)
Supplies & Services										
Services & Suppllies	11,618,881	11,152,289		10,959,422	12,031,934	104%	11,835	38,560	1,022,117	1,072,512
Debt Investment	414,636	391,059		414,636	414,636	100%				-
Capital Outlay	240,704	236,365		140,704	140,704	58%				-
Internal Sales Reimb	(3,801,376)	(2,595,864)		(3,572,607)	(3,470,398)	91%			102,209	102,209
Total Direct S&S	8,472,845	9,183,849	9,182,000	7,942,155	9,116,876	108%	11,835	38,560	1,124,326	1,174,721
Total Expenditures	53,920,086	53,633,691	55,410,000	55,851,390	55,954,291	104%	52,730	155,159	(104,988)	102,901
Net of Operations	2,007,495	4,060,838	4,146,000	3,156,380	3,043,059		(62,000)	(156,309)	104,988	(113,321)
Transfers										
Net Transfers	(652,034)	(1,985,249)	(2,000,000)	(1,244,528)	(1,846,024)		-	(601,496)	-	(601,496)
Change in Fund Balance	1,355,461	2,075,589	2,146,000	1,911,852	1,197,035		(62,000)	(757,805)	104,988	(714,817)
Beginning Fund Balance	4,758,052	4,758,052	6,835,000	6,835,000	6,835,000					
Ending Fund Balance	6,113,513	6,833,641	8,981,000	8,746,852	8,032,035					
EFB % of Revenue	10.9%	11.8%	15.1%	14.8%	13.6%					

Potential to Add to the Proposed Budget

- If enrollment exceeds current Fall 16 projections, Administration will potentially propose additional initiatives for additional investment into the Budget
- If experienced, that enrollment growth would bring Administration back to the Finance Committee to begin a discussion of options.
- No decision has been made on recommending specific initiatives, but some examples are:
  - Increased Student Jobs across Campus
  - Pay increase for Term By Term Adjunct faculty – ensure quality adjunct faculty are retained by SOU
  - Investment in Information Systems infrastructure
  - Diversity and Title IX Training across Campus
  - Additional minor adjustments to the Budget
- Any proposal to include further investment would be supported from additional tuition revenue

Other Fund Type Categories
Designated Operations

	Designated Operations			
	FY14 Actual	FY15 Actual	FY16 Budget	FY17 Budget
Revenue	2,787,993	3,087,328	3,499,505	3,726,644
Expenses	(3,075,837)	(3,314,177)	(3,939,212)	(3,936,036)
Labor	(1,859,794)	(2,081,837)	(2,652,522)	(2,558,258)
Direct Expenses	(1,216,043)	(1,232,340)	(1,286,690)	(1,377,778)
Net of Operations	(287,844)	(226,849)	(439,707)	(209,392)
Transfers	(15,103)	296,361	343,781	342,844
Change in FB	(302,947)	69,512	(95,926)	133,452

Other Fund Type Categories
Auxiliary Operations

	All Auxiliaries			
	FY14 Actual	FY15 Actual	FY16 Budget	FY17 Budget
Revenue	14,698,335	12,372,481	13,387,343	16,828,910
Expenses	(17,764,729)	(15,630,834)	(16,328,970)	(17,306,661)
Labor	(6,452,960)	(6,249,304)	(7,526,069)	(7,988,918)
Direct Expenses	(11,311,769)	(9,381,530)	(8,802,901)	(9,317,743)
Net of Operations	(3,066,394)	(3,258,353)	(2,941,627)	(477,751)
Transfers	(452,589)	539,240	1,325,505	1,502,340
Change in FB	(3,518,983)	(2,719,113)	(1,616,122)	1,024,589

Auxiliary Operations (Cont'd)

	Housing			
	FY14 Actual	FY15 Actual	FY16 Budget	FY17 Budget
Revenue	4,829,552	4,848,665	5,403,336	7,657,358
Expenses	(6,706,358)	(6,616,919)	(6,541,399)	(7,027,095)
Labor	(1,471,561)	(1,598,979)	(1,746,187)	(1,916,083)
Direct Expenses	(5,234,797)	(5,017,940)	(4,795,212)	(5,111,012)
Net of Operations	(1,876,806)	(1,768,254)	(1,138,063)	630,263
Transfers	(74,881)	(258,119)	191,485	(233,521)
Change in FB	(1,951,687)	(2,026,373)	(946,578)	396,742

	Student Activities			
	FY14 Actual	FY15 Actual	FY16 Budget	FY17 Budget
Revenue	3,179,907	2,716,314	3,328,178	3,869,221
Expenses	(3,373,900)	(3,312,689)	(3,528,853)	(3,718,045)
Labor	(1,705,261)	(1,580,206)	(1,880,285)	(2,092,384)
Direct Expenses	(1,668,639)	(1,732,483)	(1,648,568)	(1,625,661)
Net of Operations	(193,993)	(596,375)	(200,675)	151,176
Transfers	24,551	(2,212)	(245)	0
Change in FB	(169,442)	(598,587)	(200,920)	151,176

	Athletics			
	FY14 Actual	FY15 Actual	FY16 Budget	FY17 Budget
Revenue	1,675,086	1,883,512	1,620,054	1,661,385
Expenses	(2,513,607)	(3,288,167)	(3,003,971)	(3,392,244)
Labor	(1,389,945)	(1,497,627)	(1,879,692)	(1,999,886)
Direct Expenses	(1,123,662)	(1,790,540)	(1,124,279)	(1,392,358)
Net of Operations	(838,521)	(1,404,655)	(1,383,917)	(1,730,859)
Transfers	713,650	819,664	1,152,765	1,735,861
Change in FB	(124,871)	(584,991)	(231,152)	5,002

	Health Center			
	FY14 Actual	FY15 Actual	FY16 Budget	FY17 Budget
Revenue	1,747,237	1,837,145	1,883,217	1,977,053
Expenses	(1,622,424)	(1,735,100)	(1,979,954)	(1,929,393)
Labor	(1,209,811)	(1,287,237)	(1,469,953)	(1,442,890)
Direct Expenses	(412,613)	(447,863)	(510,001)	(486,503)
Net of Operations	124,813	102,045	(96,737)	47,660
Transfers	(25,000)	(5,590)	(18,500)	0
Change in FB	99,813	96,455	(115,237)	47,660

Auxiliary Operations (Cont'd)

	Parking			
	FY14 Actual	FY15 Actual	FY16 Budget	FY17 Budget
Revenue	423,004	398,481	354,800	354,800
Expenses	(256,267)	(303,192)	(369,832)	(401,046)
Labor	(114,990)	(142,513)	(216,047)	(244,261)
Direct Expenses	(141,277)	(160,679)	(153,785)	(156,785)
Net of Operations	166,737	95,289	(15,032)	(46,246)
Transfers	0	(11,377)	0	0
Change in FB	166,737	83,912	(15,032)	(46,246)

	Bookstores			
	FY14 Actual	FY15 Actual	FY16 Budget	FY17 Budget
Revenue	2,991,957	189,064	272,596	107,921
Expenses	(3,110,191)	(217,980)	(377,149)	(107,921)
Labor	(514,727)	(97,583)	(287,143)	(107,921)
Direct Expenses	(2,595,464)	(120,397)	(90,006)	0
Net of Operations	(118,234)	(28,916)	(104,553)	0
Transfers	(1,066,442)	(3,127)	0	0
Change in FB	(1,184,676)	(32,043)	(104,553)	0

Questions

Proposed
Endowment Investment Policy
DRAFT

Materials for this section updated 061316.

Investment Policy, SOU Endowment Fund

POLICY PROVISIONS

Policy Statements

1. Introduction

   This statement governs the investment of the Southern Oregon University Endowment Fund (the "Fund").

   This statement is set forth in order that the Board, the Investment Advisor, its investment managers and others entitled to such information may be made aware of the Policy of the Fund with regard to the investment of its assets. This statement of investment policy is set forth in order that:

   A. There will be a clear understanding by the Board, the Investment Advisor and staff of the investment goals and objectives of the portfolio.

   B. The Board and management have a basis for evaluation of the investment managers.

   C. The investment managers be given guidance and limitation on investing the funds.

   It is intended the objectives in this policy to be sufficiently specific to be meaningful, but flexible enough to be practical. It is expected that the policy and objectives will be amended as necessary to reflect the changing needs of the endowment; however, all modifications shall be made in writing and approved by the Board.

2. Southern Oregon University Endowment Fund

   The Fund is permanent and expected to operate in perpetuity, so these funds will be invested long-term. It is important to follow coordinated policies regarding spending and investments to protect the principal of the Fund and produce a reasonable total return.

3. Responsibility of the Board

   The role of the Board is to recommend broad investment goals to the investment advisor, including spending rate information and to provide input into the asset allocation process.

4. Investment Advisor Responsibility

The Investment Advisor serves as consultant to the Board and will have the responsibility and authority to establish the asset allocation for the Fund and approve the retention and termination of all investment managers. The Investment Advisor will recommend to the Board a specific asset mix reflecting judgments of the investment environment as well as the specific needs of the Fund. Other duties assigned to the Investment Advisor include:

A. Recommending professional investment managers;
B. Negotiating and/or monitoring Fund investment expenses;
C. Monitoring investment managers, on an ongoing basis;
D. Assuring proper custody of the investments; and
E. Reporting to the Board, on a quarterly basis, the Fund's investment results, its composition and any other information the Board may request.

5. Spending Policy

The amount of endowment return available for spending (distribution) is based on a percentage of the average unit market value of the 20 quarters preceding the current fiscal year. The distribution per unit (under Exhibit A) is determined by the Board. The distribution amount per unit is multiplied by the current number of units and any additional units added during the current year as new endowment money comes into the Fund. This shall be exclusive of investment management fees.

6. Investment Policy Guidelines

A. Asset Allocation

The most important component of an investment strategy is the allocation among the various classes of securities available to the Fund. The Investment Advisor will establish the target asset allocation for the investments that will mostly likely achieve the investment goals of the Fund, taking into consideration the appropriate level of portfolio risk.

The risk/return profile shall be maintained by establishing the following long-term "target" strategic asset allocations:

Asset Class	Policy	Target	Benchmark
Global Equities	65-75%	70%	MSCI ACWI IMI Net
Fixed Income	25-35%	30%	Barclays Aggregate
Cash	0-3%	0%	91 Day T-Bill

B. Investment Time Horizon

In making investment strategy decisions for the Fund, the focus shall be on a long-term investment time horizon that encompasses a complete business cycle (usually three to five years). An interim evaluation will be performed by the Investment Advisor if a significant change in fees, manager personnel, investment strategy or manager ownership occurs.

While the quantitative assessment of managerial competence will be measured over a complete market cycle, the Board anticipates that the Investment Advisor will make period qualitative assessments as well. Specific qualitative factors considered by the Investment Advisor may include, but are not limited to, fundamental changes in the manager's investment philosophy, changes in the manager's organizational structure, financial condition and personnel, and any changes, relative to peers, in a manager's fee structure.

7. Prudence and Ethical Standards

   A. Prudence

   All participants in the investment process shall act responsibly. The standard of prudence to be applied by the Board, the Investment Advisor, SOU staff and external service providers shall be the "prudent investor" rule, which states: "Investments shall be invested and the investments managed as a prudent investor would do, under the circumstances then prevailing and in light of the purposes, terms, distribution requirements and laws governing each investment fund."

   B. Ethics and Conflicts of Interest

   Board members, Investment Advisory members, SOU staff and external service providers involved in the investment process shall refrain from personal business activity that could conflict with the proper execution and management of the investment program or that could impair their ability to make impartial decisions. These parties are required to reveal all relationships that could create or appear to create a conflict of interest in their unbiased involvement in the investment process.

8. Investment Objectives

   The investment objective of the Fund is to seek consistency of investment return with emphasis on capital appreciation over long periods of time, since the Fund will operate in perpetuity. In keeping with the performance goals included in the Policy, achievement of this objective shall be done in a manner that, over a long-term planning horizon, will meet the spending rate established by the Board (under Exhibit A) and maintain the purchasing power of the principal.

9. Manager(s) Responsibilities

A. Legal Compliance - The investment manager(s) is (are) responsible for strict compliance with the provisions of their investment management agreement.
B. Authority of Investment Manager(s) in the Managed Accounts - Subject to the terms and conditions of this Policy and the investment management agreement, manager(s) shall have full discretionary authority to direct investments of assets in the managed accounts. The Investment Advisor will recommend changes to this Policy when the advisor(s) views any part of this Policy to be inconsistent with overall market, economic conditions, or investment policies.

   The Investment Advisor directs all managers to vote proxies and to vote them in the best economic interest of the Fund. When requested, managers will report to the Investment Advisor regarding how proxies were voted.

   Meetings between Fund managers and the Investment Advisor will occur consistent with the policies established for the Investment Advisor's other managers, to discuss items including, but not limited to, the manager's performance, outlook, and investment decision process.

10. Reporting Requirements

Investment results will be regularly monitored by the Investment Advisor as well as by Board staff.

A representative of the Investment Advisor shall report investment results, or other information, to the Board annually, if requested. Any material non-compliance with the Investment Policy, Guidelines and Objectives of the Fund or with the investment management agreement will be reported to the Board immediately.

11. Investment Guidelines

A. Cash: The Fund shall maintain minimal cash, consistent with short-term requirements. Short term cash will be invested in a liquid cash equivalent investment.

B. Fixed Income: Fixed-income securities, for purposes of these guidelines, shall mean mortgage-backed securities, U.S. government securities, investment-grade corporate bonds, and other fixed income securities, such as certificates of deposit and commercial paper. The objective of this component of the Fund is to preserve capital in keeping with prudent levels of risk, through a combination of income and capital appreciation. Realization of income will be subordinate to safety, liquidity, and marketability (i.e., securities should be readily marketable). This component of the Fund shall adhere to the following criteria:

   1. Average credit quality shall be A or better;
   2. With the exception of U.S. Government and Agency issues, no more than 10

percent of the bond portfolio, at market value, will be invested in the securities of a single issuer or 5 percent of the individual issue;

3. Below investment grade bonds shall not exceed 15 percent of the bond portfolio; and
4. Non-U.S. bonds shall not exceed 20 percent of the bond portfolio.

Fixed-income managers have full discretion over the allocation between long-term, intermediate, and cash equivalent investments.

C. Equities

1. **Objective**: The objective of the equity portfolio is to enhance total return by investing in a broadly diversified portfolio of domestic and international stocks.

2. **Strategy**: Hold a fully invested, diversified portfolio of global equity securities, including emerging markets.

3. **Permitted Holdings**: Publicly traded domestic and international common stock, and other financial instruments consistent with the guidelines of the investment management agreements.

4. **Diversification**: The Investment Advisor shall recognize the need for diversification to minimize the risk of significant losses to the Fund. Diversification by capitalization, style, and sector distribution shall be obtained through the selection of complementary investment managers, or index strategies. Not more than 5 percent of the market value of any investment fund will be invested in any single issuer or security, unless part of an index fund.

5. **Portfolio Restrictions**: There will be no engagement in short sales, purchases on margin, or investments in options, futures, or private placements unless consistent with the underlying investment management agreements.

D. Performance

Performance expectations for each of the asset classes are described in Exhibit A.

12. Asset Custody and Securities Lending

Custodial responsibility for all securities is to be determined by the Board or its designee(s).

13. Conclusion

Implementation of this Policy, including investment manager selection, shall be the responsibility of the Investment Advisor, subject to the necessary approvals from the Board.

This Policy shall be reviewed by the Board at least every two years.

EXHIBIT A

Spending Policy

The distribution rate for the Fund is 4 percent of the five-year moving average unit market value for FY 2015-2016 and thereafter.

Performance Monitoring

Global equities are expected to match the performance of the passive benchmark assigned.

Fixed income accounts are expected to exceed the return of the Barclays Capital Aggregate Bond Index by 0.5 percent (after fees) over a market cycle for core bond investments.

INVESTMENT POLICY, ~~OUS POOLED~~ SOU ENDOWMENT FUND

POLICY PROVISIONS

~~Investment Objectives and~~ Policy ~~Guidelines~~Statements

I. ~~INTRODUCTION~~Introduction

This statement governs the investment of the ~~Pooled Endowment Funds~~ Southern Oregon University Endowment Fund (the "Fund") ~~of the Oregon State Board of Higher Education (the "Board") of the Oregon University System ("OUS")~~.

This statement is set forth in order that the Board, the Investment ~~Committee~~Advisor, ~~its investment advisor and~~ its investment managers and others entitled to such information may be made aware of the policy of the Fund with regard to the investment of its assets. This statement of investment policy is set forth in order that:

1. There will be a clear understanding by the Board, Investment ~~Committee~~Advisor~~,~~ and staff~~,~~ of the investment goals and objectives of the portfolio.

2. The Board and management have a basis for evaluation of the investment managers.

3. The investment managers be given guidance and limitations on investing the funds.

It is intended ~~that these~~ the objectives in this policy be sufficiently specific to be meaningful, but flexible enough to be practical. It is expected that the policy and objectives will be amended from time to time to reflect the changing needs of the endowment; however, all modifications will be in writing and approved by the Board.

II. ~~OREGON UNIVERSITY SYSTEM POOLED ENDOWMENT FUND~~Southern Oregon University Endowment Fund

The ~~Oregon University System Pooled Endowment Fund (Fund)~~Fund is ~~a~~ permanent ~~fund~~ and ~~is~~ expected to operate in perpetuity, so these funds will be invested long-term. It is important to follow coordinated policies regarding spending and investments to protect the principal of the Fund and produce a reasonable total return.

III. ~~RESPONSIBILITY OF THE BOARD~~Responsibility of the Board

The ~~responsibility~~ role of the Board is to ~~define and~~ recommend ~~to the OIC~~ broad investment ~~guidelines~~goals to the investment advisor, ~~selection of investment managers, and determination or approval of asset allocation~~including spending rate information and to provide input into the asset allocation process.

IV. ~~INVESTMENT COMMITTEE RESPONSIBILITY~~Investment Advisor Responsibility

The Investment ~~Committee~~ Advisor serves as ~~advisory~~ consultant to the Board and will have the responsibility and authority to oversee the investments of the Fund. The Investment ~~Committee~~ Advisor will recommend to the Board a specific asset mix reflecting judgments as to the investment environment as well as the specific needs of the Fund. Other ~~advisory responsibilities of the~~duties assigned to the ~~-~~Investment ~~Committee~~ Advisor ~~will~~ include:

- Recommending professional investment managers~~.~~;
- Negotiating and/or monitoring Fund investment expenses~~.~~;
- Monitoring the investment~~s~~ managers on an ongoing basis~~.~~;
- Assuring proper custody of the investments, and~~.~~
- Reporting to the Board, on a quarterly basis, the Fund's investment results, its composition and other information the Board may request.
- ~~Recommend to the Board the goal for maintaining purchasing power.~~
- ~~Recommend distribution per unit to the Board.~~
- ~~To assist in this process, the Board may retain a registered investment advisor/consultant. The duties of this investment advisor/consultant are described in Section X~~.

V. ~~SPENDING POLICY~~Spending Policy

The amount of endowment return available for spending (distribution) is based on a percentage of the average unit market value of the 20 quarters preceding the current fiscal year. The distribution per unit (under Exhibit A) is determined by the Board~~ as recommended by the Investment Committee~~. The distribution amount per unit is multiplied by the current number of units and any additional units added during the current year as new endowment money comes into the Fund. This shall be exclusive of investment management fees.

VI. ~~INVESTMENT POLICY GUIDELINES~~Investment Policy Guidelines

~~The Board does not expect the Investment Committee to be reactive to short-term investment developments, recognizing that the needs for payout are long-term and that investment competence must be measured over a meaningful period of time. While the quantitative assessment of managerial competence will be measured over a complete market cycle, the Board anticipates that the Investment Committee will make interim qualitative judgments. Specific qualitative factors which will be reviewed by the Investment Committee on an ongoing basis include any fundamental changes in the manager's investment philosophy; any changes in the manager's organizational structure, financial condition and personnel, and any change, relative to their peers, in the manager's fee structure.~~

A. Asset Allocation

The most important component of an investment strategy is the ~~asset mix, or the resource allocation~~ allocation among the various classes of securities available to the Fund. The Investment ~~Committee~~ Advisor will ~~be responsible~~establish the ~~for~~ target ~~and actual~~ asset allocation for the investments that will ~~best meet the needs~~most likely achieve the investment goals of the Fund, taking into consideration the appropriate level of portfolio ~~volatility~~risk.

The risk/return profile shall be maintained by establishing ~~a~~ the following long-term "target" strategic asset allocations: ~~that is set forth in Schedule I of this policy.~~

Asset Class	Policy	Target	Benchmark
Global Equities	65-75%	70%	MSCI ACWI IMI Net
Fixed Income	25-35%	30%	Barclays Aggregate
Cash	0-3%	0%	91 Day T-Bill

B. Investment Time Horizon

In making investment strategy decisions for the Fund, the focus shall be on a long-term investment time horizon that encompasses a complete business cycle (usually three to five years). An ~~Interim~~ interim evaluation will be performed by the Investment Advisor ~~required~~ if a significant change in fees, manager personnel, investment strategy or manager ownership occurs.

C. ~~Statement of Derivatives Policy~~

~~A derivative is defined as a contract or security whose value is based on the performance of an underlying financial asset, index, or other investment. An investment manager shall not use derivatives to increase portfolio risk above the level that could be achieved in the portfolio using only traditional investment securities. Moreover, an investment manager will not use derivatives to acquire exposure to changes in the value of assets indices that, by themselves, would not be purchased for the portfolio. Under no circumstances will an investment manager undertake an investment that is non-covered or leveraged to the extent that it would cause portfolio duration to exceed limits specified above. The investment manager will report on the use of derivatives on a quarterly basis to the administrative manager.~~

While the quantitative assessment of managerial competence will be measured over a complete market cycle, the Board anticipates that the Investment Advisor will make period qualitative assessments as well. Specific qualitative factors considered by the Investment Advisor may include, but are not limited to, fundamental changes in the manager's investment philosophy; changes in the manager's organizational structure, financial condition and personnel, and any changes, relative to peers, in a manager's fee structure.

VII. ~~PRUDENCE, RESPONSIBILITIES, AND CONTROLS~~Prudence and Ethical Standards

A. Prudence

All participants in the investment process shall act responsibly. The standard of prudence to be applied by the Board, Investment ~~Committee~~Advisor, SOU~~S~~ staff and external service providers ~~responsible for the management of investments, and external service providers~~ shall be the "prudent investor" rule, which states: "Investments shall be invested and the investments managed as a prudent investor would do, under the circumstances then prevailing and in light of the purposes, terms, distribution requirements and laws governing each investment fund."~~be made with judgment and care, under circumstances then prevailing, which persons of prudence, discretion and intelligence exercise in the management of their~~

~~own affairs, not for speculation, but for investment, considering the probable safety of their capital as well as the probable income to be derived."~~

B. Ethics and Conflicts of Interest

Board members, Investment ~~Committee~~ Advisory members, SOU~~S~~ staff and external service providers ~~responsible for the management of investments, managers and advisors~~ involved in the investment process shall refrain from personal business activity that could conflict with the proper execution and management of the investment program or that could impair their ability to make impartial decisions. These parties are required to reveal all relationships that could create or appear to create a conflict of interest in their unbiased involvement in the investment process.

VIII. ~~INVESTMENT OBJECTIVES~~Investment Objectives

The investment objective of the Fund is to seek consistency of investment return with emphasis on capital appreciation over long periods of time, since the Fund will operate in perpetuity. In keeping with the performance goals included in the Policy, achievement of this objective shall be done in a manner that, over a long-term planning horizon, will meet the spending rate established by the Board (under Exhibit A) and maintain~~s~~ the purchasing power of the principal. ~~The Investment Committee shall set the goal for maintaining the purchasing power of the principal value of the assets (under Exhibit A).~~

IX. ~~MANAGER(S) RESPONSIBILITIES~~Manager (s) Responsibilities

A. Legal Compliance

The investment manager(s) is responsible for strict compliance with the provisions of the prudent investor rule as it pertains to their duties and responsibilities as fiduciaries.

~~B. Evaluation Timetable~~

~~The manager(s) will be expected to provide to the OIC, State Treasurer's Office, Board, Investment Committee and their investment advisor/consultant on a timely basis each quarter such data as is required for proper monitoring. In addition, the manager(s) will provide to the investment advisor/consultant transaction registers and portfolio valuations, including cost and market data on a monthly basis.~~

~~C~~B. Authority of Investment Manager(s) in the Managed Accounts

Subject to the terms and conditions of this Policy and the investment management agreement, manager(s) shall have full discretionary authority to direct investments~~, exchange, and liquidation~~ of ~~the~~ assets ~~of~~ in the managed accounts. The Investment ~~Committee~~ Advisor ~~expects that the investment manager(s)~~ will recommend changes to this Policy when the ~~manager~~advisor(s) views any part of this Policy to be at variance with overall market, economic conditions, and relevant investment policies.

The Investment ~~Committee~~ Advisor directs all managers to vote proxies and to vote them in the best economic interest of the Fund. When requested, ~~The~~ managers will report to the Investment ~~Committee~~ Advisor ~~and their investment advisor/consultant at least annually as to~~ how proxies were voted.

Meetings between Fund managers and the Investment Advisor will occur consistent with the policies established for the Investment Advisor's other managers, to discuss items including, but not limited to, the manager's performance, outlook, and investment decision process. ~~Each investment manager is required to meet with the Investment Committee and their investment advisor/consultant at least annually to review:~~

- ~~The investment forecast for the following year.~~
- ~~The effect of that outlook on the attainment of the Fund objectives.~~
- ~~The manager's actual results for the preceding forecast period compared to the previously established return goal for the reporting period.~~
- ~~The Investment Policy, Guidelines, and Objectives of the Fund. If it is felt by the investment manager that the Policy is too restrictive or should be amended in any way, written notification must be communicated immediately.~~

X. ~~INVESTMENT ADVISOR/CONSULTANT RESPONSIBILITIES~~Reporting Requirements

Investment results will be regularly monitored by ~~an independent consulting organization~~the Investment Advisor as well as Board staff~~, under contract by the Board, on a regular basis and reported to the Investment Committee as soon as practicable after each calendar quarter.~~

A representative of the ~~investment~~ Investment ~~advisor~~Advisor~~/consultant~~ shall report investment results, or other information, to the Board annually, if requested. ~~meet with the Investment Committee to review for each manager (i) its past performance, (ii) compliance with the Investment Policy, Guidelines and Objectives of the Fund, including but not limited to asset allocation, actual return, and comparative return in relation to applicable index (indices) and to a universe of comparable funds, (iii) risk profile, (iv) ability of manager to fulfill the stated objectives of the funds, and (v) any other material matter. A representative of the investment advisor/consultant shall also report investment results, or other information, to the Board, OIC and others, as requested by the Investment Committee.~~ Any material non-compliance with the Investment Policy, Guidelines and Objectives of the Fund or with the investment management agreement ~~other section of this statement discovered by the investment advisor/consultant~~ will be reported to the ~~Investment Committee~~Board immediately.

XI. ~~INVESTMENT GUIDELINES~~Investment Guidelines

A. Cash: The Fund shall maintain minimal cash, consistent with short-term requirements. Short-term cash will be invested in ~~the Oregon State Treasurer's Short-Term Investment Pool~~a liquid cash equivalent investment.

B. Fixed Income: Fixed-income securities, for purposes of these guidelines, shall mean mortgage-backed securities, U.S. government securities, investment-grade corporate bonds, and other fixed income securities, such as certificates of deposit and commercial paper. The objective of this component of the Fund is to preserve capital in keeping with prudent levels of risk, through a combination of income and capital appreciation. Realization of income will be subordinate to safety, liquidity, and marketability (securities should be readily marketable). This component of the fund shall adhere to the following ~~categories~~criteria:

1. Average credit quality shall be A or better~~.~~;

2. With the exception of US Government and Agency issues, no more than 10 percent of the bond portfolio, at market value, will be invested in the securities of a single issuer or 5 percent of the individual issue~~.~~;

3. ~~There shall be a maximum limitation on b~~Below investment grade bonds ~~of~~ shall not exceed 15 percent of the bond portfolio~~.~~; and

4. ~~There shall be a maximum limitation on n~~Non-US bonds ~~of~~ shall not exceed 20 percent of the bond portfolio.

Fixed-income managers have full discretion over the allocation between long-term, intermediate, and cash equivalent investments.

~~C.~~ ~~Equity~~ Equities ~~securities~~ ~~are to be made primarily in well-established, quality companies. The objective specific to this component of the Fund is to maximize long-term total return through a combination of income and capital appreciation. The restrictions pertinent to this portion of the Fund are as follows:~~

1. **Objective**: The objective of the equity portfolio is to enhance total return by investing in a broadly diversified portfolio of domestic and international stocks.

2. **Strategy**: Hold a fully invested, diversified portfolio of global equity securities, including emerging markets.

3. **Permitted Holdings**: Publicly traded domestic and international common stock, and other financial instruments consistent with the guidelines of the investment management agreements.

4. **Diversification**: The Investment Advisor shall recognize the need for diversification to minimize the risk of significant losses to the Fund. Diversification by capitalization, style, and sector distribution shall be obtained through the selection of complementary investment managers, or index strategies. Not more than 5 percent of the market value of any investment fund will be invested in any single issuer or security, unless part of an index fund.

5. **Portfolio Restrictions**: There will be no engagement in short sales, purchases on margin, or investments in options, futures, or private placements unless consistent with the underlying investment management agreements.

~~*Large-Cap Equity Requirements:*~~

~~Not more than ten percent of the companies invested in should have market capitalizations less than $1 billion (subject to the large-cap equity limitations of Schedule I). Portfolios should be comprised of at least 30 security issues.~~

~~*Small/Mid Cap Equity Requirements:*~~

~~Investment in small and mid cap companies with market capitalization similar to the Russell 2500 index (subject to the small/mid cap equity limitations of Schedule I). Portfolio should be comprised of at least 30 security issues.~~

~~*International Equity Requirements*:~~
~~Investment in the equity securities of companies located outside the United States are permitted (subject to the international equity limitations of Schedule I0. Portfolios should be comprised of at least 30 securities.~~

~~*International Equity Requirements*:~~
~~Investments in the equity securities of companies located outside the United States are permitted (subject to the international equity limitations of Schedule I). Portfolio should be comprised of at least 30 security issues.~~

D. ~~Diversification~~Performance

~~1. Not more than 5 percent of the market value of any investment fund will be invested in any single issue, property, or security. This restriction does not apply to U.S. Government-issued securities.~~
~~2. No investment in any single issue, security, or property shall be greater than 5 percent of the total value of the issue, security, or property.~~

Performance expectations for each of the asset classes is described in Exhibit A.

~~XII. OTHER INVESTMENTS~~

~~The Board and the Investment Committee recognize that the addition of other investment classes may reduce total fund volatility~~

~~The Board and the Investment Committee may, with the concurrence of the OIC, place up to 10 percent of the aggregate Fund assets in venture capital, real estate, distressed securities, and oil and gas partnerships. This allocation is to provide for portfolio diversification~~.

XIII. ~~OTHER GUIDELINES AND REQUIREMENTS~~Other Guidelines and Requirements

Custodial responsibility for all securities is to be determined by the Board or its designee(s).

XIV. ~~CONCLUSION~~Conclusion

Implementation of this Policy, including investment manager selection, shall be the responsibility of the Investment ~~Committee~~Advisor, subject to the necessary approvals of the Board ~~and the OIC~~.

This Policy shall be reviewed by the Board at least every two years.

~~SCHEDULE I~~

~~ALLOCATION OF ASSETS~~

~~The following represents target allocations and the ranges by asset category:~~

~~Class~~	~~Target Allocation~~	~~Ranges~~	~~Policy Benchmark~~
~~Growth Assets~~	~~60%~~	~~50%-75%~~	
~~US Equity~~	~~25%~~	~~20%-30%~~	~~Russell 3000~~
~~International Equity~~	~~25%~~	~~20%-30%~~	~~MSCI ACWI ex US~~
~~Private Equity~~	~~10%~~	~~0%-15%~~	~~Russell 3000+300 bps~~
~~Inflation Hedging~~	~~15%~~	~~7%-20%~~	
~~Real Estate~~	~~7.5%~~	~~0%-10%~~	~~NCREIF Index~~
~~TIPS~~	~~7.5%~~	~~0%-10%~~	~~BC Inflation Note Index~~
~~Diversifying Assets~~	~~25%~~	~~20%-30%~~	
~~Fixed Income~~	~~25%~~	~~20%-30%~~	~~Barclays Capital Aggregate~~
~~Cash~~	~~0%~~	~~0%-3%~~	~~90 Day T-Bill~~

~~Note: The current Target Allocation Policy benchmark is 25% Russell 3000 Index, 25% MSCI ACWI ex US Index, 25% Barclays Capital Aggregate Index and 10% Russell 3000+300bps, 7.5% BC Treasury Inflation Protection Index, 7.5% NCREIF Index.~~

EXHIBIT A

~~Performance Monitoring~~ Return Expectations

Spending Policy

The distribution rate for the Fund is 4.0 percent of the five-year moving average unit market value for FY2015-2016 and thereafter.

Performance Monitoring

Global equities are expected to match the performance of the passive benchmark assigned.

Fixed income accounts are expected to exceed the return of the Barclays Capital Aggregate Bond Index by 0.5% (after fees) over a market cycle for core bond investments.

~~Total Fund~~
~~The total fund will be evaluated quarterly. Specific performance objectives include, but may not be limited to, the following:~~

1. ~~Exceed the return of the Policy benchmark (Schedule 1) by 0.50 percent (after fees) over a market cycle.~~

2. ~~Exceed the level of inflation by 5.0 percent or more as measured by the Consumer Price Index (CPI) over a market cycle.~~

3. ~~Exceed the median fund in a universe of other endowments over a market cycle. A market cycle is defined as an investment period lasting three to five years.~~

~~U.S. Equities - Large Capitalization~~
~~Equity accounts will be evaluated quarterly. This allocation will be invested passively and is expected to match the return to the S&P 500.~~

~~U.S. Equities – Small/Mid Capitalization~~
~~Small/Mid capitalization accounts will be evaluated quarterly. Specific performance objectives are to exceed the return of the Russell 2500 (after fees) by 1.0 percent over a market cycle.~~

~~International Equities~~
~~International developed and international emerging markets equity accounts will be evaluated quarterly. Developed market account objectives are to exceed the return of the MSCI World ex US IMI Index by 1.0 percent (after fees) over a market cycle. Emerging market account objectives are to exceed the return of the MSCI Emerging Markets IMI Index by 1.5 percent (after fees) over a market cycle.~~

~~Fixed Income~~
~~Fixed Income accounts will be evaluated quarterly. Specific performance objectives are to exceed the return of the Barclays Capital Aggregate Bond Index by 0.5 percent (after fees) over a market cycle for core bond investments. Treasury Inflation Protected Securities (TIPS) are expected to meet the return of the BC Treasury Inflation Protection Index.~~

~~**Alternative Investments**~~

~~The performance objective of the private equity component of the Alternative Investments portfolio is to exceed the Russell 3000 Index plus 300 basis points (lagged one quarter). The performance objective of the real estate component is to exceed the NCREIF Property Index (lagged one quarter). Both are expected to be achieved over a market cycle.~~

FY 2016 Q3 Investment Report

Report on Investments – as of March 31, 2016

Market Background

(Provided by Callan Associates, Oregon Investment Council consultant)

Macroeconomic Environment

The first quarter of calendar year 2016 revealed a dramatic tale of two halves, split nearly evenly between "risk off" and "risk on" sentiment. Falling commodity prices and broad-based concerns over global economic growth contributed to poor performance in both the equity and corporate bond markets, as well as a sharp rally in U.S. Treasuries through mid-February. February 11, 2016 marked the intra-quarter low in U.S. stocks, oil prices, high yield bonds and risk appetite. West Texas Intermediate crude oil prices hit a multi-year low of $26/barrel, down from $37 at year-end, before rallying nearly 50 percent to close the quarter at $38. The Chicago Board Options Exchange-Volatility Index, a measure of volatility, spiked to 28 on February 11, 2016 and fell throughout the remainder of the quarter to 14 as of March 31, 2016. And, the 10-year Treasury hit 1.66 percent on February 11, 2016, 61 basis points below its December 31, 2015 level. The Standard & Poor's (S.&P.) 500 suffered its worst start to a year ever, falling over 10 percent through February 11, 2016 only to rally 12 percent and close the quarter up 1.3 percent.

Citing concerns over global growth as well as less supportive conditions in the U.S., the Federal Open Market Committee elected to keep rates unchanged at the two meetings held during the quarter. Comments made by Federal Reserve Chair Janet Yellen that changes in monetary policy would be gradual were construed as dovish with markets quickly adjusting to a reduction in the number of anticipated rate hikes in 2016. As of March 31, 2016, federal funds futures were pricing in only one rate hike in 2016, down from four at year-end. The Federal Reserve also trimmed its own expectations to two rate hikes for the year, down from four and its real Gross Domestic Product (G.D.P.) forecast for 2016 down to 2.2 percent from 2.4 percent.

In spite of volatility in financial markets, U.S. data revealed an economy that continued to chug along. Fourth calendar quarter G.D.P. was revised upward to 1.4 percent from an initial estimate of 0.7 percent, bolstered by consumer spending. The labor market also continued to improve with robust job growth and an improvement in the labor force participation rate to 63 percent, the highest level in two years. Unemployment ticked up slightly to 5 percent given the increase in the labor force. Inflation increased slightly more than expected in February (data released in March) with the Consumer Price Index ex-food and energy up 0.3 percent in February and 2.3 percent year-over-year. Wages rose an encouraging 2.3 percent from a year earlier. Even the manufacturing sector showed signs of improvement at the end of the quarter with March's Institute for Supply Management Index, which measures U.S. manufacturing activity, expanding for the first time since last summer.

Outside of the U.S., the news was bleaker. In January, the Bank of Japan shocked investors by cutting its benchmark rate to negative 0.1 percent in a continuation of its efforts to spur growth and inflation. And later in the quarter, Japan sold a 10-year bond with a negative yield of 0.02 percent for the first time ever. In Europe, Sweden's central bank, the Riksbank, cut its main rate by 15 basis points to negative 0.5 percent citing "weakening confidence" in achieving its 2 percent inflation goal. Roughly $7 trillion of government debt globally now yields less than zero percent. The yield-to-maturity for the Barclays Global Treasury Index stood at 0.8 percent as of quarter-end, an all-time low. The yield on the Index ex-U.S. was even more paltry, at 0.6 percent.

Norway's central bank cut its key interest rate to an all-time low of 0.5 percent from 0.75 percent, and also raised the prospect of negative rates.

The European Central Bank (E.C.B.) also surprised investors in early March when it announced a handful of new measures aimed at battling deflation and bolstering the economy. The E.C.B. cut three of its main interest rates, introduced a new loan program for banks with ultra-low rates, extended its monthly asset program from €60 billion to €80 billion and added high quality corporate bonds to the list of the assets it can buy. The Bank also reduced forecasts for inflation and growth; it expects inflation of just 0.1 percent this year; sharply lower than the 1 percent projected in December and far below its 2 percent target. And growth expectations in 2016 for the euro zone's nineteen countries were cut from 1.7 percent to 1.4 percent. The euro strengthened on the news, however, due to ECB President Draghi's remarks that rates would not likely fall further given concerns over the impact on European banks. Financials (both stocks and bonds) were hit especially hard given concerns about the impact of persistently low (or negative) interest rates on banks' earnings.

Equity Market Results

Equities commenced the quarter on very weak footing with many indices down more than 5 percent, and some as much as 10 percent, in the month of January. The weakness continued through mid-February at which point the S.&P. 500 staged a strong rally through quarter-end. Despite the weak start, the S.&P. rose 1.3 percent in the first quarter. Mid and small caps were more volatile and while the Russell Midcap rose off its lows to a gain of more than 2 percent, small caps remained in the red at quarter-end (Russell 2000: -1.5 percent). Value outperformed growth across capitalization with the largest difference coming from the lower end of the capitalization spectrum.

Corporate profits fell as a strong dollar and falling oil prices hurt earnings. Fourth quarter after-tax corporate profits fell about 8 percent and dropped roughly 3 percent for the full year, the first decline since 2008. The most notable dispersion in equity performance came from high quality (+6.3 percent) versus low quality (-0.0 percent) as measured by the S.&P. Value outperformed growth across small, mid and large caps but by the largest margin in small caps (Russell 2000 Value: +1.7 percent; Russell 2000 Growth: -4.7 percent). From a sector perspective, Financials (-5.1 percent) and Health Care (-5.5 percent) performed the worst, while the defensive Telecom (+16.6 percent) and Utilities (+15.6 percent) sectors performed the best. Real Estate Investment Trusts performed well (National Association of Real Estate Investment Trusts Equity: +6.0 percent), while Master Limited Partnerships (M.L.P.s) continued on a downward trajectory (Alerian M.L.P.: -4.2 percent). The M.L.P. Index has lost nearly one-third of its value over the past year; peak-to-trough the decline approached the losses experienced during the Great Financial Crisis.

Foreign equities followed a similar path as their domestic counterparts, however most broad indices failed to fully recover and posted declines for the quarter. A weaker dollar helped to mitigate the underperformance of developed markets (Morgan Stanley Capital Index – Europe, Australasia and Far East (M.S.C.I.-E.A.F.E.) Local: -6.4 percent; U.S.$: -3.0 percent). Emerging markets was the notable exception and rallied about 20 percent from its January nadir to finish with a nearly 6 percent gain (M.S.C.I.-Emerging Markets U.S. $: +5.8 percent). Brazil (+28.6 percent) and Russia (+15.8 percent) were star performers among emerging market countries (both in U.S. dollar terms).

Fixed Income Market Results

U.S. Treasuries posted their best first quarter return since 2008 as yields dropped nearly 50 basis points from year-end in a volatile quarter marked by heightened uncertainty over global economic growth. The Barclays U.S. Treasury Index returned 3.2 percent for the quarter. Investment grade and high yield corporate bonds see-sawed, drastically underperforming in January and early February before rebounding with oil and stocks through quarter-end. Investment grade Financials, hurt by worries over persistent low / negative interest rates, underperformed like-duration Treasuries by nearly 100 basis points for the quarter while Industrials, buoyed by a rebound in commodity prices, outperformed by 70 basis points. The Barclays High Yield Index returned 3.4 percent for the first calendar quarter, but was down 5 percent through February 11, 2016.

The U.S. dollar weakened versus most currencies during the quarter, providing a tailwind to unhedged foreign bond returns. The yen gained 7 percent versus the dollar as investors sought its safe haven status. The euro was also stronger versus the dollar, up 5 percent on the back of Mario Draghi's comments that rates were unlikely to fall further. The notable exception was the pound (-3 percent), where worries over a potential Brexit "British Exit" put pressure on the currency. Interest rates also fell across developed markets, further bolstering returns. The J.P. Morgan Non-U.S. Government Bond Index was up 9.1 percent for the quarter, (+4.3 percent on a hedged basis), while the Barclays Global Aggregate Index returned 5.9 percent (+3.3 percent hedged). On an unhedged basis, returns approached 10 percent for many countries, including Japan which was up nearly 12 percent on the back of falling rates combined with yen strength. Emerging markets bonds rebounded in the first quarter with the bulk of the returns coming in late February and March as commodity prices stabilized and risk appetite returned. The hard currency J.P. Morgan – Emerging Market Bond Global Diversified Index returned 5.0 percent while the local currency J.P. Morgan Government Bond Index - Emerging Markets Global Diversified soared 11.0 percent. Brazil was the top performer in both indices as investors were cheered by prospects for an impeachment of President Dilma Rousseff and a new government that could bring better days for the beleaguered country.

Other Asset Results

Hedge funds provided mixed results through March 31, 2016. Macro (+1.5 percent) and Market Neutral (0.6 percent) were the only strategies producing a positive return with Relative Value (-0.6 percent), Event Driven (-0.5 percent), and Equity L/S (-1.7 percent) all losing money.

The energy heavy S.&P. G.S.C.I. (formerly the Goldman Sachs Commodity Index) fell 2.5 percent while the more diversified Bloomberg Commodity Index managed a fractional gain (+0.4 percent) as strength in precious metals offset the weakness in energy. The big winner for the quarter was gold as the yellow metal rose more than 16 percent to its best quarterly performance since 1986.

Closing Thoughts

There is no shortage of uncertainty in today's world. Election year uncertainty in the U.S., a looming potential Brexit, challenging geopolitical issues, pallid global growth and a difficult navigation toward higher rates in the U.S. are expected to continue to contribute to heightened volatility. As such, prudent asset allocation with appropriate levels of diversification and a long-term perspective remain Callan's recommended course.

Public University Fund

(Prepared by the Public University Fund Administrator)

The Public University Fund (P.U.F.) earned a total return of 1.1 percent for the quarter and 1.4 percent year-to-date through March 31, 2016. The Oregon Short-Term Fund outperformed its benchmark for the quarter and year-to-date by 10 and 40 basis points, respectively. The Oregon Intermediate-Term Pool (O.I.T.P.) underperformed its benchmark for the quarter and year-to-date by 50 and 80 basis points, respectively. The Long-Term Pool (L.T.P.) underperformed its benchmark for the quarter and year-to-date by 20 basis points and 130 basis points, respectively.

In late April, a fiscal third quarter P.U.F. investment performance review was conducted by Oregon State Treasury Fixed Income Portfolio Manager, Tom Lofton, with University staff and its investment advisor. The fixed income markets posted strong returns during the quarter, led by U.S. Treasuries, as conflicting comments from the Federal Reserve and a substantial flow of international money seeking shelter from negative interest rates, in their local market, fueled U.S. Treasury prices higher. Both the O.I.T.P and L.T.P underperformed their respective benchmark during the quarter. The underperformance was due to a relative underweight in three to five year U.S. Treasury bonds, along with price volatility in the corporate bond segment of the portfolios as investors reduced risk exposure following mixed global economic data and disappointing corporate earnings. Mr. Lofton used the price volatility to increase the portfolio allocation to corporate bonds in the O.I.T.P.

During the quarter, investment earnings distributed to Southern Oregon University totaled $106,711. The market value of SOU's allocable share of the P.U.F. was $36,361,259 on March 31, 2016.

Southern Oregon University Endowment Fund

(Prepared by Oregon State Treasury)

The SOU Endowment Fund returned 1.0 percent during the third quarter of fiscal year 2016, less than the policy benchmark by 20 basis points. The Fund ended the quarter with a balance of $2.1 million.

The majority of the Fund's return is allocated to an index strategy and only 30 percent of the portfolio is "actively" managed. The 30 percent fixed income allocation is the Western Asset Core Plus Bond Fund. For the three months ended March 31, 2016, the Western Asset account underperformed the Barclays U.S. Aggregate Bond Index by 44 basis points. The portfolio manager's allocations to residential mortgage-backed securities ("RMBS"), commercial mortgage-backed securities ("CMBS") and currency relative to the benchmark's exposures, detracted from performance for the quarter.

Southern Oregon University

Investment Summary

as of March 31, 2016

(Net of Fees)

	Quarter Ended 3/31/2016	Prior Fiscal YTD	Current Fiscal YTD	3 Yr Avg	5 Yr Avg	10 Yr Avg	Market Value	Actual Asset Allocation	Policy Allocation Range
SOU Operating Assets Invested in Public University Fund									
Oregon Short - Term Fund	0.2%	0.4%	0.5%	0.6%	0.6%	1.7%	$ 15,536,577	42.7%	[1]
Benchmark - 91 day T-Bill	0.1%	0.0%	0.1%	0.1%	0.1%	1.2%			
Oregon Intermediate - Term Pool	1.7%	1.5%	1.7%	N/A	N/A	N/A	13,169,953	36.2%	[1]
Benchmark - Barclay's U.S. Aggregate 3-5 Yrs.	2.2%	1.5%	2.5%	1.7%	2.0%				
[2] Combined Historical Returns				1.6%	2.8%				
P.U.F. Long - Term Pool	2.4%	2.8%	2.9%	N/A	N/A	N/A	7,654,729	21.1%	[1]
Benchmark - Barclays' U.S. Aggregate 5-7 Yrs.	2.6%	3.8%	4.2%	2.1%	4.0%				
[2] Combined Historical Returns				2.1%	3.8%				
Total Public University Fund Investment	1.1%	1.4%	1.4%				$ 36,361,259	100.0%	
SOU Endowment Assets									
BlackRock A.C.W.I. I.M.I. B	0.4%	NA	-4.6%	5.9%	5.6%	N/A	$ 1,484,525	70.6%	
Benchmark - M.S.C.I. A.C.W.I. I.M.I Net	0.3%		-4.9%	5.6%	5.2%				
Western Asset Core Plus Bond Fund	2.6%	4.1%	3.6%	3.3%	4.8%	6.0%	608,380	28.9%	
Benchmark - Barclays Aggregate Index	3.0%	3.6%	3.7%	2.5%	3.8%	4.9%			
Cash	0.2%	0.4%	0.5%	0.6%	0.6%	1.7%	2,991	0.0%	
Benchmark - 91 day T-Bill	0.1%	0.0%	0.1%	0.1%	0.1%	1.2%			
							2,095,896	99.5%	
Arrowstreet Tax Reclaim Receivable							6,065	0.5%	
Total SOU Endowment Assets	1.0%	4.0%	-1.8%	6.2%	6.7%	4.6%	$ 2,101,961	100.0%	
[3] Recommended Policy Benchmark	1.2%	3.2%	-2.1%	N/A	N/A	N/A			

[1] The Public University Fund (P.U.F.) policy guidelines define investment allocation targets based upon total participant dollars committed.
Core balances in excess of liquidity requirements for the participants are available for investment in the Intermediate-Term Pool and the Long-Term Pool.
Maximum core investment allocations are determined based upon anticipated average cash balances for all participants during the fiscal year.

[2] The historical returns presented combine the investment returns from the predecessor fund with the investment returns of the P.U.F.,
for investments with an identical mandate. The predecessor fund commingled all public universities operating assets into a cash and investment pool.

[3] Recommended Policy Benchmark Composition: 70% M.S.C.I A.C.W.I I.M.I Net , 30% Barclays Aggregate Bond Index.

Note: Outlined returns underperfomed their benchmark.

Adjourn