

Meeting The Challenges of Alternative Investments



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Meeting the Challenges of Alternative Investments

By John Mattie and Jack McCarthy

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Over the past ten years John and Jack have written numerous publications including, among others:

- ***The Changing Role of the Audit Committee: Leading Practices for Colleges, Universities and Other Not-for-Profit Educational Institutions***, published by PricewaterhouseCoopers in 2004
- ***A Foundation for Integrity***, published by PricewaterhouseCoopers in 2004
- ***Financial and Accounting Guide for Not-for-Profit Organizations***, including the ***2004 Cumulative Supplement***, published by John Wiley & Sons, Inc.
- ***Understanding Underwater Endowment Funds***, published by PricewaterhouseCoopers in 2003
- **"The Substance of Transparency: The Sarbanes-Oxley Act,"** published in the February 2003 edition of the NACUBO *Business Officer*
- ***Developing a Strategy To Manage Enterprisewide Risk in Higher Education***, published by NACUBO in 2001
- ***Financial Reporting and Contributions: Guidance for Implementation of FASB Nos. 116 and 117***, published by PricewaterhouseCoopers in 1994
- ***Issues Facing Nonprofit Institutions: Conflicts of Interest and Executive Compensation***, also published by PricewaterhouseCoopers in 1994

About PricewaterhouseCoopers

PricewaterhouseCoopers is a leading provider of professional services for colleges, universities, and other not-for-profit educational institutions. Our goal is to help our clients turn their complex business issues into opportunities and measurably enhance their ability to build value, manage risk and improve performance.

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Meeting the Challenges of Alternative Investments

I. Introduction

This paper—one in a series of PricewaterhouseCoopers' papers for universities, colleges and other not-for-profit educational institutions—was developed to help key decision makers and advisors understand the complex selection, monitoring, valuation, and financial reporting issues surrounding alternative investments. As institutions allocate greater percentages of their investment portfolios to alternative investments, a new set of regulatory and business issues arises. In today's environment of greater accountability, institutions must operate and report results with the highest degree of control, diligence, and reporting transparency. Hence, understanding the issues is essential for sound operational performance and good, credible relations with such stakeholders as regulators, lenders, and donors.

This paper is intended for members of audit and investment committees as well as business officers of colleges, universities, and other not-for-profit educational institutions. We highlight the issues, suggest probing questions and, where possible, provide leading practices that we believe might be useful to institutions considering or already using alternative investments.

In developing this primer, we relied heavily on the insights of PricewaterhouseCoopers' partners who serve investment industry clients, combining their insights with the knowledge and experience of our education partners. In particular, we wish to thank Linda Ianieri, a partner in our New York City office who serves investments and capital markets organizations and who also serves as the investments audit partner in our higher education practice. She has provided valuable insights to this paper.

II. What Are Alternative Investments?

Defining Alternative Investments:

Alternative investments are investments in other than publicly-traded securities, including investments in private companies, new technologies, and other financial instruments. Alternative investments include hedge funds, private equity funds, and venture capital funds.

Alternative investments are investments in other than publicly-traded securities, including investments in private companies, new technologies, and other financial instruments. Alternative investments include hedge funds, private equity funds, and venture capital funds. They are often managed as limited partnerships, with general partners running the fund and receiving management fees as well as a percentage of any gains. Alternative investments are usually available only to qualified investors, who are usually defined as investors (individuals or institutions) with a high net worth and a tolerance for high risk.

Alternative investments have existed for more than fifty years. However, their popularity has grown recently as they have delivered above average returns in volatile and down markets. These returns are achieved through the general partners' deep knowledge of the sectors in which they invest, their ability to trade long and short and, in some cases, to invest on margin or with credit.

While relatively new for many investors, alternative investment funds have grown, particularly over the last decade, to occupy an ever-increasing portion of some endowments. According to the most recent survey¹ by the National Association of College and University Business Officers (NACUBO), more than 20 percent of endowments on a dollar-weighted average basis are invested in alternative investment products. The wealthiest institutions, those with over \$1 billion in endowments, have close to 30 percent of their assets invested in alternative products. On the other hand, the least wealthy institutions, those with less than \$25 million in endowments, allocate less than 2 percent of their assets to alternative products.

Alternative investments found a place in endowments when some traditional asset classes (i.e., publicly-traded stocks and bonds) failed to deliver strong returns. Alternative investments held out the promise of attaining spending formula goals while protecting against the negative effects of inflation.

Rates of return from stocks and bonds have ranged widely in the last several years. Alternative investments have provided annual cash returns of well over 10 percent in many cases. As a result, the allocation of many investment portfolios to alternative investments has grown larger as more capital has flowed into them but also through market appreciation.

Balancing Risks:

As institutions commit to increasingly more complex investments, the sophistication of their staffs—their understanding of the risks and practices to manage such risks—should keep pace.

Alternative investments require the right infrastructure to balance their risks. As institutions commit to increasingly more complex investments, the sophistication of their staffs—their understanding of the risks and practices to manage such risks—should keep pace. Also, policies and procedures must be sufficiently robust. For institutions that are considering alternative investments, or investing in them more heavily, such issues require up-front attention from management and boards.

III. The Role of the U.S. Securities and Exchange Commission (SEC)

As institutional investors, including colleges and universities with endowments, foundations, and pension funds, have increased their allocation to alternative investment funds, so has pressure on the U.S. Securities and Exchange Commission (SEC) to regulate the operations of such funds and to force more disclosure of their holdings and tactics. On September 29, 2003, the SEC chairman, William H. Donaldson, announced the release of an SEC staff report entitled *Implications of the Growth of Hedge Funds*.² In the report, the SEC staff notes the following points of concern:

- Lack of sufficient information about hedge funds and the activities of the funds' advisors
- Lack of transparency as to the underlying investments
- Hedge funds not subject to standardized disclosure standards and not subject to SEC examination
- Valuation and conflict-of-interest issues
- Increase of investments in hedge funds by institutions
- Increase in the enforcement activity regarding hedge funds

The study recommended ways that the SEC might improve the regulation of hedge funds, suggesting, for instance, that the SEC require hedge fund advisors to register as investment advisors under the Investment Advisors Act of 1940.³

Subsequently, in July 2004, the SEC proposed such a new rule.⁴ It would require most hedge fund managers to register with the SEC, provided they manage at least \$25 million of assets. Most other money managers already register with the SEC under the Investment Advisers Act of 1940. Among other implications, if hedge fund managers were subject to the Act, they would be:

- Subject to examination by the SEC
- Limited in their ability to charge performance fees to certain types of investors going forward
- Required to implement compliance policies and procedures under the administration of a chief compliance officer

Institutions with alternative investments should monitor the development of the SEC's proposed rule. More information can be found on the SEC's website at <http://www.sec.gov>.

IV. Issues and Questions

Alternative investments pose many challenges, but the key ones can be categorized under four general headings. They are:

The Four Key Issues:

1. Selection—What process will the institution establish and follow to select the right alternative investments?
2. Monitoring—How will the institution monitor the ongoing performance of its alternative investments?
3. Valuation—How will the institution value its alternative investments in financial reports?
4. Reporting—What financial reporting and disclosure issues are raised by alternative investments?

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In the remaining sections of this paper, we highlight each of these four fundamental issues and raise relevant questions for trustees and officers to consider about each one.

1. Selection

The first issue is selecting the right alternative investments given the institution's goals, its access to the market, and risk appetite. Before committing funds to alternative investments, performing due diligence is absolutely essential. Also, several factors complicate the selection process. One is that there is a relatively small pool of highly rated limited partnerships with experienced managers and a demonstrable history of results. This makes it difficult, especially for newcomers, to gain access to the most attractive alternative investments.

a. How are alternative investments identified, researched, and selected?

Leading practices in the overall management, monitoring, valuation, and reporting of alternative investments begin with the selection process, including due diligence. Due diligence is the care that a reasonable person would be expected to take before entering into a transaction.

Institutions need to establish a formal selection process that includes sufficient due diligence. Some institutions use a checklist to guide their investment managers or investment committee through the early stages of building a portfolio of alternative investments. For example, one point on the checklist would be to make inquiries about the reputation and qualifications of the general partner of a limited partnership.

It also is prudent to:

- Anticipate the monitoring, valuation, and reporting challenges that will arise if a specific investment is made
- Consider liquidity and operating cash flows

The investment committee should keep minutes of their meetings as well as internal memos and other documents that may provide insight into the selection process. Such documents are important records not only for the institution but also for the independent auditor as they provide evidence of the committee's decision-making process.

b. With regard to disbursements, are investment controls sufficient? Do they reflect appropriate levels of review?

These questions focus on the controls that should be in place for transferring funds from the institution to an alternative investment manager. It is extremely important to establish sufficient oversight over the disbursements of investment dollars by investment managers, either those on staff or third-party managers. One reason why upfront attention is so important is that under the terms of most limited partnerships, it is difficult and expensive to undo investments.

Board-Level Responsibilities:

In general, the investment committee is responsible for assessing the appropriateness of a particular investment for the institution's portfolio and assessing the institution's overall exposure to investment risk. The audit committee is responsible for overseeing the controls over the investment process as well as for overseeing the monitoring controls once the investment has been made.

If the institution outsources investment activities to third-party managers, adequate controls still need to be in place. Responsibility for investments should not be shifted unduly to an outside party. It rests with the institution and ultimately, with the board.

The risks of not having a clearly defined set of investment controls, particularly when investment managers are compensated on an incentive bonus system tied to performance, are that the institution could find itself over weighted in a particular sector or invested in a fund without appropriate prior due diligence on the fund's management and record. The institution could suffer not only the risk of diminished investment returns, but also damage to its reputation for being remiss in its internal controls and the oversight of its managers.

We recommend developing a flow chart that establishes the chain of decision from the university's investment manager or advisor to the board's investment committee and its audit committee. Each and every investment should include the appropriate sign-off of the institution's investment committee. The independent auditor should be able to verify the sign-off and also should be able to attest to the existence, efficacy, and usage of the control process.

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c. What is the institution's risk and exposure from a specific alternative investment, and how is it monitored?

As part of the due diligence process, the investment committee and the institution's investment managers should develop a risk assessment profile to gauge the relative risk of a specific investment. Such a profile should spell out, in some detail, the parameters of acceptable risk and what steps should be taken if those parameters are exceeded. The overall risk tolerance of the portfolio must be weighed against the institution's stated investment objectives initially and then on an ongoing basis.

Monitoring the ongoing investment risk exposure should be the responsibility of the chief investment office. Periodically, the investment office should report to the investment committee. The institution's auditors (internal or external) also should be asked to monitor the process and the validity of reports back to the institution from the fund's general partner.

d. What is the institution's tax exposure due to certain types of alternative investments?

Certain investments held by limited partnerships, including those that involve debt-financed property or an operating business, have the potential to generate unrelated business income (UBI) that is taxable to the partners of the limited partnership. When institutions look at due diligence and monitoring controls and the risks associated with alternative investments, they should be aware that such investments may expose them to a tax liability. It is important for institutions to establish appropriate policies and procedures to assess and manage the federal and state tax implications of partnership investments. In addition, UBI should be annually reported on the IRS Form 990-T and, if required, on the appropriate state forms. It is also important for institutions to track their investments in foreign partnerships (or in those partnerships that have themselves invested in foreign partnerships and/or in foreign corporations) since they may be subject to additional reporting requirements.

2. Monitoring

Alternative investments usually require more diligence in the selection and monitoring processes than traditional investments. With regard to monitoring, one informative

exercise is to graph the number of personnel in an institution's investment office against the number of its investments. If the numbers have not kept pace, it may be an indication that the institution is overreaching its capability to effectively perform due diligence and monitor its investments.

Monitoring Valuation:

In most private equity investments, the individual investments are carried at their original cost basis. They are only revalued when some "valuation event" takes place that places a verifiable new value on the investment.

In addition, the investment committee's sophistication needs to keep pace with its investment decisions. Appropriate oversight at the board level, as well as monitoring at the management level, is critical.

a. Are the cash flows and valuations of alternative investments properly monitored throughout the year?

This issue concerns the frequency and consistency of the reports received from the general partners. It is difficult, if not impossible in many cases, to value an alternative investment on anything more frequent than a quarterly basis. In the case of private equity, where the underlying investments are in private companies that are not valued on the public markets, valuation is extremely difficult to perform. In most private equity investments, the individual investments are carried at their original cost basis. They are only revalued when some "valuation event" takes place that places a verifiable new value on the investment.

b. How are capital calls monitored to ensure their legitimacy?

Alternative investment funds are generally structured as limited partnerships. Under the terms of the initial agreement, each partner may be asked to contribute more capital as time goes on. "Capital calls" are common, but can come as a surprise to an institution expecting cash inflows from its investment. In limited partnerships holding many types of investments, the capital is usually either paid in installments or a certain sum paid initially with another sum callable in the future.

Controls are necessary to determine whether capital calls are legitimate and due to acceptable circumstances—not the mismanagement of funds or other untoward events. Either the university investment office or the investment committee should be responsible for monitoring capital calls.

Monitoring Capital Calls:

"Capital calls" are common, but can come as a surprise to an institution expecting cash inflows from its investment.

Capital calls include time-based calls that occur at scheduled intervals as well as event-based calls that occur when the need arises. For example, the limited partnership may need to fund an investment commitment. Also, some event-based calls may occur at the discretion of the general partner who may initiate it up to certain pre-set limits.

c. Are the procedures to monitor compliance to investment management guidelines effective?

Investment committees usually set the strategy. They establish the allocation of capital among different asset classes and then rely on institutional investment managers, or third-party managers, to execute the strategy. Measuring the efficacy of their guidelines is important and requires quantitative as well as objective benchmarks that should be applied on a regular basis.

When initially deciding whether or not to invest in a specific limited partnership, most institutional investors consider the general partner's experience and strategic focus. Once they decide to buy, institutional investors need to be aware that their control over the general partner's ongoing investment strategy is very limited.

d. Are the control procedures to calculate and disburse incentive compensation appropriate?

Institutions face challenges attracting and retaining top talent in-house to manage their investment portfolios. They must compete with the high salaries and generous incentive packages offered in the investment management industry.

Incentive compensation packages reward investment managers on the basis of returns, but also must take into account managers' adherence to the institution's investment strategy. While the likelihood of a "rogue" professional may appear farfetched, particularly in an academic environment, incentive compensation based only on returns could be risky. Calculating and disbursing incentives needs to be done on an objective basis with clearly defined parameters, thresholds, and a schedule of disbursements.

Clearly defined guidelines (i.e., conflict of interest and other institutional policies) on what is acceptable in terms of receiving gifts and "soft-dollar" compensation from alternative investment fund managers also is very important. Such guidelines should be overseen by the audit committee as part of the university's overall conflict of interest policy.

e. How is the institution's exposure to the risk of unfair trading practices identified and monitored?

In the summer of 2003, a series of scandals rocked the mutual fund industry when it became known that some hedge funds were permitted to place and execute orders for mutual funds following the close of the day's trading. This practice, known as "late trading," allowed traders to profit from market events that occurred after the time that mutual funds calculated their net asset value (NAV). "Market timing," where an investor rapidly buys and sells a fund to unfairly take advantage of events, also was a factor. The SEC investigated and imposed penalties against several leading funds.

To minimize an institution's exposure to the risk of unfair trading practices, it should:

- Invest in funds with long, successful track records through multiple business cycles
- Understand the underlying trading premise of the fund and risk management controls
- Be mindful of manager turnover and its consequences
- Inquire about the findings of regulators when they do inspections
- Understand the quality of the fund's infrastructure—is it too lean?
- Look for funds with established minimum assets under management

Of course, one should always thoroughly review the fund documents to see whether they limit the type of investing a fund manager can do or if they leave it very open. If you choose a fund based on its track record in a particular area, you want to make sure its managers will continue to invest in that area.

f. Is the institution's conflict of interest policy appropriate?

The audit committee should oversee an institution's conflict of interest policy, which should explicitly spell out behaviors that are not appropriate for board members, investment managers and others. If, for example, employees of the university serve on an advisory committee at a fund, have their relationships been adequately vetted with legal counsel and is it clear what responsibilities they are assuming?

College and university boards often include members with extensive investment experience. Their expertise has been used to great advantage by many institutions. However, investments in funds managed by board members or affiliated organizations are considered to be related party transactions. Such transactions should be subjected to scrutiny and formal approval by the board. Also, such transactions could require disclosure in the footnotes.

g. Do the institution's staff (i.e., internal auditors, investment officers) periodically visit the managers of the alternative investment?

Many universities require that their internal investment officers visit periodically—at least annually if not more—with external investment managers as part of the ongoing control process. The issues on the agenda for such visits could include:

Information Systems:

The ability to track cash investments and distributions in limited partnerships on a periodic basis by individual partnership as well as to compare valuations of similar non-public holdings across multiple partnerships can be optimized through efficient information systems.

A Key Valuation Consideration:

Of considerable concern is the lag between when a fund reports its valuation and the university's deadline for publishing its annual financial statements.

- How do the managers of the alternative investments assure themselves that the systems of internal controls over the accounting and reporting of transactions are effective?
- How does the fund ensure adequate segregation of duties among its staff?
- How secure is the fund's technology, and how does it track and restrict access to data?
- How does the general partner gain access to data? Is there web-based reporting and, if so, how secure is it?
- What kinds of controls are in place at the fund for disaster recovery?

In addition, some funds, particularly private equity funds, have advisory boards that include representatives from key investors. Institutions can gain a great deal of insight about their investment by participating on such boards should the opportunity to participate be extended to them.

h. Do the institution's systems require enhancements to better assess exposures across all alternative products?

Internal investment and business office systems play an integral role in facilitating the monitoring, oversight, and reporting of alternative investments. The ability to track cash investments and distributions in limited partnerships on a periodic basis by individual partnership as well as to compare valuations of similar nonpublic holdings across multiple partnerships can be optimized through efficient information systems. Such systems also may be integrated with those used to prepare management and board reports.

3. Valuation

Valuing alternative investments presents special challenges not encountered by those who invest in more traditional marketable investments. Of considerable concern is the lag between when a fund reports its valuation and the university's deadline for publishing its annual financial statements.

a. What is the institution's policy with regard to the valuation of non-publicly traded investments?

Traditional investments, like publicly traded stocks and bonds, can be easily valued by market quotes. A nonpublic investment (e.g., a venture capital fund investing in private companies) is not traded in public markets, and so it is much more difficult to assign a value to it. Usually, a nonpublic investment is valued at its original cost, which may be adjusted for subsequent events.

b. What documentation is maintained to support the valuations obtained?

The general partner usually assigns a value to the alternative investments in periodic reports to the institution. These reports are the most common documentation.

Other valuations that the institution may obtain are very helpful. For example, when the institution's investment officers receive the investee's annual audited statements, they should be benchmarked, whenever possible, against accepted indicators. It is a good practice to review results against expectations, and in some cases, it may be necessary to hire third-party services to provide neutral benchmarks.

c. Are there dramatically inconsistent valuations between investment managers of nonpublic holdings?

We noted above that placing a value on a private holding is difficult since it is not publicly traded. However, in some cases, institutions can cross-reference among different funds that hold the same private investment to place a value on it.

If there are significant inconsistencies, management should inquire of its investment managers and the fund's general partners to reconcile the differences in the valuations. If agreement cannot be achieved and the differences are significant, the institution should consider noting the discrepancy in the footnotes to the annual financial statements.

d. What procedures do management and the independent auditors apply to test the reasonableness of valuations?

The procedures used to verify reported valuations include third-party estimates, comparisons to other investments (especially in the case of investments reported by different investees in the same investment vehicle), and comparisons to public benchmarks.

Investment valuation policies discussed in the investee's footnotes should be read carefully. Institutions should make sure they are applied consistently to unaudited valuation data received quarterly during the year.

4. Reporting

The financial reporting of alternative investments presents difficulties. The timing of an alternative investment fund's annual or monthly financial reporting is often different than that of an institution. This is especially true for private equity and venture capital investments, in which the underlying investments are private companies.

a. Are financial reports to the university's investment committee and board sufficient to assess the performance of the alternative investments? Are reporting systems integrated?

Institutional investment officers receive periodic financial reports from general partners and, in turn, must report to the investment committee or the entire board. The leading practice is to integrate all reporting under the oversight of the chief investment officer.

Reports from general partners should be tightly integrated with the institution's overall financial reporting system, reducing the possibility of errors caused by the transcription of numbers from one system to the other. The essence of financial reporting involves control over the key financial reporting flows from transactions, which for investments include interest and dividend income and expense, realized gains and losses, the change in the valuation at the end of the period with resultant impact on unrealized gains or losses. Integration of the investment performance reporting system with the university's overall financial reporting system is the responsibility of the institution's controller and chief financial officer.

Institutions also must make appropriate disclosures about alternative investments in the notes to the financial statements. They should disclose commitments and risks, including credit risk, sovereign risk, concentration risk, leverage risk, and other risks.

b. Does reporting in the financial statements and related footnotes clearly describe the valuation policies used?

There should be no ambiguity about how alternative investments are valued. The terminology should be consistent and it should follow accepted reporting practices.

According to generally accepted accounting principles (GAAP) in the U.S., investments should be stated at fair value. That's the standard. Fair value would be the same for a university as it would for an investment company or for any other organization.

c. Are alternative investments clearly and distinctly segregated in the investment summaries in the financial statements?

Transparency:

There should be no ambiguity about how alternative investments are valued. The terminology should be consistent and it should follow accepted reporting practices.

Reporting of alternative investments should be distinct in an institution's financial statements. Also keep in mind that GAAP requires disclosure of risks in the financial statements, including those related to alternative investments.

d. Are remaining capital commitments adequately disclosed in the financial statements?

As many colleges and universities have sought higher investment yields, alternative investment asset allocations and capital commitments have continued to increase. Capital commitments must be disclosed in the footnotes to annual financial statements. For many institutions, this capital commitment will require significant, long-term funding from institutional resources, which, in some cases, could affect an institution's liquidity.

V. Questions Board Members Should Ask Auditors

Independent auditors must satisfy themselves and the institution's board about whether the institution has prepared its financial statements in accordance with GAAP in all material respects. Just as the board should be asking questions of management about alternative investments, it should ask its independent auditor questions such as:

- How does the independent auditor satisfy himself or herself that there is sufficient evidence to support the valuations used?
- Without transparency into the investees, is it sufficient to rely on the general manager's or fund manager's valuations?
- At what point does the size of the alternative investment portfolio that cannot be readily valued become so large that the independent auditor must consider a scope limitation in his or her opinion?
- If the institution uses the one-quarter lag method for valuation,⁵ what responsibility does the independent auditor have to test information available for the final fiscal quarter of the client's year?

For More Information:

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The independent auditor's primary responsibility is to make sure the information is not misleading. If the institution makes the assertion that its valuation approximates the total value that would have resulted if more current information had been used, the auditor must test this assertion. The auditor should test:

- 1) Are the investments in the balance sheet presented at amounts that would be approximately the same if more current information had been used?
- 2) Is the change in realized and unrealized appreciation reported in the statement of changes in net assets approximately the same as it would have been if more current information had been used?

If the institution fails either test, then the institution cannot make this assertion.

VI. Conclusion

Alternative investments can play a significant role in an endowment's portfolio strategy, but should not be rushed into as a panacea to shore up poorer performance from traditional asset classes. The possibility of favorable investment returns must be balanced with the issues of liquidity, capital commitments, financial reporting, and transparency. Colleges, universities and other not-for-profit educational institutions should carefully consider the role such investments play in their endowments.

Appendix I: Other Resources

From: Association of Governing Boards of Universities and Colleges (AGB)

Visit AGB's online bookstore at <http://www.agb.org>

- *Endowment Management: A Practical Guide*, by Jay Yoder, the former director of investments for Smith College and Vassar College, published in 2004 by AGB
- *Financial Responsibilities of Governing Boards*, by William S. Reed, the former chief business officer at Wellesley College, published in 2001 by AGB and NACUBO (This title also is available from NACUBO.)
- *Pioneering Portfolio Management: An Unconventional Approach to Institutional Investment*, by David Swensen, the chief investment officer at Yale University, published in 2000 by Free Press (This title also is available from NACUBO.)

From: Commonfund

Visit Commonfund's online resources at <http://www.commonfund.org>

- Some of Commonfund's publications, including *Commonfund Commentary* as well as some reports of the Commonwealth Institute are available online at no charge. (Click on "News & Resources" and "Archive." Note that the archive includes some recent publications.) Other publications may be ordered.

From: National Association of College and University Business Officers (NACUBO)

Visit NACUBO's online bookstore at <http://www.nacubo.org>

- NACUBO publishes an annual Endowment Study. The 2004 study, which is based on fiscal 2003 data, is available now on a CD-ROM or the soft cover Executive Summary. The 2005 study, which will be based on fiscal 2004 data, will be available in early 2005.
- NACUBO also publishes a CD-ROM of its annual Endowment Management Forum.
- NACUBO books include:
 - *Financial Responsibilities of Governing Boards*, by William S. Reed, the former chief business officer at Wellesley College, published in 2001 by AGB and NACUBO (This title also is available from AGB.)
 - *Pioneering Portfolio Management: An Unconventional Approach to Institutional Investment*, by David Swensen, the chief investment officer at Yale University, published in 2000 by Free Press (This title also is available from AGB.)
 - *Prudent Investment Practices: A Handbook for Investment Fiduciaries*, by the Foundation for Fiduciary Studies (Donald B. Trone) and edited by the AICPA, published by the Center for Fiduciary Studies at the University of Pittsburgh Katz Graduate School of Business in 2004 (Also see related publications at: <http://www.fiduciarystore.com>.)
 - *Selecting and Evaluating an Investment Manager*. Note that this book was published in 1992.

From PricewaterhouseCoopers

For industry-specific information, visit PwC's website for the Education & Nonprofit sector at <http://www.pwc.com/education>.

For information about the investment company industry, visit PwC's website at <http://www.pwc.com>. Click on "Publications" and then click on "Investment Companies." The following PwC publications can be downloaded and printed at no charge.

- *2004 Global Trends in Performance Measurement*, published in 2004. This publication discusses the performance standards that are known as Global Investment Performance Standards or GIPS.
- *Investment Management Industry Profile, United States of America*, updated in 2004. This publication provides an overview of the investment management industry in the U.S.

Notes

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- ¹ The 2003 *NACUBO Endowment Study*, published in 2004, is available at <http://www.nacubo.org>. See the table “FY’03 Average Asset Class Allocation of Total Assets.”
- ² *Implications of the Growth of Hedge Funds*, staff report to the SEC, September 2003, available at <http://www.sec.gov>. Look in “Special Studies.”
- ³ *Ibid*, page 89.
- ⁴ See SEC Release No. 2266, *Registration Under the Advisers Act of Certain Hedge Fund Advisers*, on July 20, 2004. It proposes new rule 203(b)(3)-2 as well as certain amendments to other rules.
- ⁵ For example, the general partner may provide a March 31st value to the institution. As a methodology to establish June 30th fair value, the institution may use the March 31st value, adjusted for cash receipts, and securities distributions from the fund, and cash disbursements made to the fund from April 1 to June 30 for its June 30th financial statements.

