



State Comptroller of Israel | Annual Report 71C | 2021

Higher Education Institutions

Investment Management at Higher Education Institutions



Investment Management at Higher Education Institutions

Background

Higher education institutions in Israel manage investment portfolios containing large amounts of money. These portfolios support different activities, constitute a strategic asset for the long-term financial stability of these institutions. In this audit, the State Comptroller examined whether universities and colleges operate in line with the law and with different procedures relevant to investments, to ensure their proper management by the institutions, including the presence of control mechanisms, as well as the professional administrative activity of the investment team that accompanies the ongoing work of the investment committee.



Key figures

More than NIS 17 Billion

Total value of investments of state-funded universities and colleges in Israel (2018 data).

NIS 1.749 Billion

The average value of the investment portfolio of the universities examined in this audit (2020 data).

NIS 207 Million

The average value of the investment portfolio of the colleges examined in this audit (2020 data).

5.16%– 3.68% Yield

Average rate of yield of the portfolios of the universities examined in this audit in 2017–2019 (5.16%) compared to the yield of the portfolios of the examined in the same period (3.68%).

5%–20% from the investment portfolio

Range of alternative investments in the portfolio of the universities examined in this audit (2020 data).

3% from the investment portfolio

The average return of the investment portfolio of the universities examined in this audit, allocated to activity during the 2019–2020 academic year.

–6.72% from the investment portfolio

Average value loss of investment portfolio of the examined universities in this audit during March 2020, with the outbreak of the Covid–19 pandemic around the world.

1%–23% from the investment portfolio


Percentage of portfolio consisting of public charitable trusts, in the universities examined in this audit.





Audit actions

 From April to November 2020, the State Comptroller examined how nine higher education institutions (five universities and four colleges) managed their financial investments in the years 2017–2020: Tel Aviv University, Ben-Gurion University of the Negev, The Hebrew University of Jerusalem, Weizmann Institute of Science, Bar-Ilan University, Ashkelon Academic College, Sami Shamoon College of Engineering, Beit Berl College and the Academic College of Tel Aviv-Yaffo. The audit was conducted in the abovementioned institutions, in the Council for Higher Education (CHE), the Planning and Budgeting Committee of the Council for Higher Education of Israel (PBC), the Registrar of Charitable Trust – Israeli Corporations Authority (Ministry of Justice) and in Israel's Tax Authority.








Key findings

 **Submission of an annual report to PBC** – Data PBC provided to the State Comptroller shows that in the years 2011–2018 few institutions (out of 30) submitted to PBC reports about their investment activity. In contrast to its own procedure, PBC did not decide on the format in which investment reports should be submitted, and did not review and analyze the data in these reports. As a result, in the years 2011–2018 PBC did not have comprehensive information about how institutions manage their investments. From 2019 PBC started to send higher education institutions a questionnaire, asking institutions to provide financial data including information about their financial investments.

 **Higher education institutions' management of investments** – The audit found deficiencies in the work of some of the investment committees, including failure to hold meetings in the required frequency, absence of senior managers of the institution, meetings without the adequate quorum, lack of systematic follow-up on of committee decisions and meeting protocols that do not fully reflect the committee discussions.

 **Alternative investments** – Universities increased their alternative investments, particularly in private equity however, the Hebrew University and the Weizmann Institute did not outline their investment strategy for this type of investment in an internal policy guide or with clear investment criteria.



-  **Annual risk analysis** – Three out of five universities and all colleges examined in this audit did not perform a structured risk analysis, nor did they conduct a dedicated annual meeting to discuss the analysis, as PBC requires.
-  **Investment of public charitable trusts' funds** – Three out of five universities examined in this audit do not manage and invest the funds of public charitable trusts according to Israel's Trust Regulations. In cases where funds of public charitable trusts were invested according to the Trust regulations – the average yield was smaller (2.15% less in cumulative average in the years 2017–2019) compared to the yield of the university's general investment portfolio, managed according to the investment policy of the Executive Committee.
-  **Restrictions of Israel's Tax Authority on investment portfolios of colleges** – Academic colleges manage their investment portfolios according to the Trust regulations, based on the understanding that the Tax Authority circular from 2015 applies to their work, while the Tax Authority's interpretation is that the circular does not apply to colleges as they are subject to PBC's regulation.
-  **PBC's regulation on the Weizmann Institute's investment portfolio in the US (WGEM)** – The PBC did not examine how to apply its investment procedure on the Weizmann Institute's investment portfolio in the US (WGEM), that holds approximately NIS 11 billion (2019 data).
-  **The value of Bar-Ilan's investment portfolio** – Over the last 15 years, the value of the university's investment portfolio has eroded due to the use of funds to cover the university's deficit. In 2020 the value of the portfolio was NIS 160 million smaller compared to its value 15 years ago, while the value of the portfolio of other universities increased during this period.
-  **Permanent restricted funds of the Hebrew University** – As of 2005, the permanent restricted funds of the university were in deficit, reaching a peak of NIS 240 million in 2011. The university is working on reducing the deficit of these funds, which in 2019 amounted to NIS 62 million.
-  **Management of a separate investment portfolio in Tel Aviv University** – Tel Aviv University manages an additional investment portfolio with a value of NIS 305 million, separate from the university's main investment portfolio. This portfolio is managed by a separate investment committee, in accordance with the donor's request. Although these funds are an investment portfolio, their management is not conducted in accordance with some of the PBC regulation relevant to investments of higher education institutions.



Over the years, Israeli universities succeeded to establish investment portfolios with significant sums of money, ranking them in a respectable position compared to the size of portfolios of higher education institutions in North America. This achievement is particularly noteworthy, considering the relatively young age of Israeli universities, compared to their American and Canadian counterparts.

Bar-Ilan University and Ben-Gurion University have regulated their investments in private equity with a detailed internal procedure that includes investment criteria.

The Hebrew University is the only institution out of the nine examined in this audit that conducted a financial risk analysis of its investment portfolio by an external third party in the last five years.

Key recommendations



It is recommended that PBC's regulation over investments include: continual gathering of annual reports from higher education institutions in a systematic manner, in order to obtain a full picture of managed investments; examining whether PBC's investment procedure is applied properly and whether it requires amendment and awareness for signs indicating problematic activity on the ground that requires further examination. Additionally, PBC needs to establish a team to examine the WGEM model and decide which rules from PBC's regulations apply to it. It is also recommended that the PBC receive special reports about the impact of the Covid-19 pandemic on investment markets in order to keep abreast of its influence on the financial status of the institutions.



Higher education institutions need to correct the deficiencies highlighted in this report concerning the management of their investments, including: administrative deficiencies in the work of the investment committee, control over portfolio managers, establishing procedures for alternative investments and ensuring the presence of proper control mechanisms (annual risk analysis, internal audits, written working procedures for the investment team etc.).



It is recommended that the colleges examine their investment policy from time to time and compare it to the universities' policy. It is also recommended that universities periodically compare their investment policy, their portfolio composition and performance, and their annual returns allocations – to the relevant data of universities in the US, as well as to other investors in the Israeli market. It is recommended that the universities foster a dialogue about investments with their fundraising charities abroad ("friends of"), that manage their own investment funds, as a platform for information sharing and to strengthen the relationship between the organizations.



It is recommended that the universities publicize information about their investment portfolio, including data about the annual returns allocation.

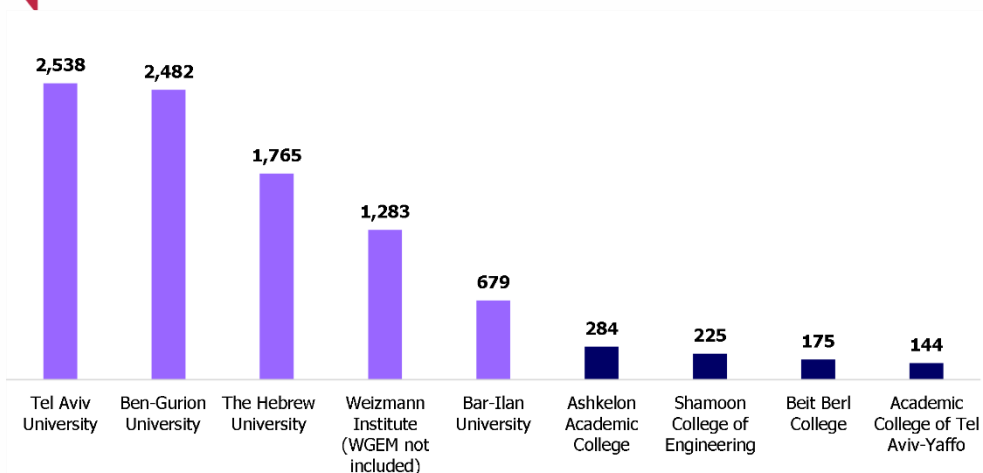


It is recommended that the Ministry of Justice examine whether it is time to update the permitted avenues higher education institutions are allowed to invest in, with public charitable trusts' funds. After examining the position of VERA (Association of University Heads) and exploring ways to reduce regulatory burden, the Ministry of Justice should formulate clear guidelines outlining which donations should be registered as public charitable trusts and how higher education institutions should manage these trusts and report on their activities. The State Comptroller also recommends that the Ministry of Justice, in line with the government decision to reduce regulatory burden – act to reduce regulation imposed on higher education institutions in regard to public charitable trusts, including registration, management and reporting procedures.



It is recommended that the Israel Tax Authority collaborate with PBC in clarifying to all higher education institutions that the investment restrictions deriving from the Israel Tax Authority circular for the application of section 46 of the Income Tax Ordinance - do not apply to them.

Investment portfolio size of higher education institutions examined in this audit, in millions of NIS – as of 2020





Summary

Israeli institutions of higher education manage investment portfolios of more than NIS 17 billion (2018 data). A number of universities manage a portfolio with more than one NIS billion. These portfolios and their annual returns support the academic and administrative activity of the institutions, and are an important long-term source of income. Managing investments requires professional understanding, structured daily work based on proper controls, risk analysis and transparency amongst the factors involved in the management of the portfolio. This audit report pointed out deficiencies in the investment activity of higher education institutions, alongside existing strengths. Higher education institutions, both universities and colleges, need to rectify the deficiencies highlighted in this report, in order to set a high professional standard in regard to their investment activity.

