

UNIVERSITY OF MINNESOTA
BOARD OF REGENTS
Finance and Operations Committee
October 7, 2004

A meeting of the Finance and Operations Committee of the Board of Regents was held on Thursday, October 7, 2004, at 9:00 a.m. in Ballroom C, Kirby Student Center, on the University of Minnesota Duluth campus.

Regents present: William Hogan, presiding; Clyde Allen, Anthony Baraga, Dallas Bohnsack, John Frobenius, and Maureen Reed.

Staff present: Senior Vice President and Provost Thomas Sullivan; Vice President Richard Pfutzenreuter; Executive Director Ann Cieslak; Executive Associate Vice President Al Sullivan; Associate Vice Presidents Steve Cawley, Stuart Mason, and Michael Volna.

Student Representatives present: Joshua Jacobsen and Tom Zearley.

BOARD OF REGENTS POLICY: *DIRECT SALES OF GOODS AND SERVICES*

Vice President Pfutzenreuter presented Board of Regents Policy: *Direct Sales of Goods and Services*, which governs the administration's authority on behalf of the Board regarding business enterprises at the University. The policy acknowledges that academic and support units have opportunities and are encouraged to generate revenues through direct sales while being mindful of the potential for competition with the private sector. If adopted, the policy will supersede Board of Regents Policy: *Business Enterprises at the University*.

A motion was made and seconded to recommend approval of amendments to Board of Regents Policy: *Direct Sales of Goods and Services*.

Pfutzenreuter noted the committee reviewed this policy in September 2004. Administrative procedures supporting the policy will be updated to reflect provisions of the revised policy.

In response to a request, staff agreed to provide information on student sales activities to the committee at a future meeting.

The committee voted unanimously to recommend approval of Board of Regents Policy: *Direct Sales of Goods and Services*.

ENDOWMENT FUND SPENDING RATE

Vice President Pfutzenreuter and Associate Vice President Mason presented preliminary results of a study underway by the Office of Asset Management (OAM) to evaluate the current endowment spending rate and policies.

Mason reported that the OAM, with Cambridge Associates and Commonfund, an investment consultant service to college and university foundations, Cambridge Associates, is researching the impact of changing the endowment annual spending rate and several alternative spending methodologies, which would increase the endowment portfolio growth and maximize payout without affecting the availability of intergenerational funds. Mason described the payout structures of endowment funds of the University of Minnesota Foundation and several peer institutions, the relationship of current market returns to current payout structure, and the potential impact of rising inflation on payout levels and intergenerational equity.

A lengthy discussion ensued. Committee members proposed that additional assessment of reduced spending rate, adjusted asset allocation, and a strategy to stem the potential negative impact on the payout during an economic downturn would be helpful.

The item will return for discussion at a future meeting of the committee.

FINANCIAL OVERSIGHT: KEY INDICATORS

Vice President Pfutzenreuter presented an outline of proposed reports to assist the Board of Regents in meeting financial oversight responsibilities by providing a snapshot of financial data. He reviewed a proposed schedule of financial indicators in five key areas: 1) asset management; 2) debt; 3) balance sheet; 4) operating; and 5) budget. The reports would provide an institutional financial perspective in these areas and be presented to the Board five times annually.

Committee members suggested that information on enrollment, desired levels for key balance sheet items, and a five- to ten-year debt level forecast would also be valuable.

A copy of the presentation is on file in the Board Office.

CONSENT REPORT

Regent Reed recused herself from the discussion because of a possible conflict of interest. She left the meeting.

Vice President Pfutzenreuter presented a portion of the Consent Report as detailed in the docket materials and including:

Purchase of Goods and Services over \$250,000 to:

- Renew a contract with the following medical insurance carriers for purchase of Medicare supplemental insurance offered through the University of Minnesota Office of Human Resources Employee Benefits for the period January 1, 2005 through December 31, 2005:

Retiree Paid Coverage:

- Blue Cross Blue Shield of Minnesota:
U of M Retiree Plan \$5,457,400
 - HealthPartners:
HealthPartners 65+ \$2,110,100
 - Medica:
Medica Group Prime Solution \$548,100
 - UCare:
UCare for Seniors \$677,500
- Renew a contract with Health Partners Administrators, Inc. for an estimated annual amount of \$4,685,000, Wausau Benefits for an estimated annual amount of \$1,535,600, PreferredOne Administrative Services, Inc. for an estimated annual amount of \$938,100 and Definity Health Corporation for an estimated annual of \$450,800 for administering a self-funded UPlan medical option offered through the University of Minnesota Office of Human Resources Employee Benefits for the period January 1, 2005 through December 31, 2005.
 - Renew a contract with Delta Dental for an estimated annual amount of \$773,600 and HealthPartners Dental for an estimated annual amount of \$271,800 for administering a self-funded UPlan dental plan option offered through the University of Minnesota Office of Human Resources Employee Benefits for the period January 1, 2005 through December 31, 2005.

A motion was made and seconded, and the committee voted unanimously to recommend approval of a portion of the Consent Report.

Regent Reed returned to the meeting.

Pfutzenreuter presented the remaining items in the Consent Report as detailed in the docket materials and including:

Purchase of Goods and Services over \$250,000 to:

- Affymetrix, Inc. for \$750,000 for GeneChip® Expression Arrays as needed for the period November 1, 2004 through October 31, 2005, for the Biomedical Genomics Center. Genechip® Expression Arrays can only be purchased through Affymetrix, Inc.
- Charter Communications for approximately \$252,885.24 to supply basic cable TV for the period October 15, 2004 through August 21, 2006 to the residents of UMD Housing.
- Continental Casualty for an estimated annual amount of \$1,305,800 for providing Long Term Care Insurance offered through the University of Minnesota Office of Human Resources Employee Benefits for the period January 1, 2005 through December 31, 2005.
- Renew a contract with First Plan of Minnesota for approximately \$235,000 for the renewal of medical insurance coverage for the UMD Graduate Assistant Plan for the period September 1, 2004 through August 31, 2005.

- Hartford for the estimated annual amount of \$1,663,700 for providing optional Short Term Disability and Long Term Disability offered through the University of Minnesota Office of Human Resources Employee Benefits for the period January 1, 2005 through December 31, 2005.
- Minnesota Life for an estimated annual amount of \$3,236,700 for providing the Faculty Income Disability Plan for faculty and professional and administrative staff, offered through the University of Minnesota Office of Human Resources Employee Benefits, for the period January 1, 2005 through December 31, 2005.
- Renew a contract with Minnesota Life/ING for purchase of life insurance coverage offered through the University of Minnesota Office of Human Resources Employee Benefits for the period January 1, 2005 through December 31, 2005:
 - University paid coverage:

Basic Life	\$1,867,100
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 - Employee paid coverage:

Additional Employee Life	\$1,016,100
Spouse/Same-Sex Domestic Partner Life	\$327,900
Child Life	\$24,400
Optional Employee AD&D	\$55,700
Optional Spouse	\$7,900
Total	\$3,299,100
- Varian, Inc. for \$800,000 for a 600MHz Nuclear Magnetic Resonance Spectrometer System for the Center for Drug Design.

Approval of New Investment Managers

The Office of Asset Management proposes to engage the following managers to invest target allocations of the Consolidated Endowment Fund. The proposed investments have been reviewed and are recommended by the Investment Advisory Committee and Cambridge Associates.

- Currency Management
 - Barklays Global
 - \$100 million (notional)
 - 2% Risk Target
 - Developed Market Focus
 - Target return: 1.6% (28% on invested equity)
- Natural Resources
 - Kayne Anderson Capital
 - \$15 million commitment
 - Focused sector manager/Energy
 - Energy Infrastructure - largely collateralized debt in mid sized companies
 - Target return: 20%+ net IRR to LPs

- Marketable Alternatives

Tremont Capital Management

- \$8 million
- Multi Strategy
- Fund of funds
- 11.8% Return Since Inception (1984)

Pine Grove Associates

- \$8 million
- Multi Strategy
- Fund of funds
- 11.4% Return Since Inception (1995)

Kayne Anderson KACIP

- \$10 million
- Direct - Multi Strategy
- MLP, REIT, High Yield, Arbitrage, and Closed End Funds
- 14.6% Return Since Inception (2000)

Scout Capital

- \$5 million
- Direct Single Strategy
- Domestic Long/Short Equity
- 19.3% Return Since Inception (1999)

A motion was made and seconded, and the committee voted unanimously to recommend approval of the Consent Report.

INFORMATION ITEMS

Vice President Pfutzenreuter referred the committee to information items as detailed in the docket materials:

- Quarterly Investment Advisory Committee Update;
- Semi-annual Economic Development Report.

Pfutzenreuter announced that the Semi-Annual Economic Development Report will be presented at a future meeting of the committee.

The meeting adjourned at 10:27 a.m.

ANN D. CIESLAK
Executive Director and
Corporate Secretary