

UNIVERSITY OF MINNESOTA
BOARD OF REGENTS
Finance & Operations Committee
February 8, 2007

A meeting of the Finance and Operations Committee of the Board of Regents was held on Thursday, February 8, 2007 at 3:00 p.m. in the East Committee Room, 600 McNamara Alumni Center.

Regents present: Steven Hunter, presiding; Anthony Baraga, John Frobenius, and Cynthia Leshner.

Staff present: Senior Vice President Frank Cerra; Vice Presidents Richard Pfitzenreuter, Steve Cawley and Kathleen O'Brien; and Associate Vice President Michael Berthelsen.

Student Representatives present: Cassie McMahon and Joshua Colburn.

ISSUES RELATED TO: CERTAIN INVESTMENT ASSET CLASSES

Vice President Pfitzenreuter invited Chris Suedbeck, Associate Director of Asset Management, to present issues related to certain investment asset classes in the consolidated endowment funds, as detailed in the docket materials. Suedbeck highlighted the following:

- the University's portfolio is diversified across three real asset categories which provide a hedge against inflation;
- the University investment portfolio includes real assets of public and private real estate, timber, and oil and gas; and
- real assets currently compose 13 percent of University assets, with a strategic allocation goal of 20 percent.

In response to questions from the committee, Suedbeck stated that the return on investment is calculated using realized value of the assets. Assets have been turning over more quickly during recent years and he anticipates a slowdown of this trend in the future.

Pfitzenreuter commended the Office of Asset Management for the performance of the endowment fund, which has exceeded \$1 billion for the first time.

SIX-YEAR CAPITAL PLAN AND DEBT CAPACITY

Vice President Pfitzenreuter and Carol Fleck, Director of Debt Management, presented information related to the six-year capital plan and debt capacity, as detailed in materials distributed at the meeting and on file in the Board Office. Pfitzenreuter and Fleck reviewed the information, indicating that the University will continue to review debt burden and operating performance to ensure continuation of the University's Standard and Poor's Aa credit rating. The University has \$633 million of

outstanding debt as of June 20, 2006, with \$285.5 million of additional debt to be issued through FY2010. Pfutzenreuter reported the University has ample debt capacity.

In response to questions from the committee, Pfutzenreuter explained that University debt has grown by 100 percent since 1998 due the number of building projects. The institution's debt load compares favorably with peer institutions.

CONSENT REPORT

Vice President Pfutzenreuter presented the Consent Report, as included in the docket, including the Purchase of Goods and Services over \$250,000 to:

Purchase of Goods and Services over \$250,000

- To Berean Group, CedarCrestone, Ciber, Iceberg Technology, Modis, Signature Consultants and others for \$10 million for consultant services for the Enterprise Financial System (EFS) project. The Board of Regents approved \$5 million for consulting in March 2006, so the total request is now \$15 million to cover the entire project through November 30, 2008.
- To Educators Abroad Ltd. for \$1,200,000 for education abroad services for the period of March 1, 2007, through December 31, 2007, for the University of Minnesota Morris's (UMM) Continuing Education, Regional Programs and Summer Session Department (CERP).
- To ISES Corporation for up to \$252,981 to perform a Facilities Condition Assessment of one-third of the Twin Cities Campus buildings from October 16, 2006, to February 28, 2007, for the Department of Facilities Management.
- To Leo A. Daly for \$1,697,960 for performing a Utility Master Planning Study for the period of January 2007 through June 2008 for the Facilities Management Department.
- To Multi-Venue Productions (M.V.P) for up to \$300,000 for post-event clean-ups in athletic facilities from March 1, 2007, to February 28, 2008, for the Department of Intercollegiate Athletics.

Approval of New Investment Managers

The Office of Asset Management (OAM) proposes engaging two new investment managers to invest target allocations of the Consolidated Endowment Fund (CEF). The proposed managers have been reviewed and are recommended by the Investment Advisory Committee.

- Real Asset Portfolio: Oil and Gas

TCW Energy Fund XIV

- \$20 million investment
- Investment style seeks downside protection with upside performance.
- 24-year track record, longest in the industry.
- Global investment focus and experience.
- 18% net IRR on prior funds.

- Private Equity Portfolio: Venture Capital

Charles River Partnership

- \$5 million investment
- Seed and Early stage venture capital.
- Focused on changing business models and innovative technologies.
- 35 years of top tier performance has created a “franchise” name.

The committee voted unanimously to recommend approval of the Consent Report.

INFORMATION ITEMS

Vice President Pfitzenreuter referred committee members to the Information Items contained in the docket materials, including:

- Annual Insurance & Risk Management Report;
- Annual Report on Central Reserves;
- Emergency Approvals; and
- Economic Development Report.

The meeting adjourned at 3:58 p.m.



ANN D. CIESLAK
Executive Director and
Corporate Secretary