

**UNIVERSITY OF MINNESOTA
BOARD OF REGENTS
Finance and Operations Committee
July 10, 2003**

A meeting of the Finance and Operations Committee of the Board of Regents was held on Thursday, July 10, 2003, at 9:45 a.m. in the East Committee Room, 600 McNamara Alumni Center.

Regents present: William Hogan, presiding; Clyde Allen, Anthony Baraga, Dallas Bohnsack, John Frobenius, and Maureen Reed. David Metzen was also in attendance.

Staff present: Executive Director Ann Cieslak; Associate Vice Presidents Steve Cawley, Gail Klatt, Stuart Mason, Richard Pfitzenreuter, and Michael Volna.

Student Representatives present: Josh Colburn and Ann Miller (alternate).

CONSENT REPORT

Vice President Pfitzenreuter stated that an addition to the Consent Report is the approval of two new investments related to alternative investments and limited partnerships. These items, which originally appeared with the docket materials as information items, were presented as part of the Consent Report because current policy requires that the Board approve the engagement of investment advisors and brokers.

There were no items from the General Contingency Fund to approve this month.

A motion was made and seconded, to recommend approval of the revised Consent Report, as distributed at the meeting and including the following:

- To Blue Cross Blue Shield of Minnesota (BCBSM) for approximately \$10,041,500 for the renewal of medical insurance coverage for the Twin Cities Graduate Assistant Plan for the period of September 1, 2003 through August 31, 2004.
- To IBM for \$2,048,500 to upgrade and expand the Supercomputing Institute's 7040-681 pSeries 690 Power4 Regatta supercomputer from a 56 to 200-processor system and to provide a critical replacement for two leased 96-processor SGI Origin 3800 R14000 supercomputers subsequent to their lease termination date on June 29, 2003.
- To Level 3 Communications for an estimated \$900,000 to provide Internet connectivity for the period beginning July 15, 2003 and ending July 14, 2005, for Networking and Telecommunications Services, a division of the Office of Information Technology.
- To Thermo-Finnigan, Inc. for \$635,059 for purchase of a Neptune model multi-collector, inductively-coupled plasma mass spectrometer (MC-IPC-MS) for the Department of Geology and Geophysics. Vendor was selected because the design elements match those in currently-owned equipment from the same vendor, thus ensuring consistency of previous and future scientific results.
- To Wise Acres, Inc. for \$272,688 for consulting services for project manager Brenda Start to support the design,

testing, training, and implementation of a number of modules still pending in the electronic research administration system for the period July 1, 2003 through June 30, 2004.

Endowment Investments

Crow Holdings Real Estate Fund III
\$5 million Commitment
Private, Value-Added Real Estate Fund
Targeted Return - 12-15%
Term - 10 years
Closing June 2003

Goldman Sachs Mezzanine Debt Fund III
\$8 million Commitment
Private, Mezzanine/Sub. Debt Fund
Targeted Return - 14-17%
Term - 10 years
Closing June 2003

The committee discussed the proposed alternative investments. It was noted that these investments are long term, do not entail high risk, conform to the Board of Regents Policy: Investment of Reserves, and have been approved by the Investment Advisory Committee (IAC).

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

In response to a request from Regent Baraga, Pfutzenreuter agreed that in the future Consent Report items will indicate whether they have been previously budgeted.

INVESTMENT OVERSIGHT POLICIES AND PROCEDURES

Associate Vice President Pfutzenreuter explained that the report responds to a resolution passed in April 2003 stating that the committee would receive a more comprehensive presentation and analysis of all investment oversight policies and procedures (both Board and administrative). The report is intended to clarify the authority, accountability, and responsibilities of the Board, the Investment Advisory Committee (IAC) and the Office of Asset Management (OAM). A copy of the presentation and an IAC roster are on file in the Board Office.

Pfutzenreuter introduced Associate Vice President Stuart Mason, who led the discussion. Mason reviewed the strategic focus of the University's investments; the characteristics of the portfolio; applicable Board policies; and the relationships among OAM, IAC, and Cambridge Associates (Cambridge), the University's investment advisers.

In response to questions from several Regents, Hogan noted that the administration relies on Cambridge and others to advise the IAC. Mason added that OAM staff work closely with the IAC, providing information critical to their analyses. OAM also makes recommendations that the IAC reviews, but once the Board has decided on a course of action, OAM's role is to execute the Board's decision while controlling and lowering risk. Mason also explained that Cambridge is engaged to advise the OAM and the IAC rather than to direct decisions about specific investments. Periodically, Cambridge also is engaged for specific tasks, such as the asset allocation study commissioned to assist the IAC in its evaluation of portfolio risk and an evaluation of endowment fund performance by asset class and relative to peer institutions.

Regent Reed acknowledged that the only way to assure that all the pieces are in place is to look at fund performance. On the other hand, it is important to identify risks that may arise when there is ambiguity regarding responsibility and actions required.

Pfutzenreuter assured the committee that current Board policies do not pose any risk to the endowment fund.

Regent Frobenius stressed the importance of being clear through it's policies regarding directions to staff. Regent Allen commented that the Board's financial policies seem to be good ones that are adhered to, but that investments is an important area that will always be under special scrutiny.

In response to a question from Hogan, the committee agreed that the University's investment process appears sound and that the Board's current course is appropriate.

COMMITTEE WORKPLAN, 2003-04: PRELIMINARY DISCUSSION

The committee discussed the preliminary workplan for the current year, included in the docket materials on file in the Board Office. The committee suggested several other topics, including innovative strategies to replace tuition; developing a long-range financial planning process; defining key issues for administrative monitoring; developing the criteria and assessment process for making capital investment, prioritizing topics to allow administration to adequately prepare materials and review accomplishments at the end of the fiscal year.

INFORMATION ITEMS

The Quarterly Investment Advisory Committee Update was noted during the discussion of the Consent Report. The meeting adjourned at 11:55 a.m.

**ANN
D.
CIESLAK
Executive
Director
and
Corporate
Secretary**

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Last modified on September 7, 2005