



# Finance Committee

February 2015

February 12, 2015

2:00 p.m. - 4:00 p.m.

West Committee Room, McNamara Alumni Center

## FIN - FEB 2015

### 1. Annual Investment Performance: Peer Comparisons

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### 2. Annual Capital Finance and Debt Management Report

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### 3. Annual Insurance & Risk Management Report

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### 4. Enterprise System Upgrade Program Budget - Review/Action

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### 5. Consent Report - Review/Action

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# BOARD OF REGENTS DOCKET ITEM SUMMARY

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**Finance**

**February 12, 2015**

**Agenda Item:** Annual Investment Performance: Peer Comparisons

Review       Review + Action       Action       Discussion

*This is a report required by Board policy.*

**Presenters:** Richard Pfutzenreuter, Vice President & Chief Financial Officer  
Stuart Mason, Associate Vice President & Chief Investment Officer

## **Purpose & Key Points**

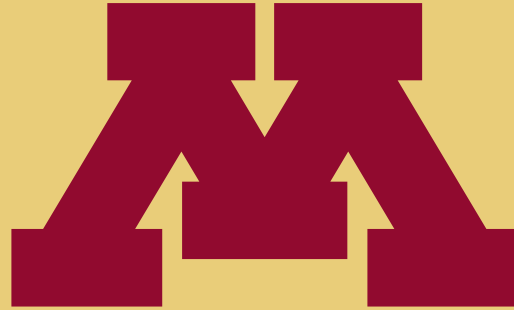
To report on investment performance and asset allocation data related to peer institutions for the fiscal year ending June 30, 2014.

Annual Peer Benchmarking Report key points:

- Endowment Fund investment performance of 20.4 percent ranked first among all peer institutions in the country.
- Drivers of performance included Venture Capital managers who produced greater than 50 percent returns, in addition to overweight to US Equity.
- Other factors contributing to outperformance included an underweight to International Developed Equity and an underweight to Hedge Fund managers, both of which significantly underperformed their long-term performance trends.
- Increased portfolio liquidity and an enhanced asset allocation framework position the endowment fund for continued success in coming years.

## **Background Information**

The Office of Investments and Banking (OIB) prepares this report annually for review by the Board of Regents and the Investment Advisory Committee as required by Board of Regents Policy: *Endowment Fund*.



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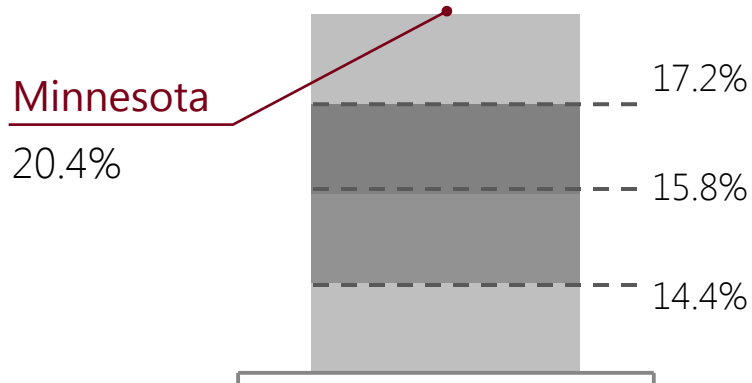
# 2014 Annual Peer Benchmarking

Stuart Mason, CIO

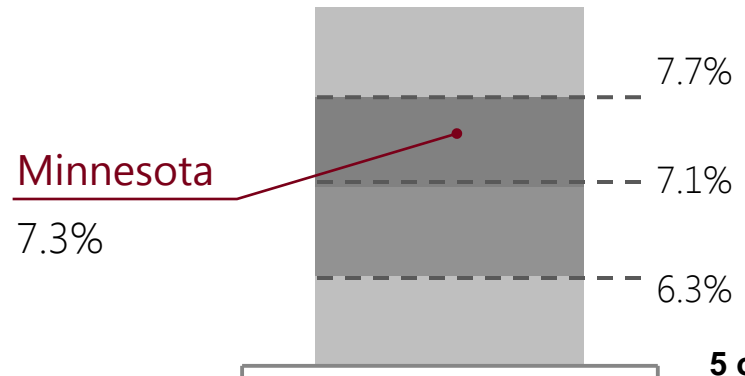
# NACUBO/Commonfund Study

- Conducted jointly by National Association of College and University Business Officers (NABUCO) and Commonfund Institute
- 2014 Study had 832 participating institutions ranging in size from under \$25 million to over \$20 billion
- All data as of University's fiscal year: June 30<sup>th</sup>, 2014

1yr Quartile Ranking



10yr Quartile Ranking

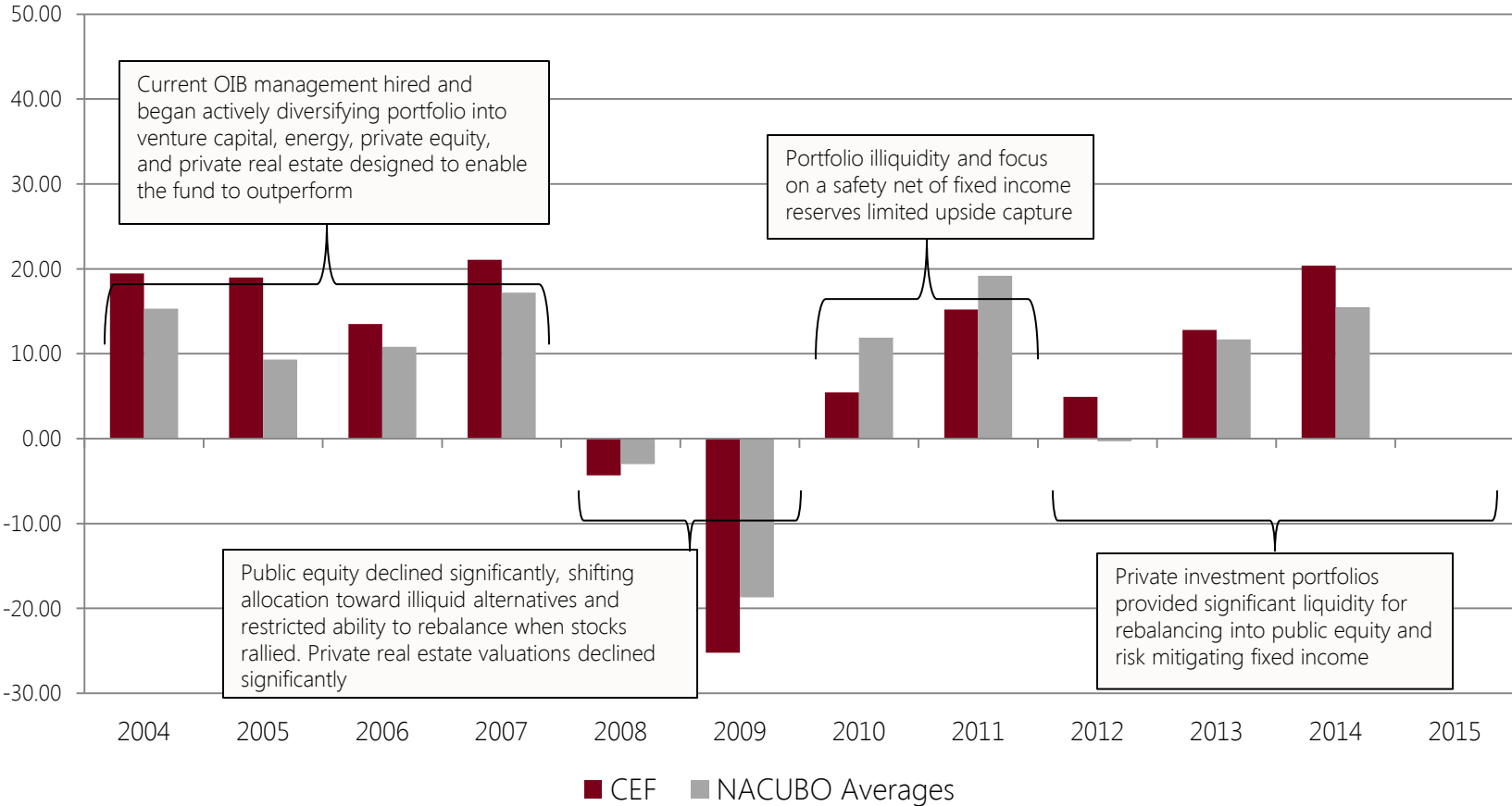


# Effective Spending Rates

- The effective spending rate is the percentage of the beginning market value of the endowment pool that is available annually for spending as defined by each institution.

Size of Endowment	2014 %	2013 %	2012 %	2011 %	2010 %	2009 %	2008 %	2007 %	2006 %	2005 %
Over \$1 Billion	4.6	4.8	4.7	5.2	5.6	4.6	4.2	4.4	4.6	4.7
\$501 Million to \$1 Billion	4.3	4.6	4.7	5.2	5.7	4.9	4.5	4.4	4.5	4.8
\$101 Million to \$500 Million	4.3	4.4	4.3	5.0	4.9	4.4	4.2	4.5	4.6	4.7
\$51 Million to \$100 Million	4.4	4.4	4.3	4.5	4.6	4.7	4.6	4.8	4.7	4.7
\$25 Million to \$50 Million	4.2	4.3	3.8	4.0	4.1	4.3	4.3	4.8	4.8	4.7
Under \$25 Million	4.6	4.1	3.7	3.7	3.5	3.9	4.1	4.6	4.6	4.8
<b>University of Minnesota</b>	<b>4.5</b>	<b>4.8</b>	<b>4.8</b>	<b>5.0</b>	<b>5.1</b>	<b>5.3</b>	<b>4.7</b>	<b>5.1</b>	<b>5.4</b>	<b>5.6</b>

# Endowment Annual Performance

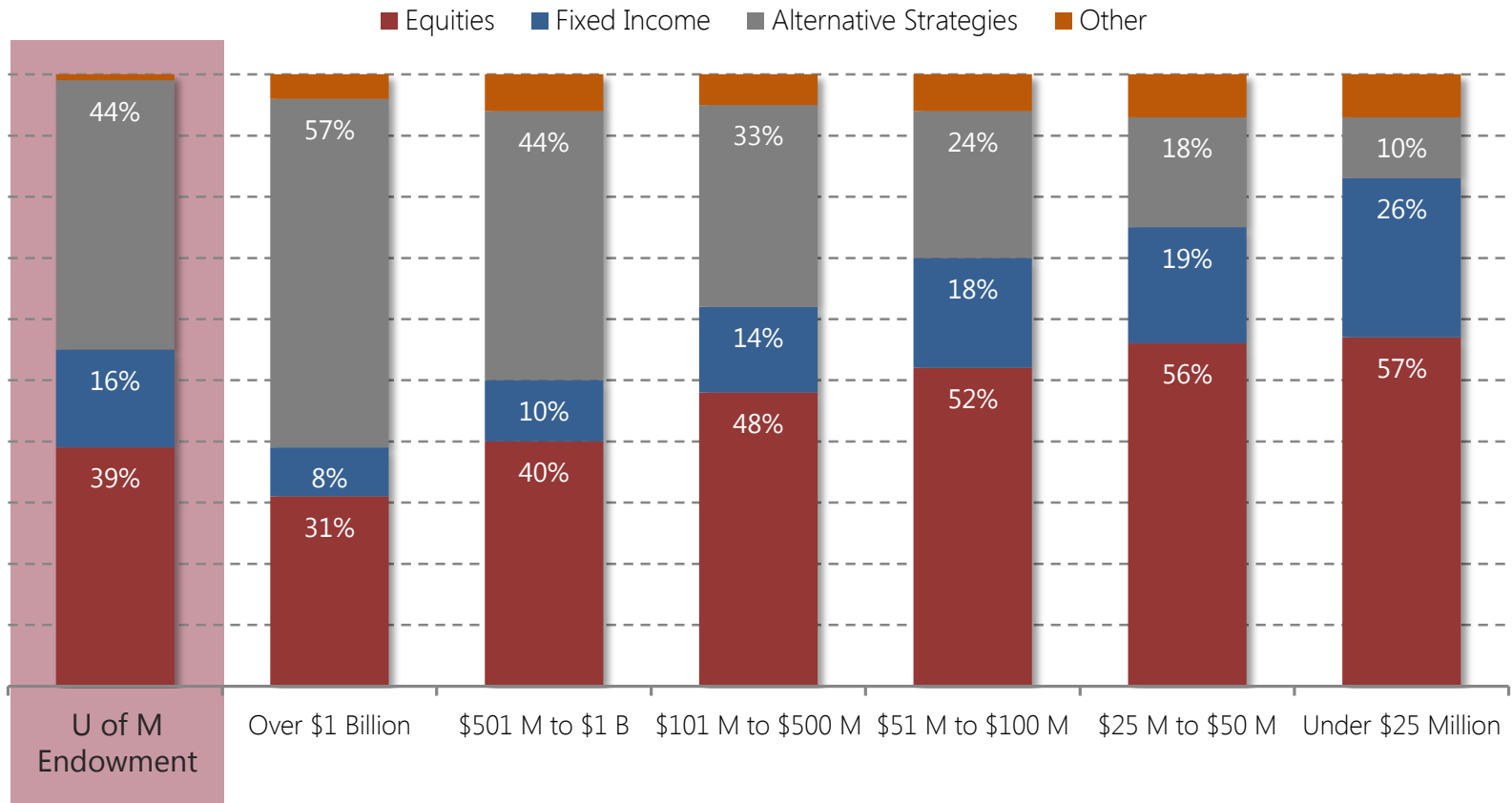


# NACUBO Comparison

Rank	Institution	State	Type	2014 Market Value (in millions)	2013 Market Value (in millions)	Change in Mkt Value (%)
1	Harvard University	MA	Private	35,883	32,334	11.0
2	The University of Texas System	TX	Public	25,425	20,448	24.3
3	Yale University	CT	Private	23,900	20,780	15.0
4	Stanford University	CA	Private	21,446	18,689	14.8
5	Princeton University	NJ	Private	20,995	18,200	15.4
6	Massachusetts Institute of Technology	MA	Private	12,425	10,857	14.4
7	The Texas A&M University System	TX	Public	11,103	8,732	27.2
8	Northwestern University	IL	Private	9,778	7,883	24.0
9	University of Michigan	MI	Public	9,731	8,382	16.1
10	University of Pennsylvania	PA	Private	9,582	7,741	23.8
...						
24	The Ohio State University	OH	Public	3,547	3,149	12.7
25	University of Pittsburgh	PA	Public	3,492	2,975	17.4
26	Johns Hopkins University	MD	Private	3,451	2,987	15.6
27	The Pennsylvania State University	PA	Public	3,445	2,949	16.5
28	New York University	NY	Public	3,424	2,757	16.1
<b>29</b>	<b>University of Minnesota &amp; Foundations</b>	<b>MN</b>	<b>Public</b>	<b>3,164</b>	<b>2,699</b>	<b>14.8</b>



# NACUBO Asset Allocation



# Big Ten Performance

Institution	Market Value (in millions)	Total Returns (%)			
		1 Year	3 Years	5 Years	10 Years
University of Minnesota Endowment	1,259	20.4	12.5	11.6	7.3
University of Michigan	9,731	18.8	9.4	12.8	10.2
Indiana University and Foundation	1,988	18.4	9.7	13.1	7.1
The Pennsylvania State University	3,446	17.9	10.7	13.8	8.8
Northwestern University	9,778	17.8	10.2	13.2	9.5
University of Nebraska	1,547	17.6	8.9	12.5	7.1
Purdue University	2,443	17.1	8.6	12.7	7.7
Michigan State University	2,145	17.1	8.3	11.4	8.6
University of Wisconsin Foundation	2,332	16.9	9.5	11.7	7.4
Rutgers	919	16.0	8.8	10.7	7.2
University of Illinois	717	15.7	11.0	15.1	7.6
University of Iowa and Foundation	1,251	15.1	8.4	13.1	6.3
University of Minnesota Foundation	1,906	14.6	9.2	11.3	7.6
The Ohio State University	3,548	14.4	8.5	11.5	5.4
University of Illinois Foundation	1,561	14.3	9.2	12.2	6.7
The University of Maryland Foundation	956	12.3	6.6	10.1	6.3
<b>NACUBO Over \$1 Billion (average)</b>	<b>4,036.7</b>	<b>16.6</b>	<b>9.5</b>	<b>12.1</b>	<b>8.1</b>

# Big Ten Asset Allocation

## Asset Allocation

Institution	US Equity	Fixed Income	Ex-US Equity	Real Estate	Venture Capital	Private Equity	Energy	Commodities	Hedge Funds	Distressed Debt	Cash	Other
<b>University of Minnesota Endowment</b>	<b>13.3</b>	<b>17.5</b>	<b>15.3</b>	<b>9.7</b>	<b>13.6</b>	<b>8.1</b>	<b>2.5</b>	<b>2.9</b>	<b>2.3</b>	<b>6.0</b>	<b>1.0</b>	<b>7.8</b>
University of Michigan	9.7	7.0	17.8	12.6	12.1	13.7	8.4	0.0	13.9	0.0	4.8	0.0
Indiana University and Foundation	23.6	15.2	15.6	4.4	5.7	6.9	4.6	1.9	18.6	2.0	1.5	0.0
The Pennsylvania State University	30.1	15.6	21.6	2.8	5.8	7.2	3.1	4.2	8.0	1.3	0.3	0.0
Northwestern University	13.3	9.4	16.5	6.0	7.9	12.3	8.4	1.6	19.0	2.4	0.0	0.0
University of Nebraska	31.3	17.7	26.0	2.4	0.2	1.1	0.6	2.2	18.0	0.0	0.5	0.0
Purdue University	27.8	10.4	20.1	2.8	4.5	5.6	4.5	0.4	21.8	0.0	2.1	0.0
Michigan State University	24.0	7.4	22.3	1.8	3.2	6.7	3.2	0.0	26.1	1.4	0.0	3.9
University of Wisconsin Foundation	28.3	16.4	29.0	2.4	1.4	14.0	5.2	0.0	0.1	0.0	3.1	0.0
Rutgers	19.3	10.1	19.2	9.4	3.8	5.8	3.1	0.0	23.8	0.0	5.5	0.0
University of Illinois	26.5	16.1	9.8	1.2	0.3	3.9	0.0	0.0	8.7	0.0	2.3	31.2
University of Iowa and Foundation	17.5	17.9	22.1	3.4	0.1	8.8	5.7	5.2	17.1	2.2	0.0	0.0
University of Minnesota Foundation	9.1	18.1	13.6	5.3	12.4	6.9	6.1	0.0	18.9	3.0	6.6	0.0
The Ohio State University	8.8	2.9	7.4	5.7	0.6	11.8	7.2	0.0	49.0	4.5	2.0	0.0
University of Illinois Foundation	18.9	7.8	19.7	2.3	0.0	6.5	0.0	0.0	7.9	0.0	20.4	16.5
The University of Maryland Foundation	16.1	10.7	16.1	8.8	0.0	8.2	6.3	0.8	27.2	3.2	2.6	0.0
<b>NACUBO Over \$1 Billion (average)</b>	<b>8.6</b>	<b>19.2</b>	<b>5.0</b>	<b>4.8</b>	<b>10.1</b>	<b>5.3</b>	<b>1.0</b>	<b>19.3</b>	<b>2.1</b>	<b>4.7</b>	<b>1.3</b>	<b>8.6</b>



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# BOARD OF REGENTS DOCKET ITEM SUMMARY

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**Finance**

**February 12, 2015**

**Agenda Item:** Annual Capital Financing and Debt Management Report

Review       Review + Action       Action       Discussion

This is a report required by Board policy.

**Presenters:** Richard H. Pfutzenreuter, Vice President & Chief Financial Officer  
Carole J. Fleck, Director, Debt Management

## **Purpose & Key Points**

In accordance with Board of Regents Policy: *Debt Transactions*, the Annual Capital Financing and Debt Management Report is being presented for discussion.

As of June 30, 2014, the University's total long-term debt outstanding was \$1,282,507,000, consisting of general obligation (GO) bonds, special purpose revenue bonds supported by state appropriations, commercial paper (CP) notes, infrastructure development bond (IDB) obligations, capital leases, and the related remaining unamortized premium/discount.

Ratio calculations are based on the par amount of the debt outstanding, excluding the special purpose revenue bonds, but including capital leases. The balance outstanding at June 30, 2014 of University supported debt (at par) plus capital leases was \$908,847,000.

Significant FY 2014 debt transactions:

- The third and final tranche of the Biomedical Science Research Facilities Funding Program Bonds was issued in November 2013 with the proceeds to be used to fund the costs of construction of the Microbiology Research Building on the Twin Cities campus, the fourth and final project of the program, and costs of issuance.
  - \$35,395,000 Special Purpose Revenue Bonds, Series 2013C (State Supported). In 2008, State of Minnesota legislation provided for an annual appropriation to reimburse the University for the annual debt service on these bonds.
  - \$12,760,000 GO Taxable Bonds, Series 2013D (University Supported).

Total proceeds included a premium of \$2,830,864; the combined all-in true interest cost was 4.17 percent.

FY 2015 debt transactions to date:

- GO Bonds Series 2014B in the par amount of \$145,760,000 was issued in August 2014. The proceeds, including a premium of approximately \$13,778,000, will be used for the costs of construction of the Ambulatory Care Center on the Twin Cities campus, to pay capitalized interest during construction, and costs of issuance.

All-in true interest cost was 3.64 percent. Annual lease payments will cover the annual debt service on these bonds.

- Taxable CP Notes, Series E, in the amount of \$51,620,000 was issued in December 2014. Proceeds will be used for the costs of construction of a new James Ford Bell Natural History Museum and Planetarium on the Twin Cities campus. The State of Minnesota has provided a \$3,500,000 increase in the general operating appropriation for fiscal years 2016 – 2041 to cover the annual debt service on the debt. The initial rate on the variable rate debt for 30 to 60 days was 0.10 percent – 0.12 percent.
- The Board of Regents has authorized a total of \$100,100,000 of debt to be issued for the Combined Heat and Power Plant on the Twin Cities campus, currently in progress. This debt will be issued sometime during calendar 2015.

### **Background Information**

Board of Regents Policy: *Debt Transactions* outlines the University's goals when issuing debt. This policy was last updated in December 2012.

Three existing committees are used for developing debt policy, establishment of new debt management practices, and insuring post-issuance tax-exempt bond compliance:

1. Debt Management Advisory Committee (DMAC), chaired by Regent Allen.
2. Debt Oversight Group, which includes executive leadership across University functional areas.
3. Debt Process Team.

The Annual Capital Financing and Debt Management Report was last presented to the Finance Committee in February 2014.

# Annual Capital Financing and Debt Management Report

*Finance Committee  
February 12, 2015*



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# ***Outline of Presentation***

- *Guiding Principles of Debt Issuance*
- *Debt Management Oversight Committees*
- *University's Capital Structure*
- *Credit Rating*
- *Key Financial Indicators*
- *Peer Group Analysis*



# *Issuance of Debt – Guiding Principles*

- Cannot use debt transactions to fund operating costs
- Use taxable debt when financial considerations indicate its use is in the best interest of the University
- Preserve core long-term debt ratings at Aa/AA category and short-term core debt rating of A-1/P-1
- Receive an investment grade credit rating for special purpose debt
- Maintain key financial metrics to assure continued access to capital markets
- Minimize borrowing costs at acceptable levels of risk over life of the issue
- Maintain portfolio of variable and fixed-rate debt that is in the long-term best interest of the University.

# *Debt Management Oversight Committees*

## **Debt Process Team (DPT)**

- Acts as trustee to draw bond proceeds to reimburse project expenditures, and establishes and insures that appropriate accounting and compliance procedures are in place and working properly.
- Coordinated by Director of Debt Management – team includes representatives from Accounting Services, Treasury Operations, University Tax Management, & University Services – Finance.

## **Debt Oversight Group (DOG)**

- Supports and advises the Treasurer and Director of Debt Management in policy decisions, capital financing strategies, debt capacity analysis; periodically reviews the debt management processes to insure compliance with University and tax requirements.
- Coordinated by the Director of Debt Management – members include the Treasurer, Controller, Chief Investment Officer, University Tax Director, Assistant VP University Services, CFO of Academic Health Sciences, & Associate General Counsel.

## **Debt Management Advisory Committee (DMAC)**

- Advises the Finance Committee of the Board of Regents on debt management issues; formulates, evaluates, and monitors debt management policies designed to serve the financial objectives of the University of Minnesota.
- Chaired by Regent Allen & coordinated by the Director of Debt Management – members include the Treasurer, faculty member in Carlson School of Management specializing in finance, and 5 external finance professionals.

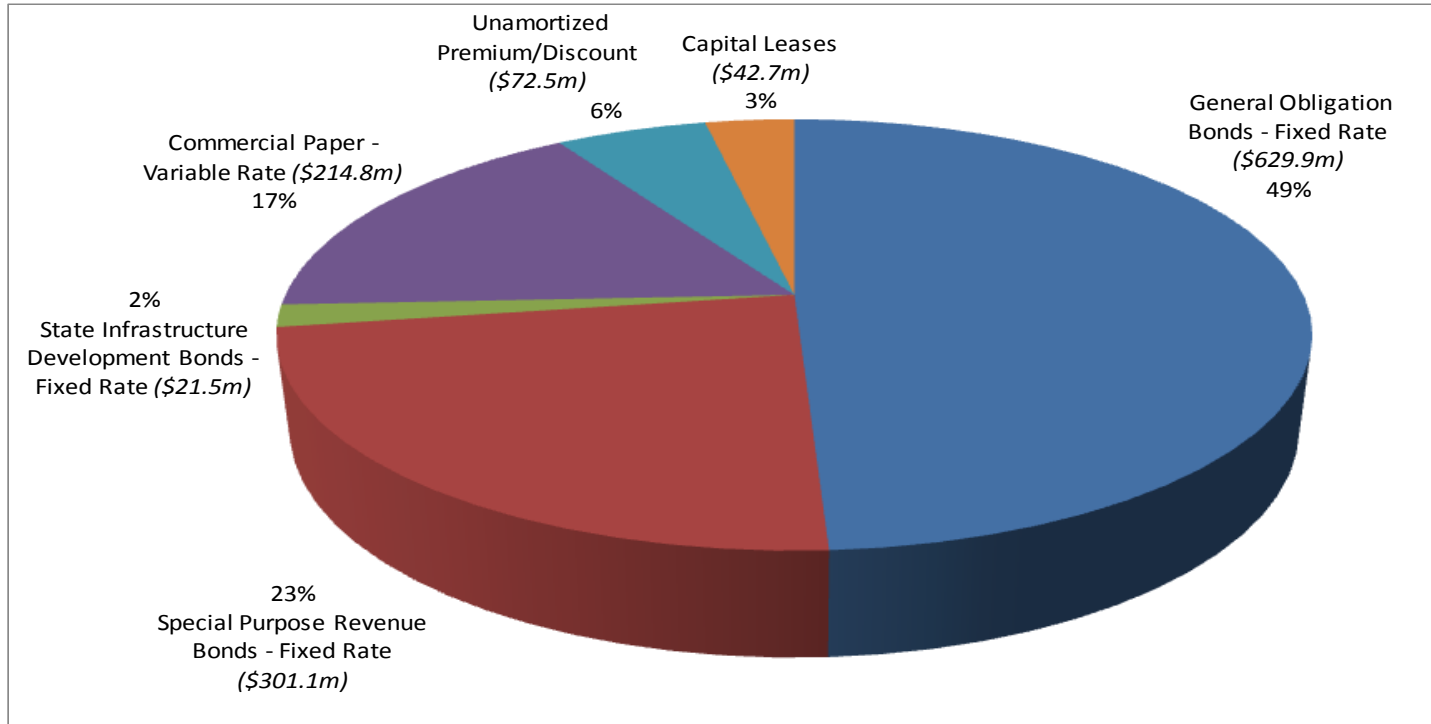
# Long-Term Debt As of June 30, 2014

(000s omitted)

	Final payment due in fiscal year	Beginning Balance	Additions	Reductions	Ending Balance
General Obligation Bonds Series 2013D *	2039	\$ 0	\$ 12,760		\$ 12,760
General Obligation Bonds Series 2013A&B	2038	87,350		2,095	85,255
General Obligation Bonds Series 2011D	2037	52,450		1,195	51,255
General Obligation Bonds Series 2011C	2037	19,035		530	18,505
General Obligation Bonds Series 2011A	2037	297,005		21,415	275,590
General Obligation Bonds Series 2010B	2036	39,505		1,305	38,200
General Obligation Bonds Series 2010C&D	2016; 2030	31,640		1,425	30,215
General Obligation Bonds Series 2009C&D	2022; 2029	71,030		3,120	67,910
General Obligation Bonds Series 2009A&B	2029; 2034	51,955		1,750	50,205
Commercial Paper Notes Series A, B, C, D	2029	230,050		15,250	214,800
Obligations to the State of Minnesota pursuant to Infrastructure Development Bonds (IDB)	2026	25,817		4,306	21,511
Auxiliary Revenue Bonds	2014	620		620	0
Special Purpose Bonds – Series 2013C *, 2011B, 2010A	2039	160,275	35,395	3,835	191,835
Special Purpose Revenue Bonds – Series 2006	2030	113,995		4,695	109,300
Unamortized premiums and discounts	2039	73,725	2,831	4,031	72,525
Capital leases and other	2025	46,278	1,944	5,581	42,641
<b>TOTAL PER FINANCIALS</b>		<b>\$ 1,300,730</b>	<b>\$ 52,930</b>	<b>\$ 71,153</b>	<b>\$ 1,282,507</b>

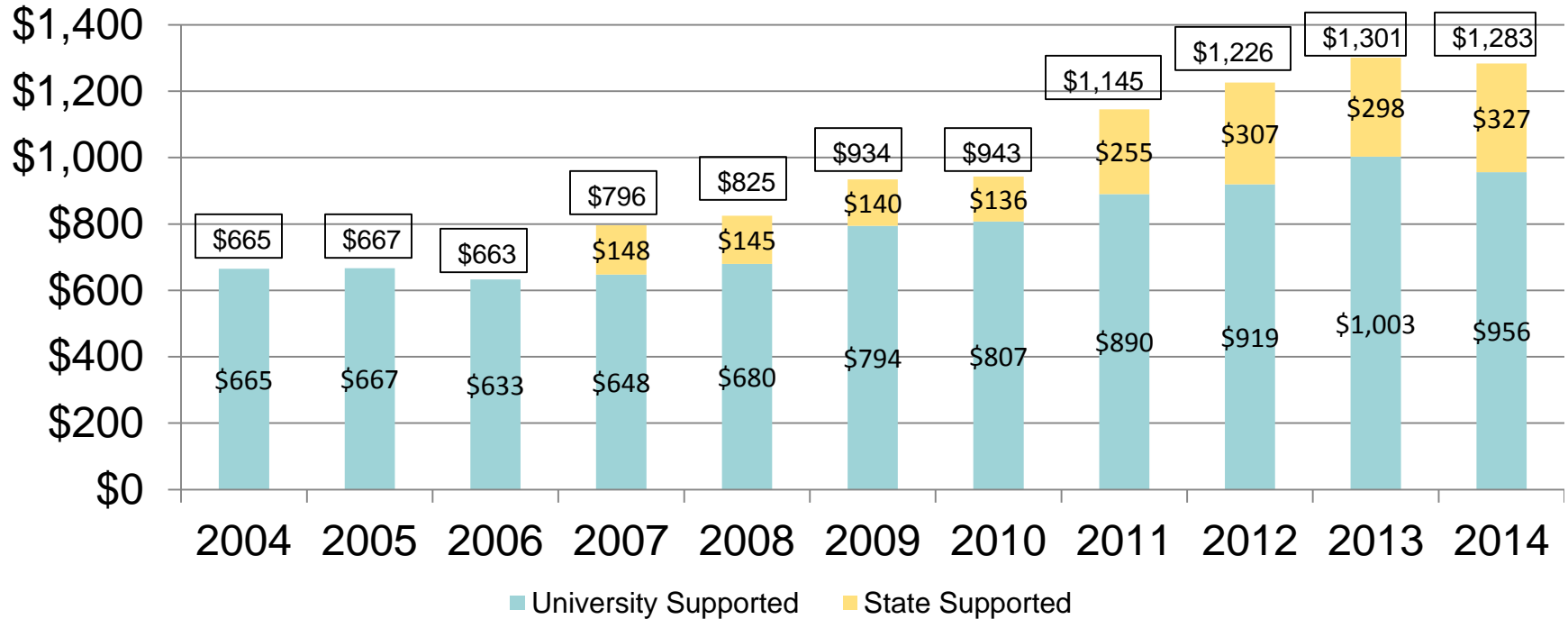
\* FY14 additions (Series 2013C&D) funded the Microbiology Research Building – project #4 of the Biomedical Science Research Facilities

# Debt Profile as of June 30, 2014 – \$1,282,507,000



# Outstanding Debt at June 30 – per financials

## Ten Year Comparison (in millions)



# ***Long-Term Debt Activity – Ten Year Summary***

***(Per financials - in millions)***

	<b>University Supported</b>	<b>State Supported</b>	<b>Total</b>
Beginning balance, 6/30/04	\$ 664.9	\$ 0.0	\$ 664.9
Additions	1,194.6	368.3	1,562.9
Refundings	(441.9)		(441.9)
Payments	<u>(461.8)</u>	<u>(41.6)</u>	<u>(503.4)</u>
Ending Balance, 6/30/14	\$ 955.8	\$ 326.7	\$ 1,282.5

Net change over 10 years	\$ 290.9	\$ 326.7	\$ 617.6
Percentage of total	47%	53%	100%

# Long Term Debt Analysis – Five Year Comparison

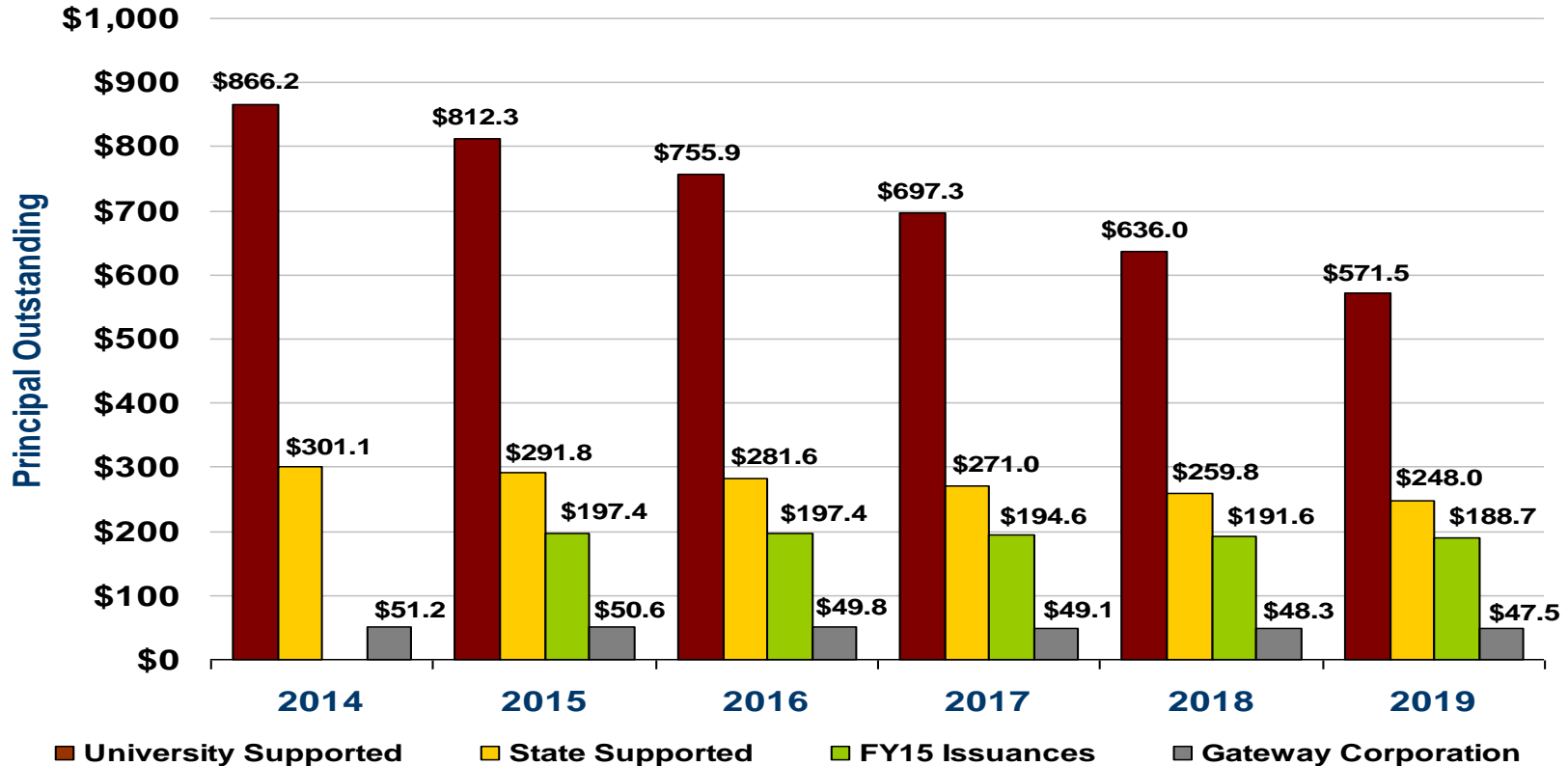
(in millions)

	<u>6/30/10</u>	<u>6/30/11</u>	<u>6/30/12</u>	<u>6/30/13</u>	<u>6/30/14</u>
Total Outstanding per financials	\$ 943.4	\$ 1,145.4	\$ 1,226.4	\$ 1,300.7	\$ 1,282.5
Less: Capital leases and other	(6.2)	(6.0)	(6.0)	(46.3)	(42.7)
Less: Unamortized premiums/discounts	(14.7)	(59.0)	(68.3)	(73.7)	(72.5)
<b>University Bonds and Commercial Paper</b>	<b>\$ 922.5</b>	<b>\$ 1,080.4</b>	<b>\$ 1,152.1</b>	<b>\$ 1,180.7</b>	<b>\$ 1,167.3</b>
University Supported	\$ 795.6	\$ 846.2	\$ 870.4	\$ 906.4	\$ 866.2
State Supported	\$ 126.9	\$ 234.2	\$ 281.7	\$ 274.3	\$ 301.1
Fixed Rate* / Variable Rate	86% / 14%	89% / 11%	91% / 9%	86% / 14%	88% / 12%
University Issued / State Issued	96% / 4%	97% / 3%	97% / 3%	98% / 2%	98% / 2%
Weighted Average University Debt	3.82%	3.63%	3.65%	3.55%	3.40%
Annual debt service (principal paid + interest expense)	\$ 84.0	\$ 98.3	\$ 101.0	\$ 107.8	\$ 112.8

\* Includes impact of synthetically fixed swaps

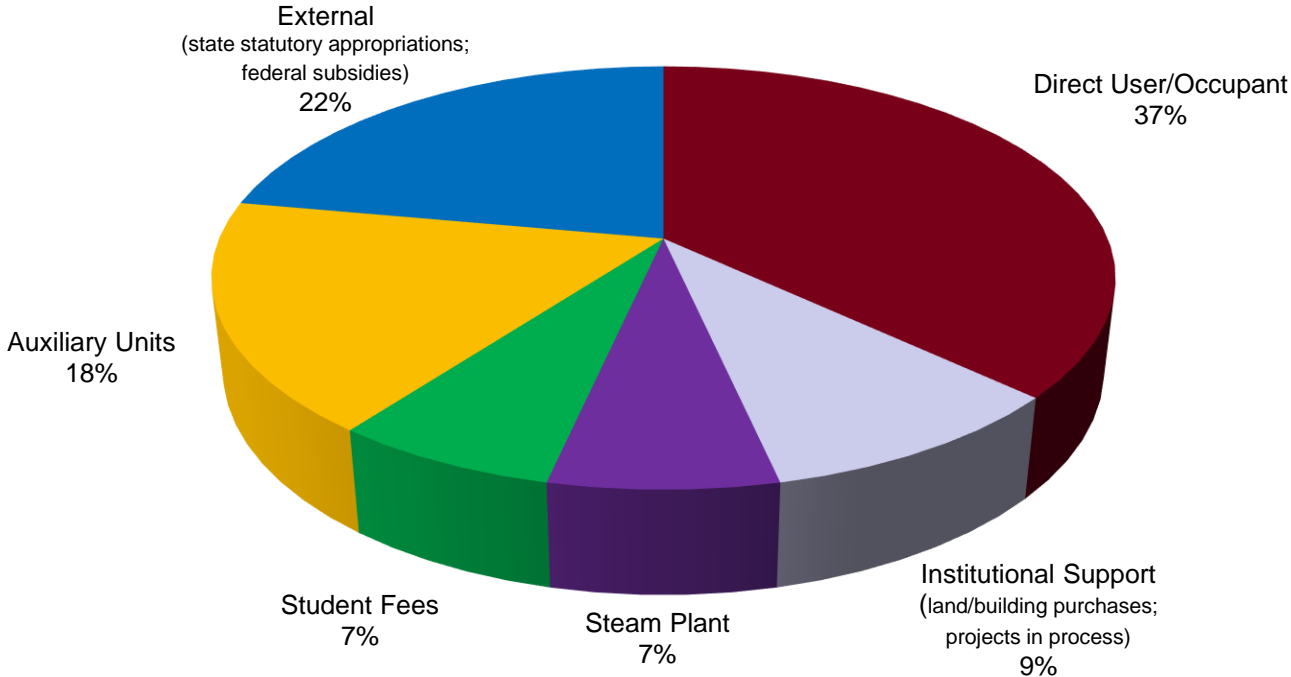
# Current Amortization Structure – Par (in millions)

6/30/14 Outstanding Debt Plus FY15 Issuances





# *Funding of External Debt Service*

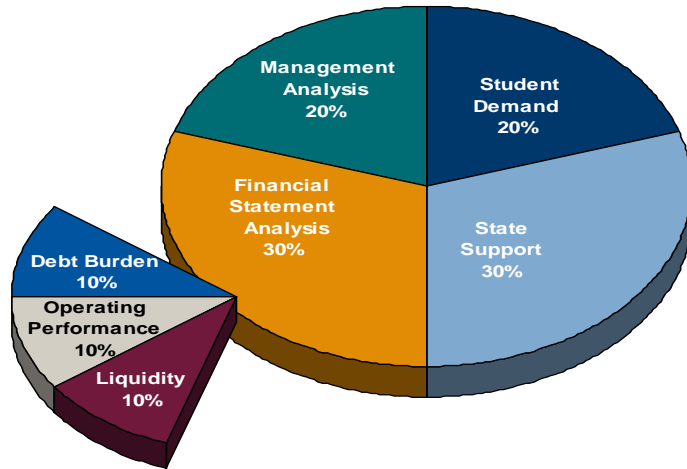


# Projected Long Term Debt as of June 30, 2015

(in millions)

	<u>University Supported</u>	<u>State Supported</u>	<u>FY15 Issuances</u>	<u>Total</u>
Balance June 30, 2014 <i>(at par)</i>	\$ 866.2	\$ 301.1		\$ 1,167.3
GO Series 2014B – ACC <i>(issued 8/6/14)</i>			\$ 145.8	145.8
CP Series E – Bell Museum <i>(issued 12/17/14)</i>			51.6	51.6
Scheduled principal reductions	<u>(53.9)</u>	<u>(9.3)</u>	<u>(0)</u>	<u>(63.2)</u>
Subtotal <i>(at par)</i>	812.3	291.8	197.4	1,301.5
Unamortized premium/discount <i>(projected at 6/30/15)</i>	44.1	24.3	13.4	81.8
Capital leases <i>(projected at 6/30/15)</i>	<u>42.6</u>	<u>0</u>	<u>0</u>	<u>42.6</u>
Projected balance June 30, 2015	\$ 899.0	\$ 316.1	\$ 210.8	\$ 1,425.9

# Credit Rating and Debt Capacity Determinants



## Student Demand - **Strong “Aa”**

- Solid student market position

## Financial Statement Analysis - **Strong “Aa”**

- Strength of General Obligation pledge
- Solid financial resources— particularly relative to debt and enrollment
- Debt per student in line with peers
- Debt service as a percentage of budget is moderate

## State Support - **State of Minnesota “Aa1/AA+”**

- History of strong appropriations, but budget pressures continue

## Management Analysis - **Strong “Aa”**

- Analyst’s assessment of University management strength
- Research position and strategy

An analysis of student demand, market position and financial indicators places the University of Minnesota solidly in the strong “Aa” category. Debt capacity and credit ratings are not a function of ratios alone, but are highly dependent on other factors such as debt strategy, essentiality of debt, future fundraising, revenue producing capability and debt structure.

# Letter Ratings to Designate University Credit Quality

Moody's Investors Service Rating
Aaa
<b>Aa1</b> , Aa2, Aa3
A1, A2, A3
Baa1, Baa2, Baa3
Ba1, Ba2, Ba3
B1, B2, B3
Caa to C

Financial Security Evaluation
Exceptional
Excellent
Good
Adequate
Moderate
Weak
Default

Standard and Poor's Rating
AAA
AA+, <b>AA</b> , AA-
A+, A, A-
BBB+, BBB, BBB-
BB+, BB, BB-
B+, B, B-
CCC to D

The University of Minnesota is currently rated Aa1 by Moody's, and AA by Standard and Poor's.

# University of Minnesota – Ratings Evaluation

## STRENGTHS

- Strong market position as Minnesota’s flagship research and land grant university and Big 10 member
- Competitive demand trends and stable enrollment; competitive professional and graduate programs
- Substantial research organization
- Ample financial resources and liquidity
- Positive operating cash flow provides ample debt service coverage
- Operations and cash flow are consistently positive from a well diversified revenue base
- History of solid fund raising

## CHALLENGES

- Moderate anticipated debt plans during the next few years
- Federal funding environment & heightened competition for research funding
- Challenging state demographics
- Constrained state funding for operations
- Modest unrestricted financial resources for a public flagship institution

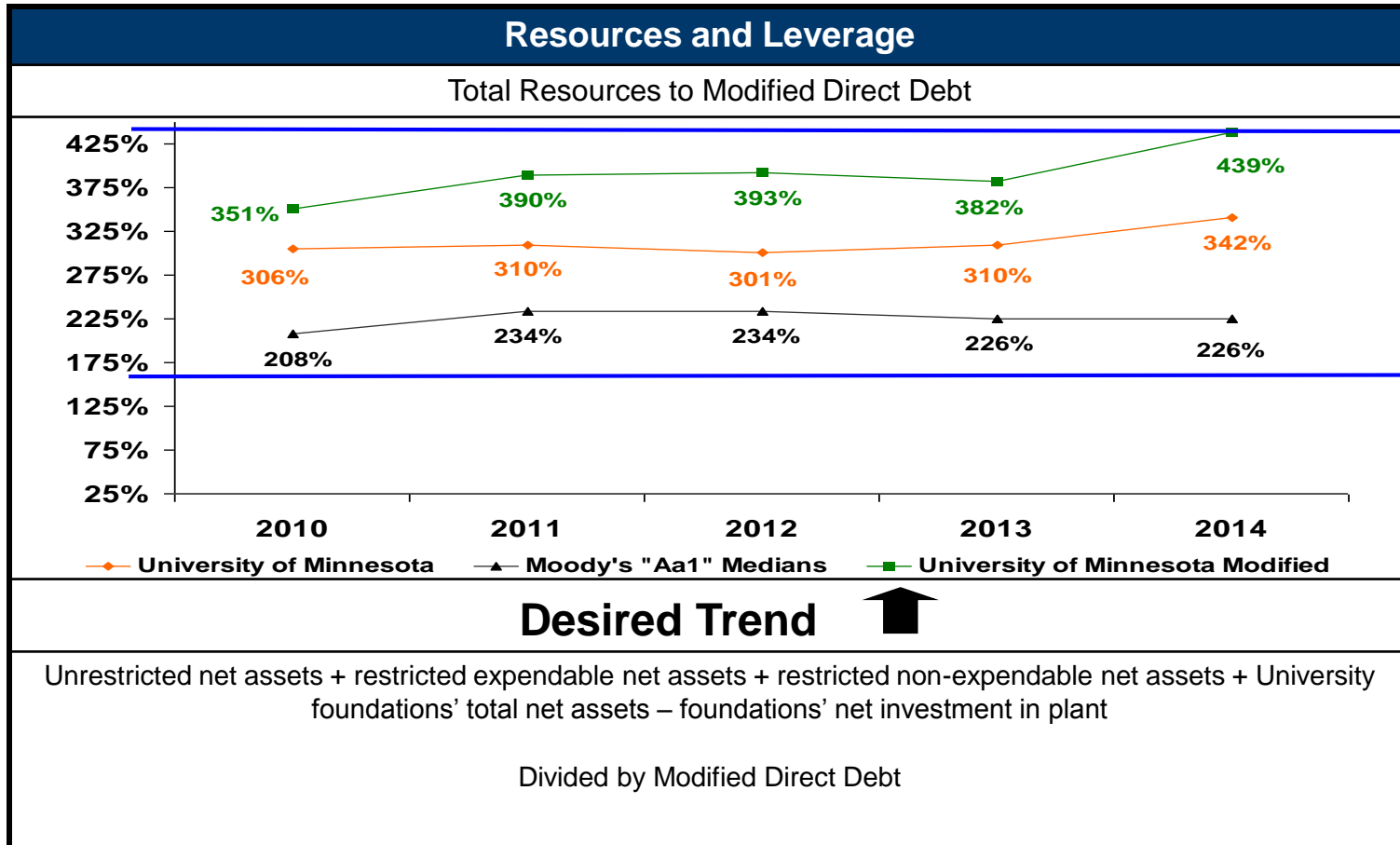
### Stable Outlook

Reflects continued favorable student demand and research market positions, positive operating cash flow and debt service coverage despite additional debt plans and constrained state funding and growing financial resources and liquidity. Expectation that the University will be able to translate its brand and market strength into ongoing financial stability.

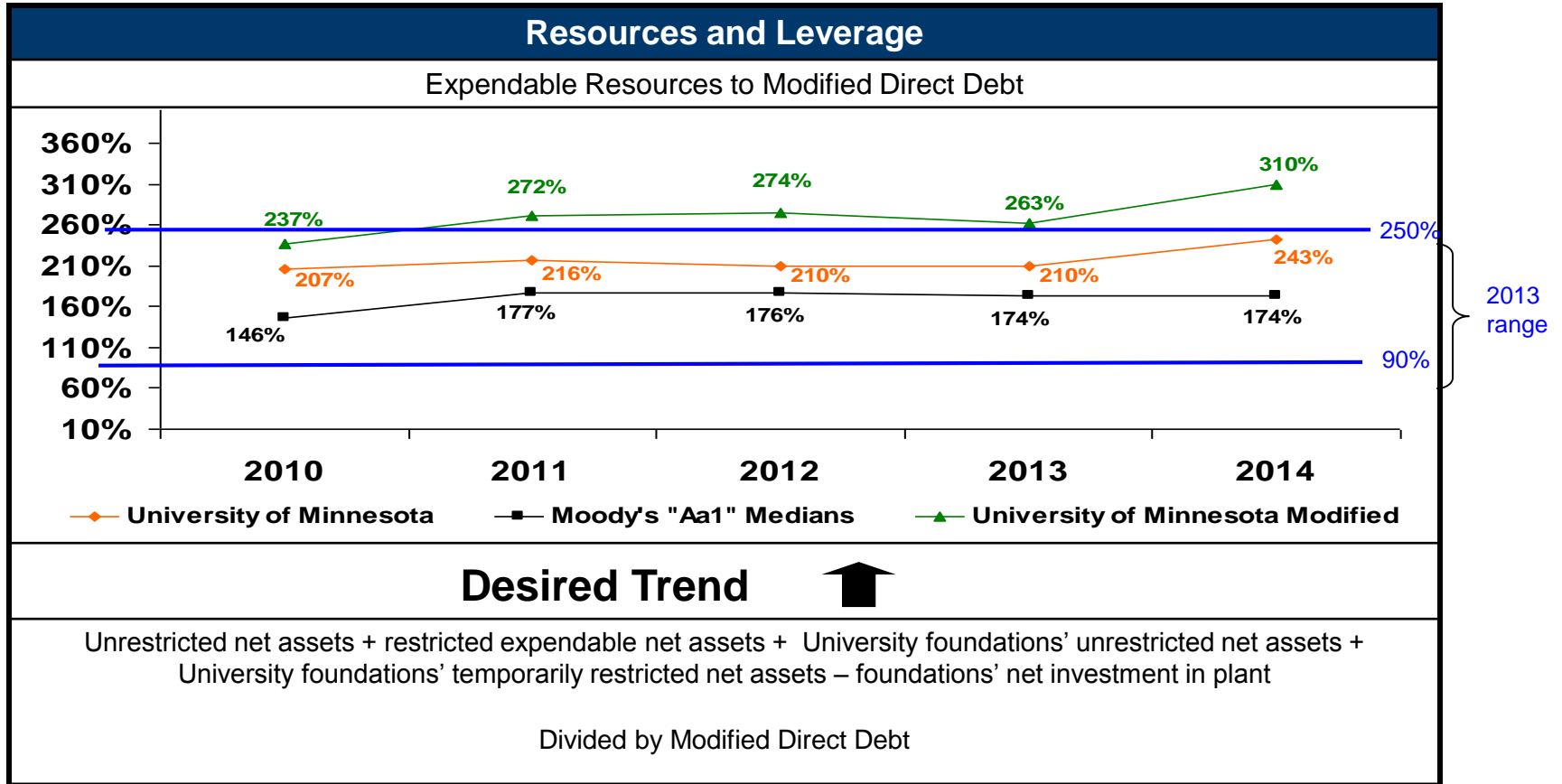
# Key Financial Metrics

RATIO	KEY COMPONENT	DEFINITION
A - Total Financial Resources to Modified Direct Debt	Total financial resources  <i>Measure of the total financial wealth of the institution</i>	Unrestricted net assets + restricted expendable net assets + restricted nonexpendable net assets + University foundations' total net assets less foundations' net investment in plant
B - Expendable Resources to Modified Direct Debt	Expendable resources  <i>Measure of financial resources that are ultimately expendable</i>	Unrestricted net assets + restricted expendable net assets + University foundations' unrestricted/temporarily restricted net assets less foundations' net investment in plant
	Modified direct debt  <i>Measure of the direct obligations of the institution</i>	The sum of the University's outstanding debt including capital leases, plus Gateway debt, less the special purpose debt (i.e., state-supported stadium debt and 75% of the biomedical facilities bonds)
C - Debt Service to Operations	Debt service  <i>Actual principal &amp; interest paid</i>	Sum of the principal and interest paid on capital debt by the University excluding principal and interest on the special purpose debt
	Operations  <i>Measures size of operating budget</i>	University operating expense less scholarships & fellowships, plus interest on capital asset-related debt, excluding the interest on the special purpose debt

# University of Minnesota: Analysis of Key Credit Ratios

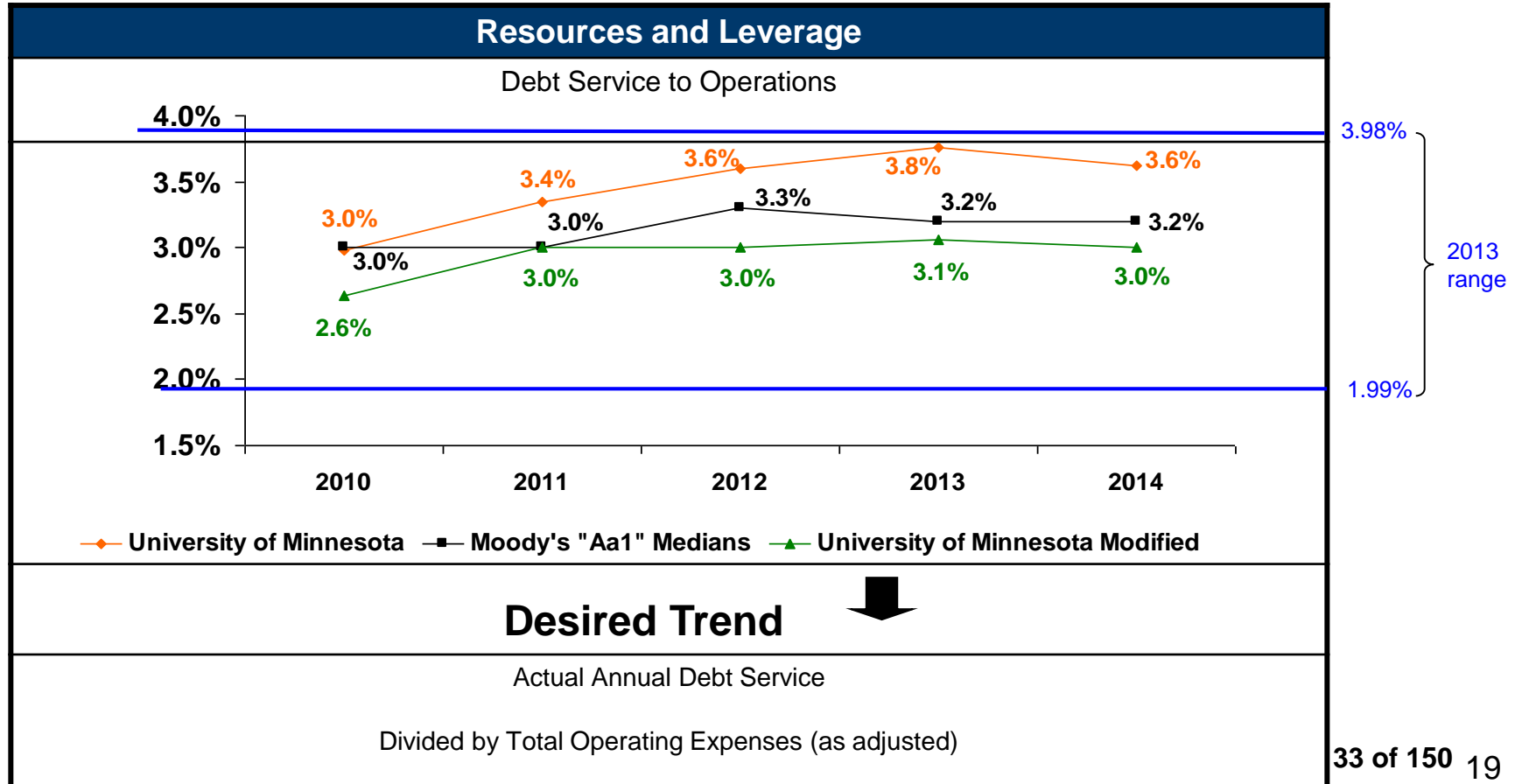


# University of Minnesota: Analysis of Key Credit Ratios





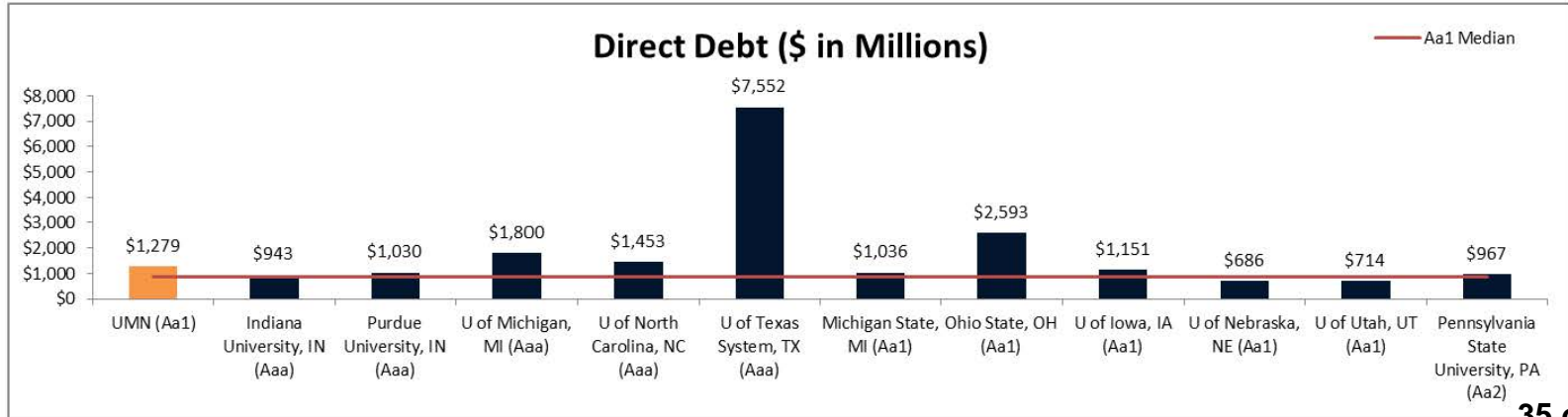
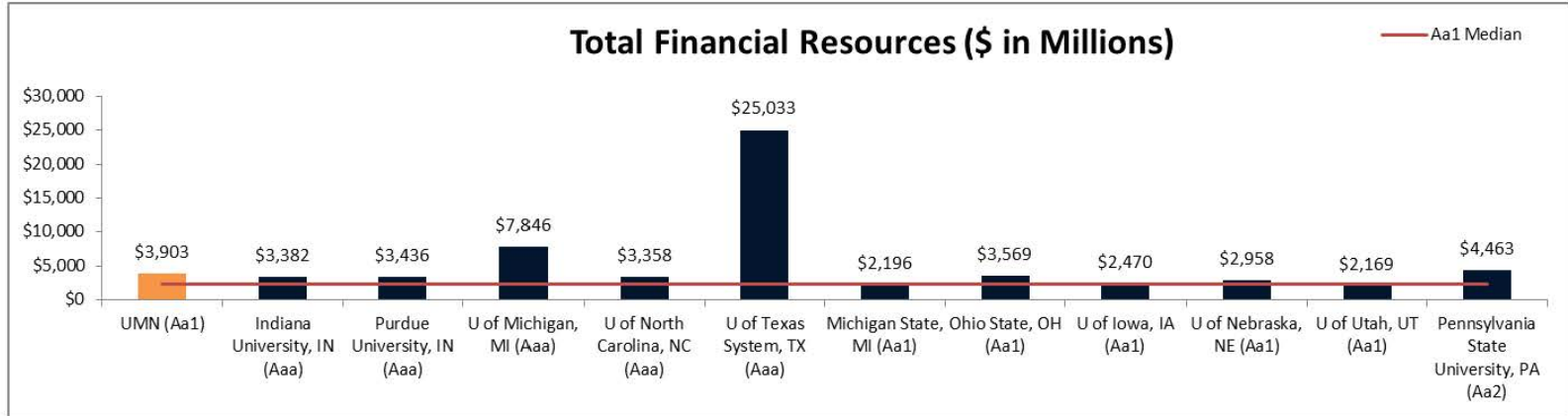
# University of Minnesota: Analysis of Key Credit Ratios



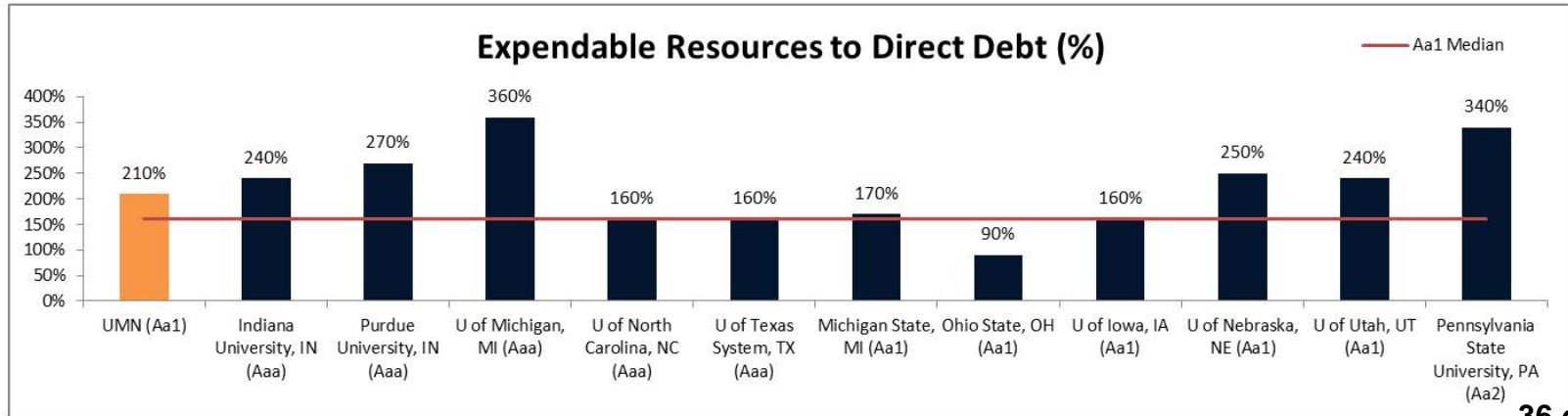
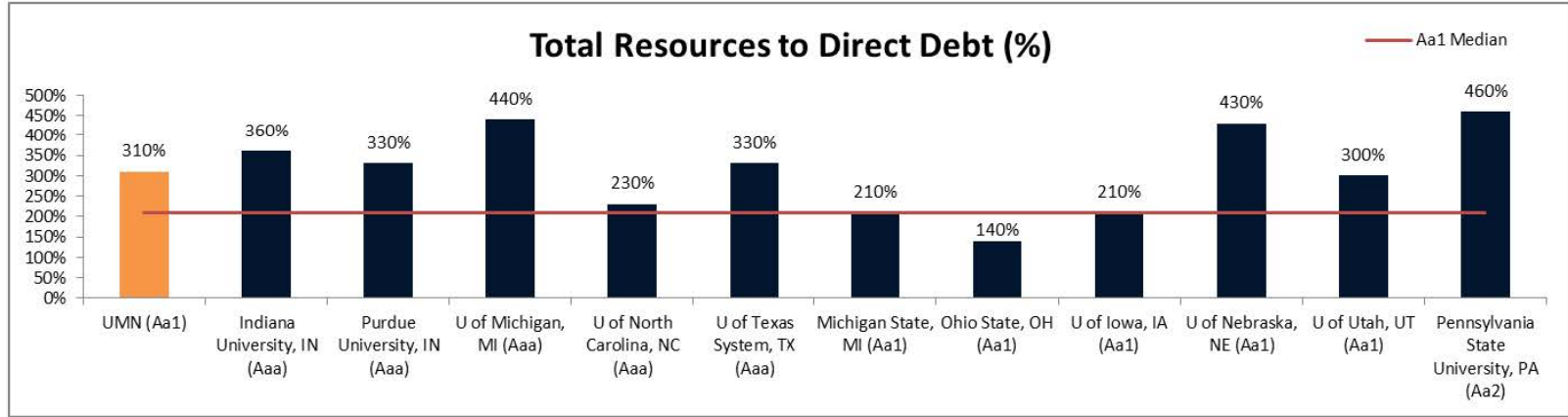
## ***Peer Group Analysis – Data as of 6/30/13***

- *Total Financial Resources*
- *Direct Debt*
- *Total Resources to Direct Debt*
- *Expendable Resources to Direct Debt*
- *Debt Service as a % of Operations*
- *Expendable Resources to Operations*

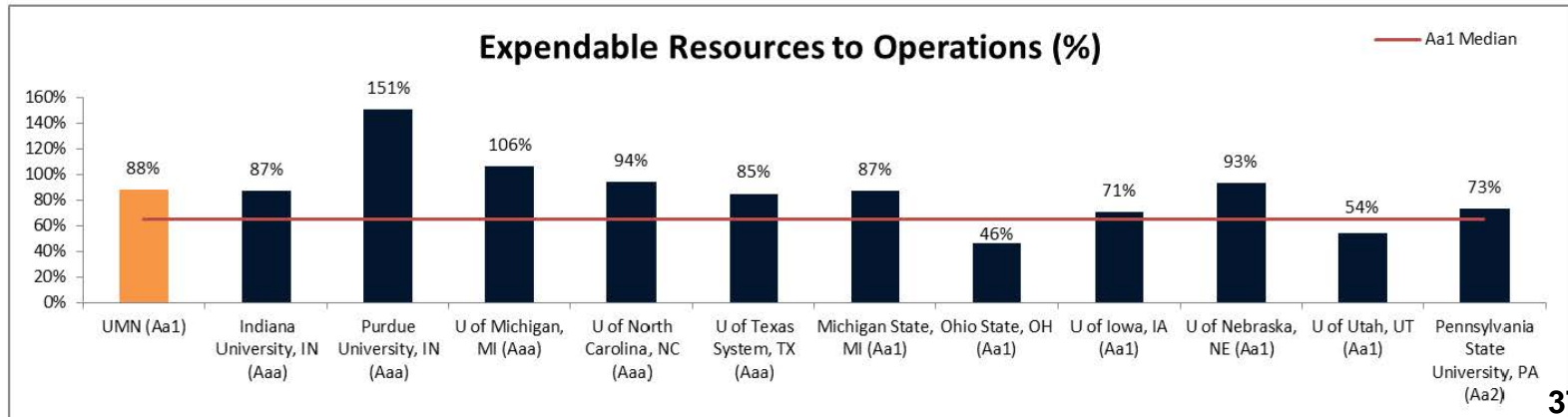
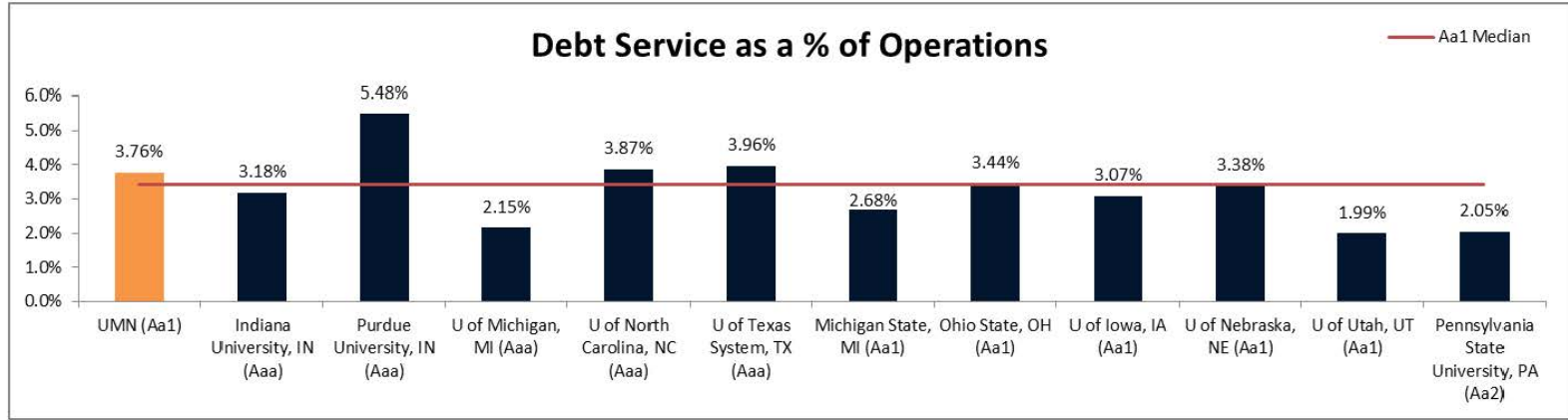
# University of Minnesota Peer Group Analysis – 6/30/13



# University of Minnesota Peer Group Analysis – 6/30/13



# University of Minnesota Peer Group Analysis – 6/30/13





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# BOARD OF REGENTS DOCKET ITEM SUMMARY

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**Finance**

**February 12, 2015**

**Agenda Item:** Annual Insurance & Risk Management Report

**Review**                       **Review + Action**                       **Action**                       **Discussion**

*This is a report required by Board policy.*

**Presenters:** Michael Volna, Associate Vice President & Controller  
Steve Pardoe, Director, Risk Management & Insurance

## **Purpose & Key Points**

This report provides the Finance Committee with an overview of the University's property, liability, and workers compensation insurance programs, including key financial metrics.

The University's total cost of risk for FY 2014 (which is the sum of captive costs, self-insurance costs, and the cost of commercially-purchased insurance) was \$13.1 million, up 4.8 percent over the prior year's total cost of risk of \$12.5 million.

During FY 2014, Risk Management began planning a return-to-work light duty program; began a pilot project with FM Safety to reduce the incidence rate of back injuries from trash handling (to be completed in FY 2015); and worked with Fleet Services to amend policies pertaining to the use of mobile devices while driving on behalf of the University.

Goals for FY 2015 include implementing a pilot return-to-work program; assisting with developing a coordinated emergency international evacuation program for employees, students, and others traveling on university business; and completion of the trash handling program begun in 2014.

## **Background Information**

This report is prepared and presented to the Board of Regents Finance Committee annually, in conformance with the Board of Regents Policy: *Board Operations and Agenda Guidelines*.

# UNIVERSITY OF MINNESOTA

***Annual Report***  
*of the*  
***Office of Risk Management and Insurance***  
*as of*  
***Fiscal Year Ended***  
***30 June 2014***



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## I. Overview

### ***Mission of the Office of Risk Management and Insurance***

The Office of Risk Management and Insurance:

- Provides consultation to the University community regarding the risk naturally encountered in the course of Research, Teaching and Outreach;
- Minimizes the frequency and severity of physical injury and property damage through education and specific loss control measures; and
- Protects and preserves University human and financial resources.

The Office of Risk Management and Insurance ('Risk Management') accepts as principle that assuming some risk is integral to being productive. The University must take risks and Risk Management must find ways to minimize the financial impact of adverse outcomes.

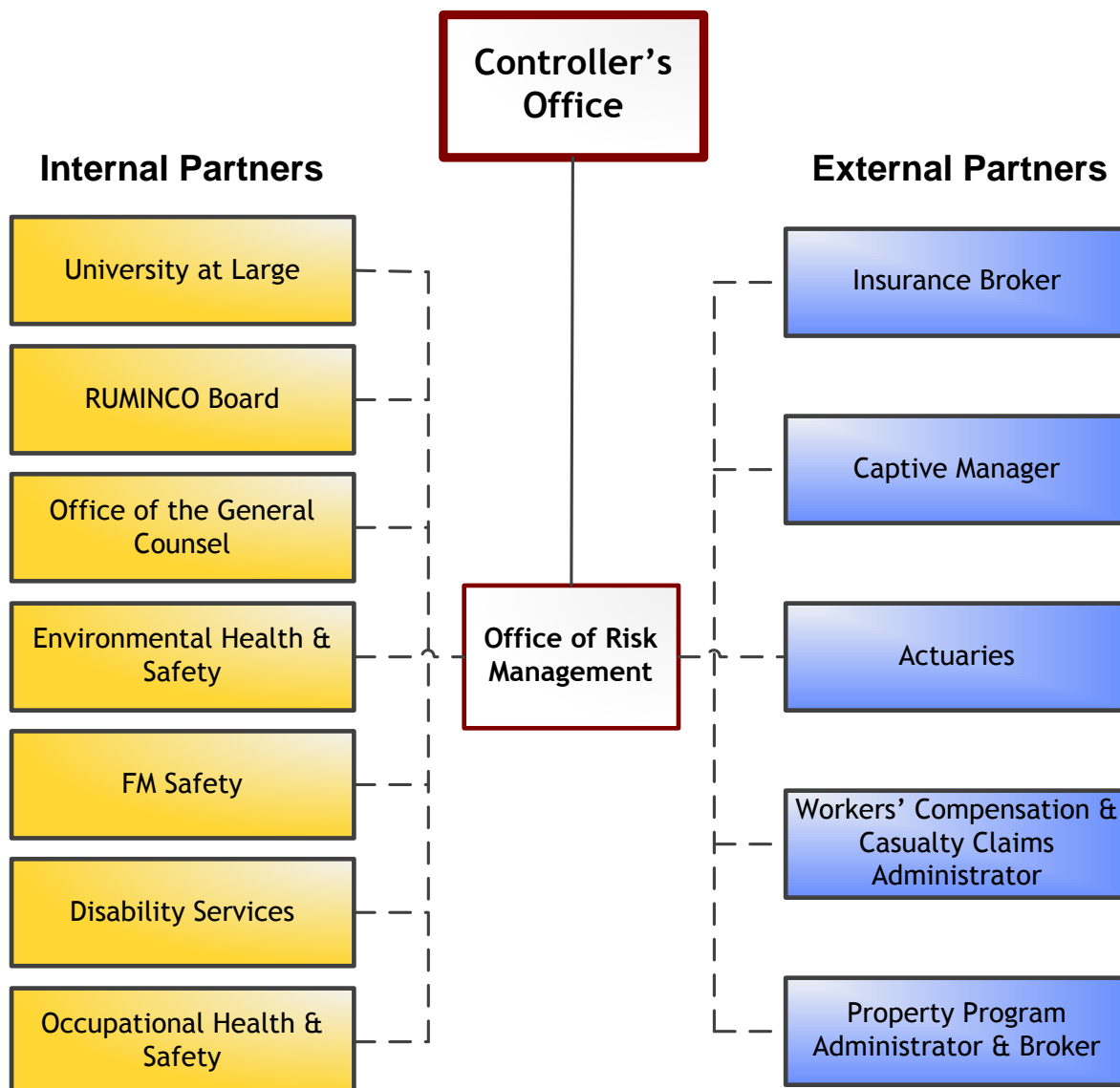
Risk Management uses commercial insurance, captive insurance, and self-insurance to transfer, or budget for, monetary loss arising from risk. It is responsible for the design, procurement, implementation, and maintenance of these programs. Risk Management routinely consults with the Office of General Counsel with respect to risk and insurance provisions of the contracts the University seeks to enter.

This report summarizes the scope of operations of the University's Office of Risk Management and Insurance as of fiscal year end June 30, 2014.

## Organizational Structure

The Office of Risk Management:

- Acts at the direction of the Controller's Office;
- Maintains dotted line relationships with many University entities and resources; and
- Controls the activities of several insurance vendors and suppliers.



## ***FY14 Project Status***

### **Slip/Trip/Fall Accidents**

Slip/Trip/Fall accidents are the most common accident at the University. We explored the possibility for reducing the incidence of Slip/Trip/Fall accidents on campus via a publicity campaign, but found that University Human Resources had a similar initiative in process, so put this task into abeyance. We began work on a Return to Work Light Duty program in its place.

### **Back Injuries from Trash Handling**

Back injuries arising from improper lifting of trash bags are a fairly frequent and expensive subset of workers compensation injuries to the lower back. We began an effort with FM Safety to pilot a project to reduce the incidence rate, and will complete it in FY15.

### **Vehicular Cell Phone Use**

Based on multiple research studies concluding that the use of electronic devices, including hands-free electronic devices, diminishes driver reaction time (one study equated the impairment level to that of a .08% legally drunk driver), we proposed a ban on the use of electronic devices, including hands-free electronic devices, during the operation of vehicles in the course of University business.

It was determined that a policy banning cell phone use was unworkable at this time. Fleet policy was however amended to “strongly encourage” not using devices while driving on behalf of the University.

## II. Risk Finance Programs

### **General Approaches to Risk Finance**

The financial consequences of risk may be **Retained** or **Transferred**.

- **Risk retention** (often called “self-insurance”) is characterized by the assumption (retention) of financial risk consequences. This retention ranges from a deductible to carrying no insurance whatsoever. Optimally, risk retention is the result of pre-considered choice.
- **Risk transfer** is characterized by the passing of the financial consequences of risk to a third party (typically an insurer) via purchase of a contract (typically an insurance policy) that specifies the terms and conditions of the transfer.

Broadly, the University treats its risk as follows:

- Liability – **Transferred** to captive insurer (RUMINCO, Ltd.)
- Workers’ Compensation – **Retained**; Self-insured
- Property and Miscellaneous Insurance – **Transferred** to commercial insurers

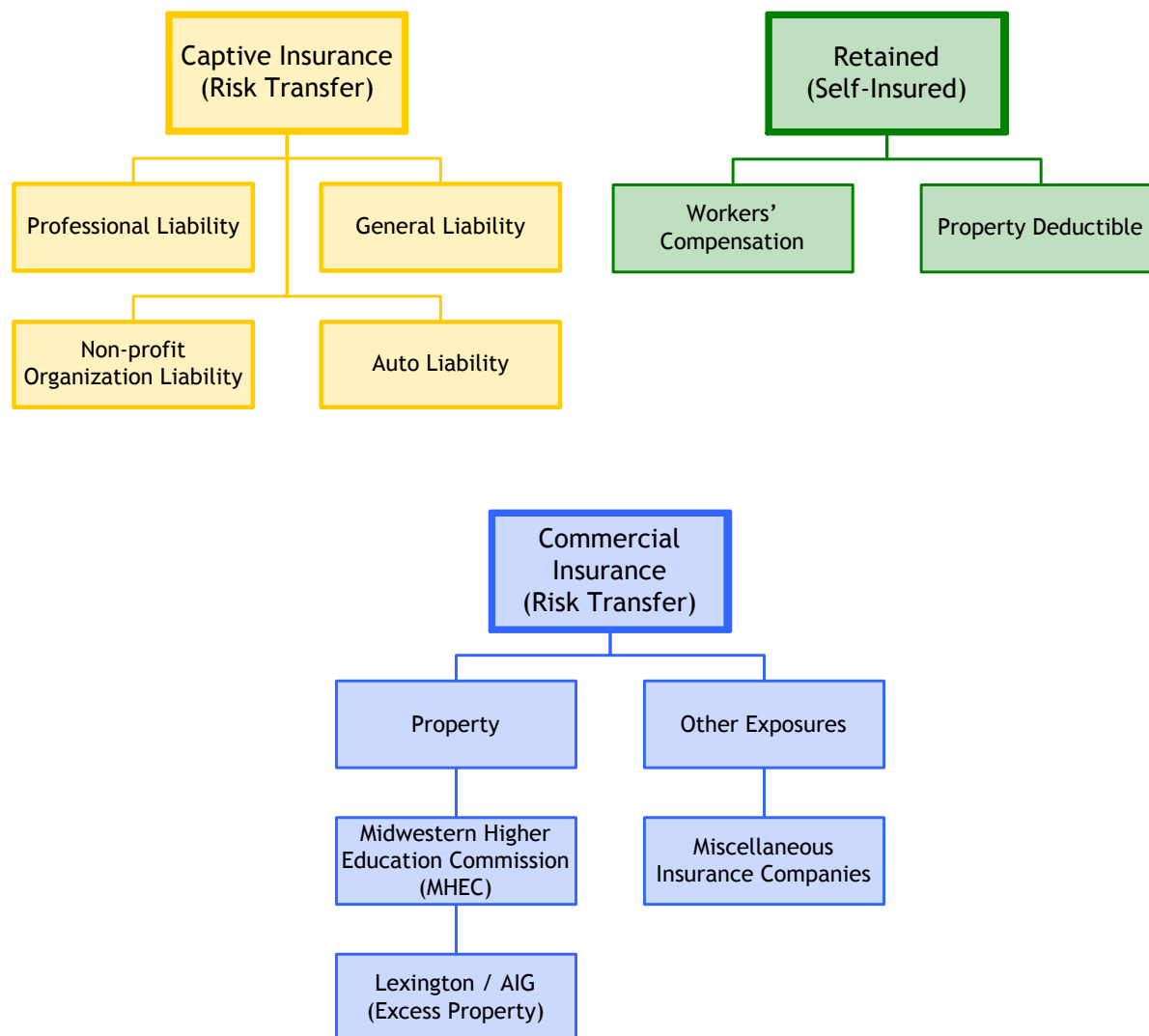
There are specific rationales behind the decision to transfer or retain a specific risk. Because retaining one’s own risk (within limits) tends to be more economical in the long run than paying a third party to assume it, the guiding principle has been for the University to retain risk, to the extent that it is financially possible and reasonable to do so.

Generally, this principle is not useful when the University is exposed to truly catastrophic loss potential. A good example of this is the property associated with the University’s campuses. The University has \$12 billion in property values, and carries a \$1.75 billion property insurance limit. We cannot fund \$1.75 billion internally, so the University purchases an insurance to transfer the exposure to a third party.

## University Structures

Much activity of the Office of Risk Management centers on the establishment, maintenance and continuing refinement of risk finance mechanisms.

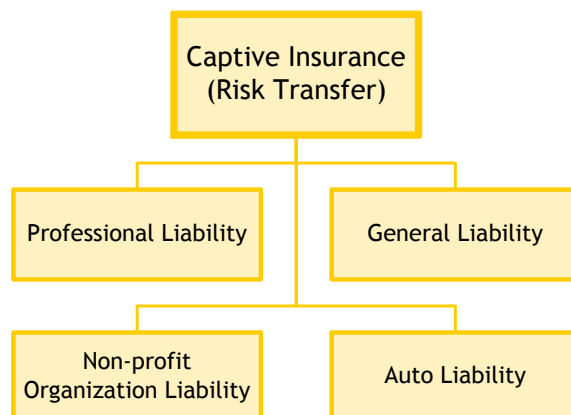
The University finances its Property and Casualty risk using three general strategies:



The Office of Risk Management monitors the University's loss trends and the insurance marketplace to determine the optimal risk financing strategy. This process includes ongoing reviews of the University's loss exposures, claim frequency and severity, and trends in each.

The following sections describe the University's **Captive**, **Retained**, and **Commercially Insured** risk financing programs.

## CAPTIVE INSURANCE



### ***RUMINCO, Ltd.***

**RUMINCO Ltd. (Regents of the University of Minnesota Insurance Company)** is a captive insurance company, a wholly owned subsidiary of the University of Minnesota. It was incorporated in 1978 during a nationwide crisis in the medical malpractice insurance market. At that time, the University Hospitals and Clinics and the Medical School faced 400% increases in premiums. After exploring various risk financing options, the University decided to form RUMINCO Ltd. to fund its primary layer of protection for:

- **General Liability; and**
- **Professional Liability (Medical Malpractice)**

The University purchased excess limits from commercial insurance companies until 1986, when the Office of the General Counsel advised that the State of Minnesota's Tort Statute effectively and reliably limits the University's exposure to Tort Liabilities incurred within Minnesota jurisdiction.

As RUMINCO matured and its surplus (i.e., net worth) grew, the RUMINCO Board added other lines of coverage:

- **Automobile Liability; and**
- **Non-Profit Organization Liability (Employment Claims)**

Over one-third of a century, RUMINCO has proven itself to be a useful funding tool for the University. It is a formalized, disciplined way to finance risk, yet retains flexibility, and provides long-term stability.

## ***RUMINCO, Ltd. Coverage Overview***

**A. General Liability** insures the University's legal liability for third party bodily injury or property damage.

**Principal Exposures:**

*Frequency:* Premises injuries to third parties (slip-and-falls)

*Severity:* Population concentrations in dormitories, stadiums, and arenas exposed to fire, collapse, explosion, etc.

**B. Professional Liability** covers damages arising out of professional services, including:

- Medical, surgical, dental or nursing treatment
- Furnishing or dispensing of drugs or medical, dental, or surgical supplies or appliances
- Services by any person as a member of a formal accreditation or similar professional board or committee of the University, or as a person charged with the duty of executing directives of any such board or committee
- Service by accountants, architects, engineers, lawyers, and teachers acting within the scope of their duties as employees of the University

**Principal Exposure:**

*Frequency and Severity:* Medical Malpractice

**C. Auto Liability** covers legal liability for bodily injury and property damage arising out of the use of approximately 800 owned vehicles, as well as hired and non-owned autos operated with the permission of the University.

**Principal Exposures:**

*Frequency:* Collision damage to third parties' vehicles

*Severity:* Vehicle accidents involving multiple-passenger vehicles

**D. Non-Profit Organization Liability** covers liability claims not triggered by Bodily Injury or Property Damage, including:

- Directors' and Officers' Liability
- Employment Practices Liability
- Personal Injury e.g., libel, slander, defamation, emotional distress

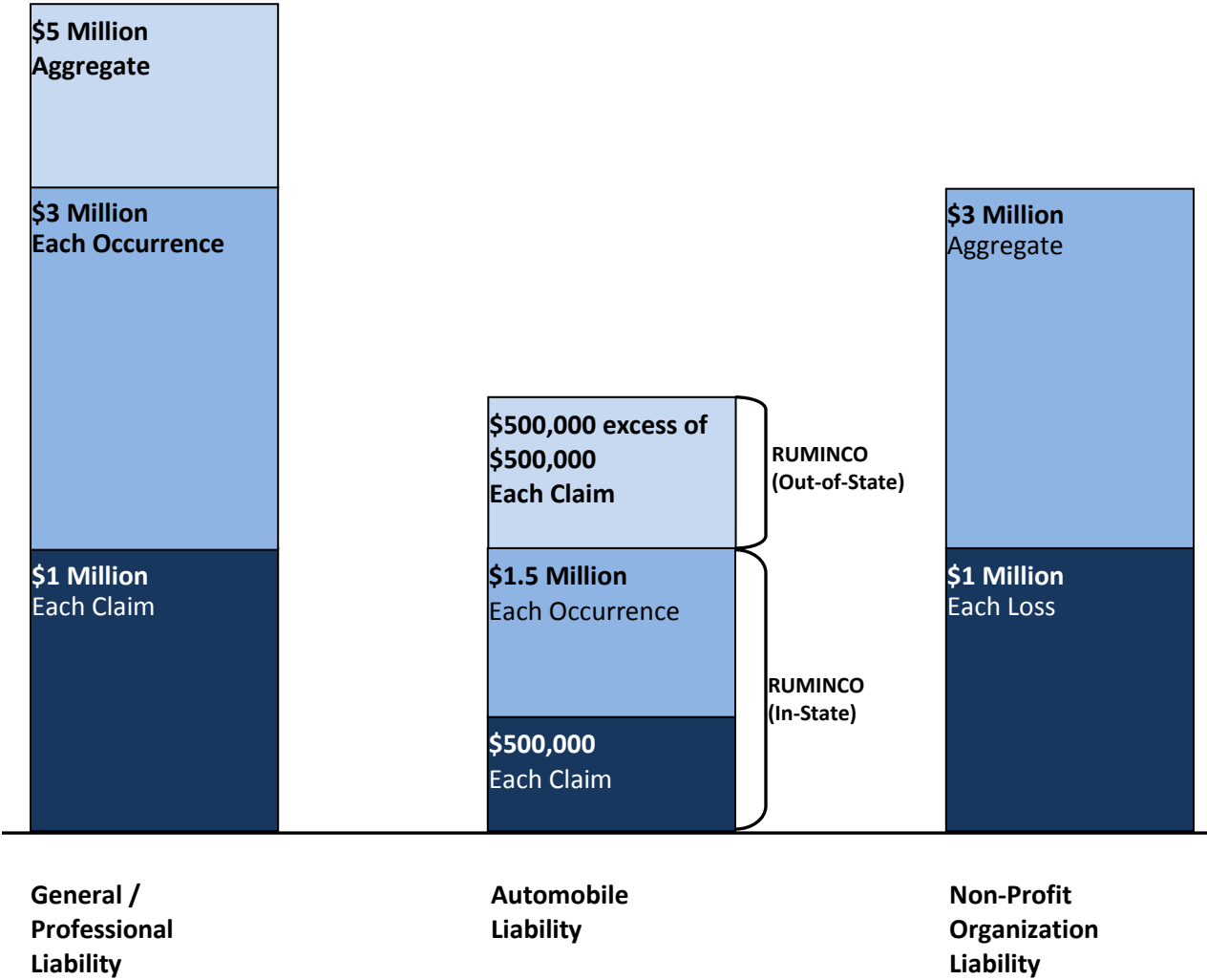
**Principal Exposure:**

*Frequency and Severity:* Employment-related claims such as allegations of sexual harassment, failure to grant tenure, discrimination, etc.



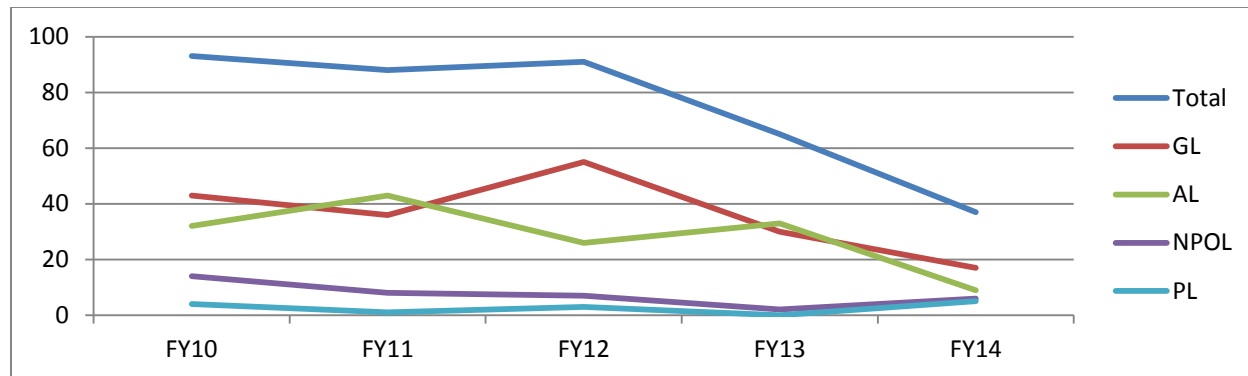
**Summary of RUMINCO Ltd. Limits**

RUMINCO limits are in the same range as the maximum payout prescribed by the Minnesota Tort Cap statutes; buying more limit than required effectively waives the Statute’s protection, with the new limit becoming the de facto tort cap.



## **RUMINCO Ltd. Claims Experience**

### **Claim Count by Fiscal Year**



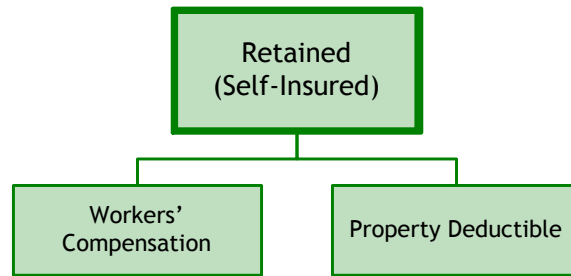
Claim frequency for the four RUMINCO lines of liability coverage over the past five years.

RUMINCO's Total Claim Count has averaged 75 claims per year over the past five years.

The Total FY14 Claim Count of 37 represents a five-year low.

No claim count for any single coverage lies farther than two Standard Deviations from the mean. Statistically, this suggests that despite being low, the FY14 claim counts are still within the expected range.

## RETAINED (SELF-INSURED)

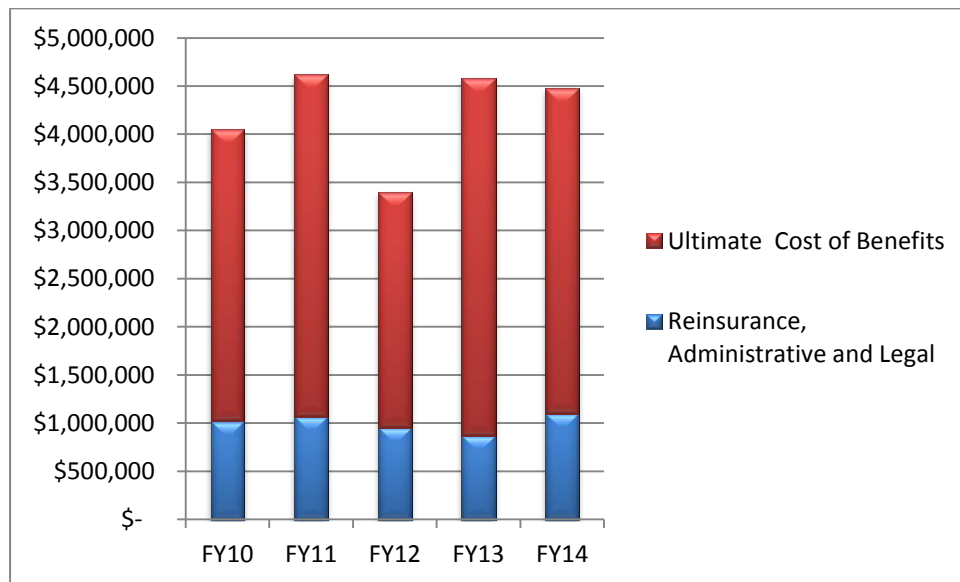


### Workers' Compensation Overview

**Workers' Compensation** benefits are mandated and governed by Minnesota statute. Benefits include medical costs, wage loss and retraining costs for University employees who are injured while acting in the scope of their duties.

The University is a qualified self-insurer under Minnesota law, assuming liability up to \$1,880,000 in any one Workers' Compensation occurrence. The Workers' Compensation Reinsurance Association (WCRA), an excess insurer for catastrophic claims created by the State of Minnesota, provides excess protection.

### Workers' Compensation Program Costs

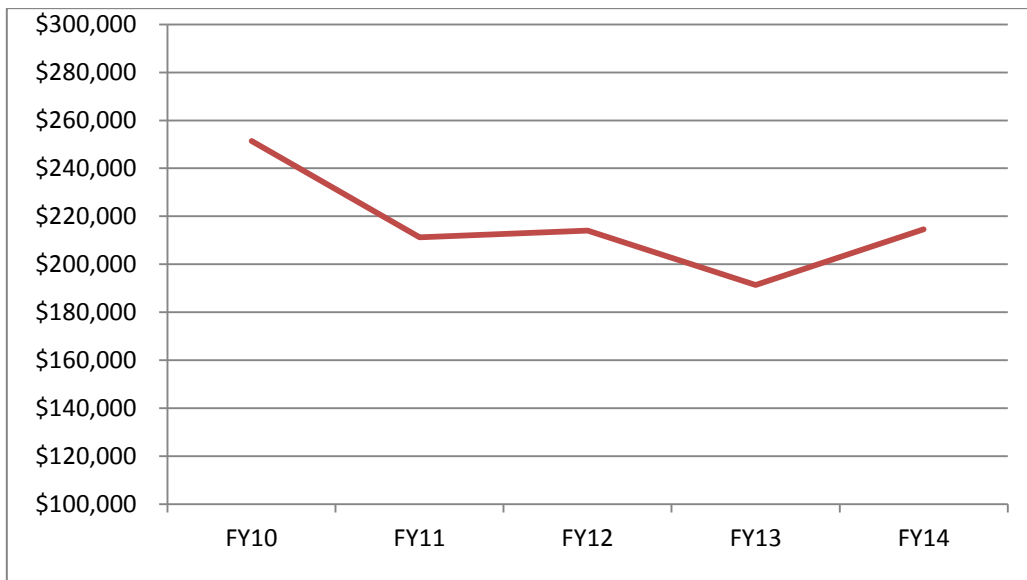


*Annual claim cost is moderately volatile. Administrative costs have remained steady.*

### **Workers' Compensation**

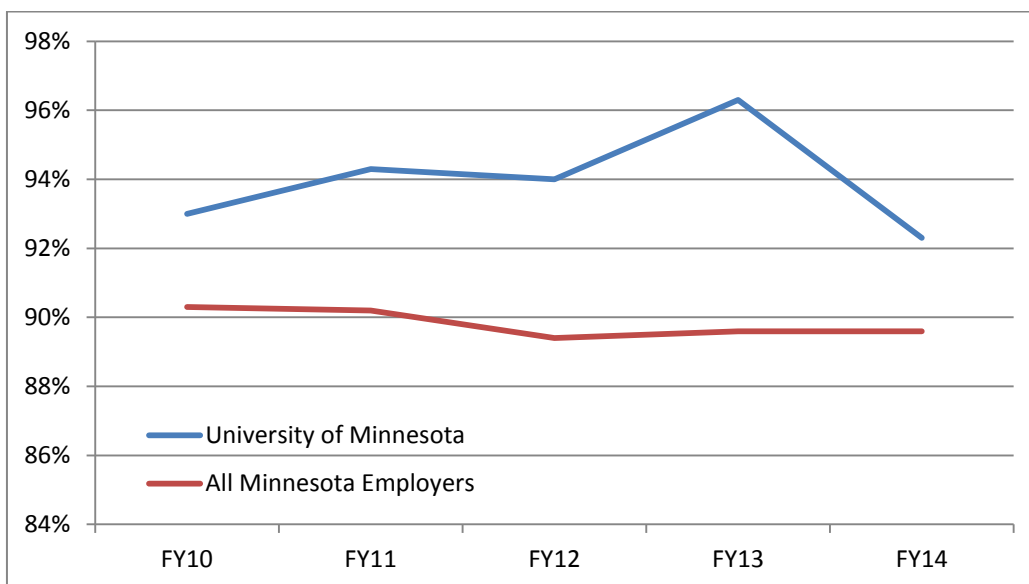
Beginning in FY09, Risk Management began a continuing initiative to make the statutory Workers' Compensation benefit system more transparent, accessible, and easy to use for all parties. That initiative formed the basis for positive trends.

#### **Workers' Compensation Legal Expenses**



*Cost of litigating Workers' Compensation remains below the FY10 level.*

#### **On-time Reporting to Department of Labor and Industry**



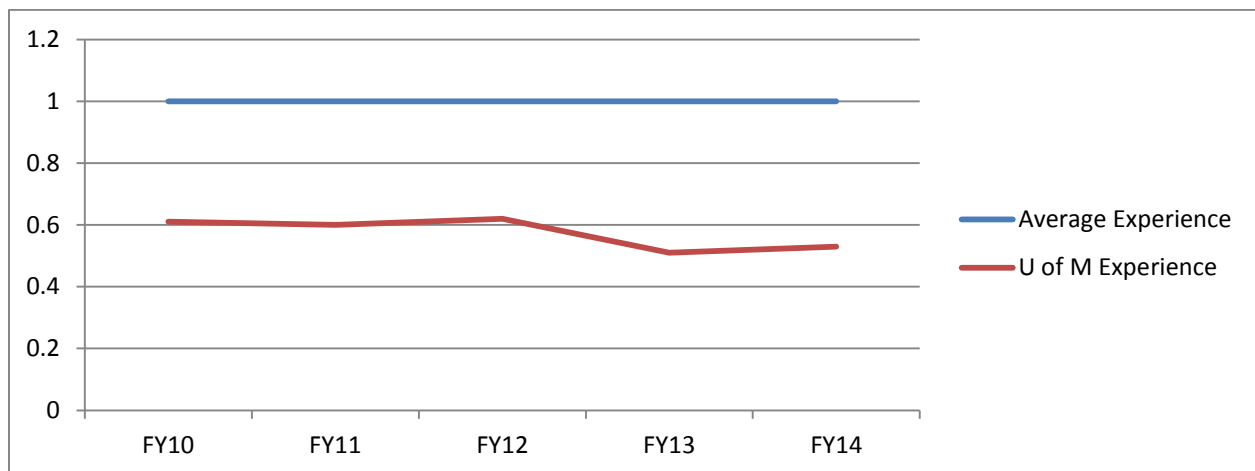
*The University's timely reporting of DOLI claims consistently exceeds the Minnesota average. Accurate apportionment of fines and electronic claim reporting are key drivers.*

### **Workers' Compensation**

The Minnesota Workers' Compensation Reinsurance Association annually calculates the University's Experience Modification Factor.

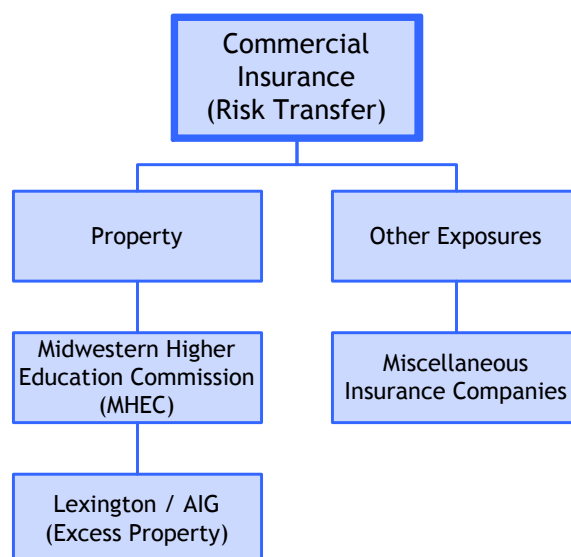
An "Experience Modification Factor" is a standard measure of Workers' Compensation results. It derives from specific employers' rolling three-year loss experience. An Experience Mod of "1.0" designates industry average performance, with levels below 1.0 signifying better than average experience, and levels above 1.0 signifying worse than average experience.

#### **Minnesota Workers' Compensation Reinsurance Association Experience Modification Factor**



*Over the past 5 years, the University's Workers' Compensation experience has consistently been 40 to 50 points lower/better than what general Minnesota injury statistics would predict.*

## COMMERCIAL INSURANCE



Through the purchase of commercial insurance, the University transfers certain loss exposures to commercial insurance companies.

Reasons to commercially transfer risk include:

- high limits it would be difficult, or impossible, to self-fund (\$40 million Extra MN General/Auto Liability; \$10 million Extra MN Clinical Trial Liability; \$1.75 billion Property Insurance) and
- convenience, low price of transfer, or demands by third parties (NCAA Athletic Injury Primary Coverage; Daycare Accident; Fine Art)

Property Insurance premiums are 80 percent of the University's commercial insurance outlay.

## **Property Insurance**

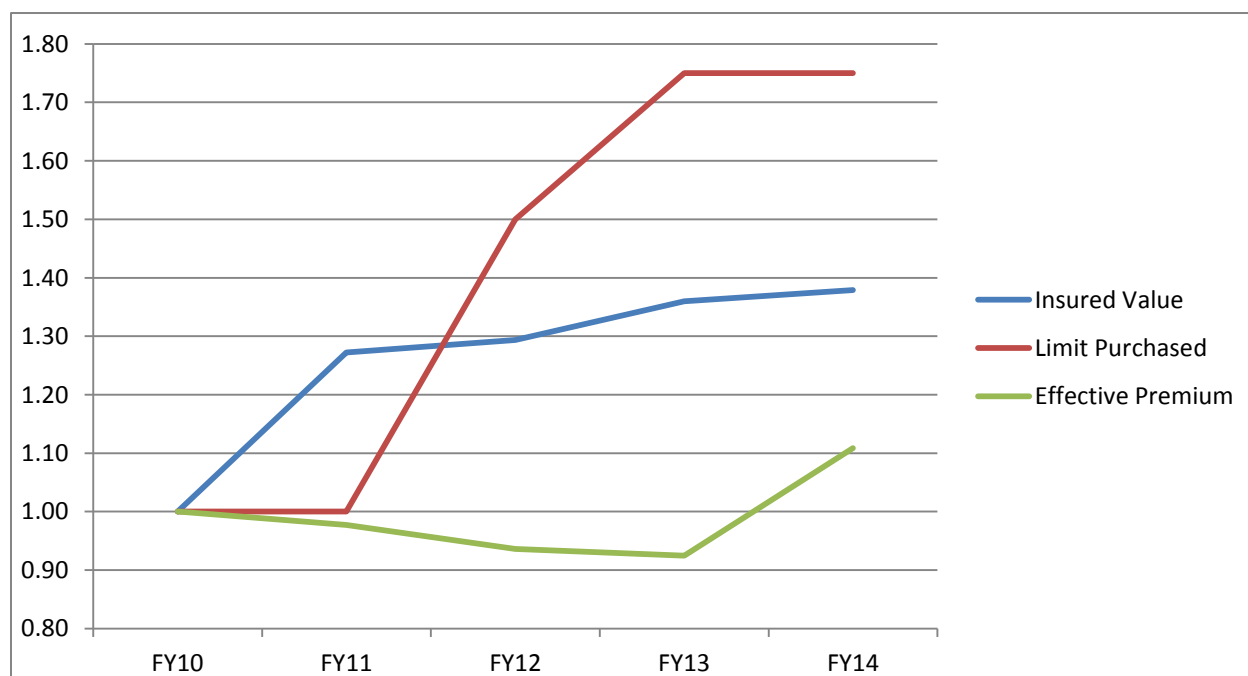
**Property Insurance** covers risks of direct physical loss or damage to the “covered property” as defined in the policy, subject to sublimits and specifically excluded perils. The principle insurer for the University is AIG through the Midwest Higher Education Compact (MHEC) Master Property Program.

The University conducted a July 1, 2010 RFP on its property program. Based on our ten-year loss history, we chose at that time to revise our deductible level from \$200,000 to \$500,000 per claim event, subject to an annual aggregate of \$1 million.

An effective measure of performance is “Effective Premium”, which reflects changes in deductible cost:

$$\text{Effective Premium} = \text{Premium Paid to Insurer} + \text{Deductible Internally Retained}$$

### **Trends in Values, Premium and Rates: FY10 = 1**

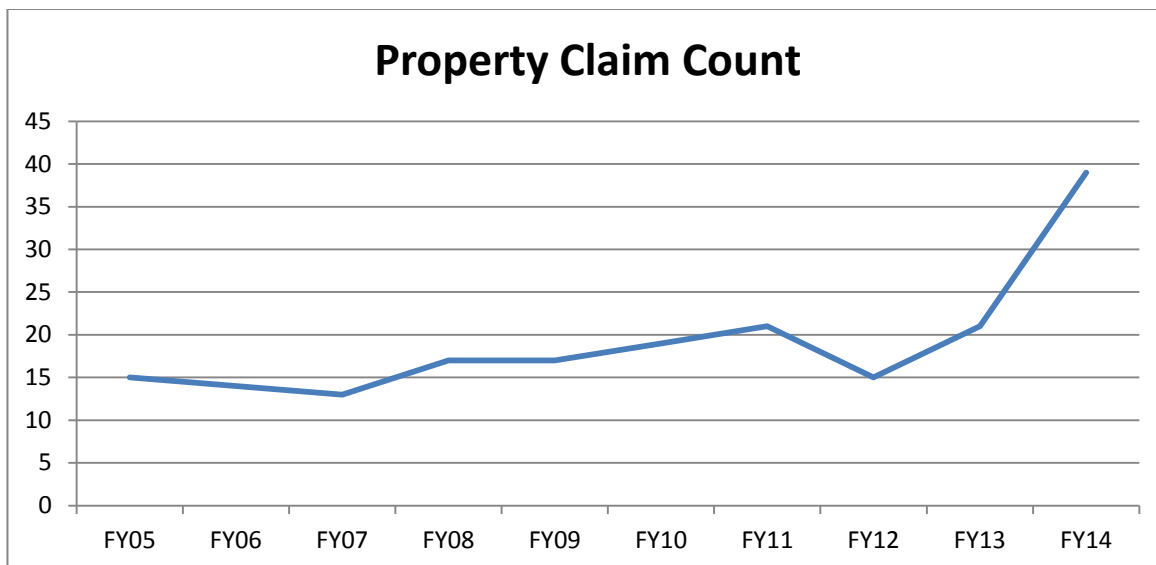


*Property insurance cost drivers are Insured Value and Limit Purchased.*

*Using FY10 as the baseline, we see Effective Premium has lagged cost drivers.*

## **Property Insurance**

### **Property Claim Count by Fiscal Year**



*Property claim count was 39 events for FY14, a ten year high.*

*Half were freeze events during the severe 13/14 winter.*

In FY14, four losses exceeded \$200,000:

- August 16, 2013, Wind/Hail, Morris
- September 25, 2013, Water Damage, Hasselmo Hall
- December 17, 2013, Water Damage, Mayo
- March 18, 2014, Water Damage, Mayo

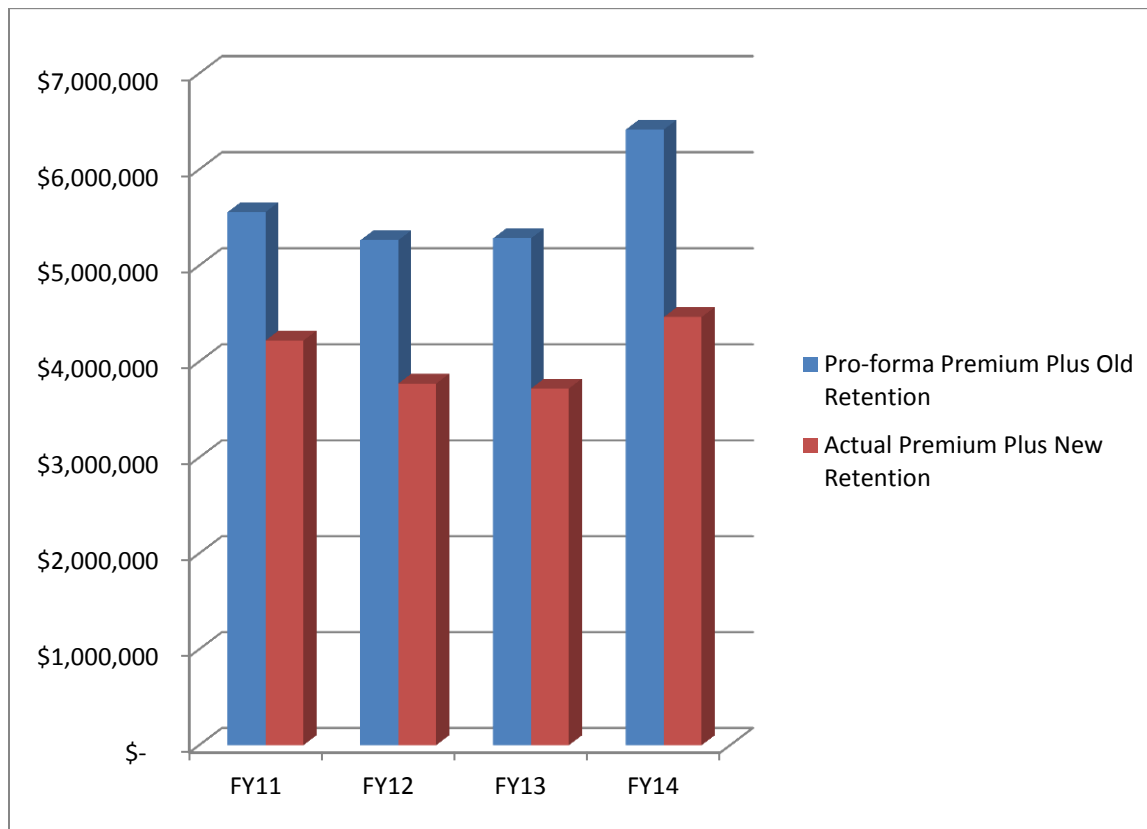
This is a very typical large loss count.



### **Property Insurance**

Because we both reduced the rate and increased the deductible from \$200,000 to \$500,000 in FY11, we are interested in whether the net effect of the changes is benefitting the University.

The graph below compares actual total cost (Premium plus Retention) to results adjusted pro-forma to pre-FY11 rates and deductibles.



*As a result of restructuring the property program, the University has saved an average of \$1.58 million over each of the last four years -- a total of \$6.3 million.*

### **Miscellaneous Commercial Insurance Coverage**

Here is a brief overview of purchased policies with premiums exceeding \$25,000.

**EXCESS GENERAL AND AUTO LIABILITY – EXTRA MN:** \$40 million in coverage excess a \$1 million Self-insured Retention (Deductible) for General and Automobile liabilities the University may incur outside the jurisdiction, and Tort Cap protection, of Minnesota law.

**EXCESS CLINICAL TRIALS LIABILITY – EXTRA MN:** \$10 million in coverage excess a \$1 million Self-insured Retention (Deductible) for Clinical Trials liabilities the University may incur outside the jurisdiction, and Tort Cap protection, of Minnesota law.

**INTERCOLLEGIATE ATHLETICS:** This policy insures medical costs arising from injuries sustained by University intercollegiate athletes during play, practice or travel.

**HULL & LIABILITY (Primary & Excess):** Physical Damage and Liability coverage up to \$1 million of primary liability, plus \$14 million of excess liability, arising out of the use of the 86-foot *Blue Heron* research vessel.

## Total Cost of Risk

**Total Cost of Risk Summary****University of Minnesota Total Cost of Risk: Fiscal Years 2010 – 2014**

<b>COST ITEM</b>	<b>FY10</b>	<b>FY11</b>	<b>FY12</b>	<b>FY13</b>	<b>FY14</b>
<b>Captive</b>					
Paid Losses	\$ 1,802,866	\$ 1,071,155	\$ 2,410,159	\$ 1,705,185	\$404,513
Case Reserves	\$ -	\$ 963,697	\$ 135,202	\$ 19,641	346,785
Incurred, But Not Reported (EST.)	\$ 12,182	\$ 31,080	\$ 140,614	\$ 347,531	1,283,316
Liability Claims Administrator	\$ 74,075	\$ 69,717	\$ 63,566	\$ 51,707	50,542
Captive Administrative Expenses	\$ 140,793	\$ 117,876	\$ 120,930	\$ 116,909	101,896
Litigation Cost	\$ 1,245,967	\$ 1,617,689	\$ 1,469,704	\$ 1,309,705	1,322,522
<b>Total Captive</b>	<b>\$3,275,883</b>	<b>\$3,871,214</b>	<b>\$4,340,175</b>	<b>\$3,550,678</b>	<b>\$3,509,574</b>
<b>Self-Insurance</b>					
Workers' Compensation Ultimate Loss (EST.)	3,030,541	3,553,424	2,441,522	3,713,051	3,381,262
WC Reinsurance Association	158,827	160,246	142,096	155,784	223,486
Special Compensation Fund	261,894	356,973	291,348	207,312	301,786
WC Claims Administrator	298,348	291,712	267,826	275,324	313,479
Litigation Cost	251,371	211,198	214,019	191,338	214,638
Bill Review Service	33,641	36,751	28,640	32,717	38,591
WC Actuarial	7,144	9,892	9,288	10,300	10,430
WC Broker Consultation	11,550	--	--	--	--
<b>WC Total</b>	<b>4,053,316</b>	<b>4,620,196</b>	<b>3,394,739</b>	<b>4,585,826</b>	<b>4,483,672</b>
Retained Property Losses [1]	901,752	1,600,493	1,530,600	1,457,855	2,117,431
Electronic Data Processing [2]	31,568	36,095	29,707	24,371	12,837
Automobile Physical Damage	173,682	127,295	156,843	87,779	\$210,577
<b>Total Self-insurance</b>	<b>\$5,160,318</b>	<b>\$6,384,079</b>	<b>\$5,111,889</b>	<b>\$6,155,831</b>	<b>\$6,613,940</b>
<b>Commercial Insurance</b>					
All Risk Property	\$3,115,827	\$2,618,781	\$2,240,136	\$2,261,562	\$2,345,651
Excess General/Auto Liability - Extra MN	205,511	233,400	234,745	238,002	242,762
Excess Clinical Trials Liability - Extra MN	--	--	--	139,839	215,756
Intercollegiate Athletics	34,195	53,000	31,500	31,500	33,500
Hull, Liability, Pollution (Blue Heron Watercraft)	28,977	30,613	30,613	31,558	28,701
Fidelity & Crime	19,967	19,967	20,210	20,162	21,740
Fine Arts	17,549	17,549	18,280	18,280	18,827
Nonowned Aircraft Liability	18,229	18,000	18,000	22,000	22,000
Showboat	6,925	6,925	6,925	9,739	11,748
Broadcaster's Liability	5,365	5,365	5,365	5,365	5,594
Child Care Center AD&D	1,173	1,173	1,188	1,159	1,397
Upward Bound AD&D	376	376	376	406	406
RSO Liability	8,067	--	--	--	--
Brokerage	128,750	54,000	54,000	37,586	38,337
<b>Total Commercial Insurance</b>	<b>\$3,590,911</b>	<b>\$3,059,149</b>	<b>\$2,661,338</b>	<b>\$2,817,158</b>	<b>\$2,986,419</b>
<b>GRAND TOTAL COST OF RISK</b>	<b>\$12,027,112</b>	<b>\$13,314,443</b>	<b>\$12,113,402</b>	<b>\$12,523,667</b>	<b>\$13,109,933</b>

[1] Amount of Insurable property losses between \$10,000 and deductible.

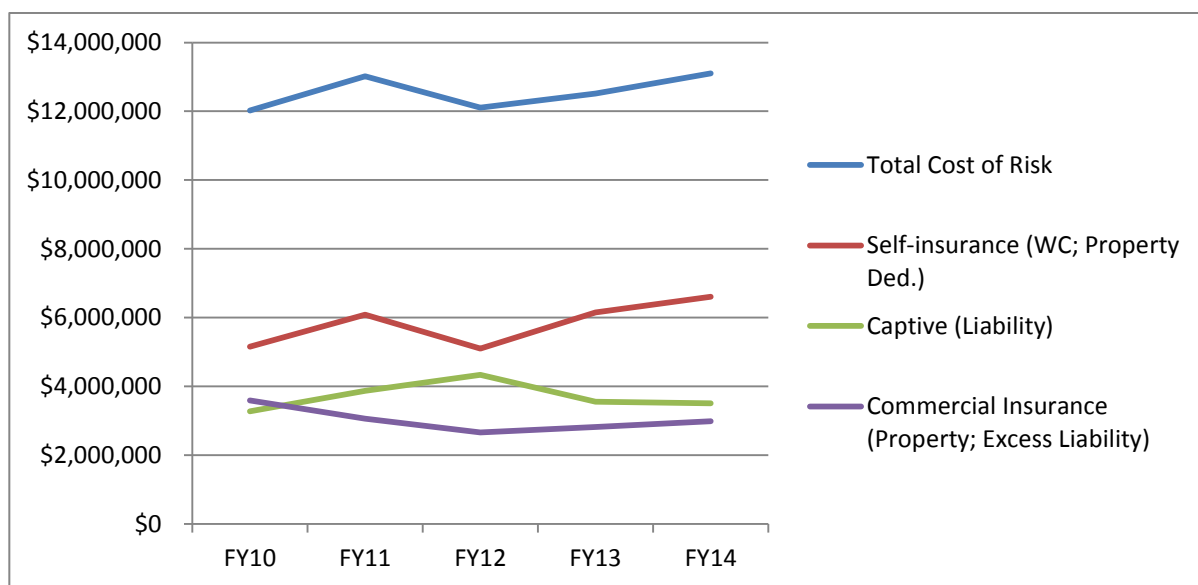
[2] EDP coverage is self-insured; figure shows losses excess \$500/claim.

## Total Cost of Risk

**Total Cost of Risk Summary**

The University's Total Cost of Risk is the sum of:

- Self-Insured costs;
- Captive costs; and
- Commercial Insurance premiums.

**Total Cost of Risk by Fiscal Year**

*Total Cost of Risk averaged \$12.5 million over the past five years.*

*FY11 was the five-year high, with \$13.3 million*

### **III. Workplan**

#### ***Projects for FY15***

##### **Transitional Light Duty Return to Work Program**

Recognized best practice is to return injured workers to the workplace as soon as possible. This has been problematic at the University due to the siloed nature of the operations. We will work with Disability Services to structure a trial program to fund early return to work.

##### **Coordination of Evacuation Services**

Evacuation of persons insured under different University health plans (Students, Faculty, Staff) for Natural Catastrophe or Political Reason arising while they are outside the US has been handled under separate programs. We will work to find a coordinated solution.

##### **Complete Back Injuries from Trash Handling (Continued)**

We will continue work with FM Safety on possible ways to address this workplace hazard.

# FY14 Risk Management & Insurance Report

Board of Regents Finance  
Committee

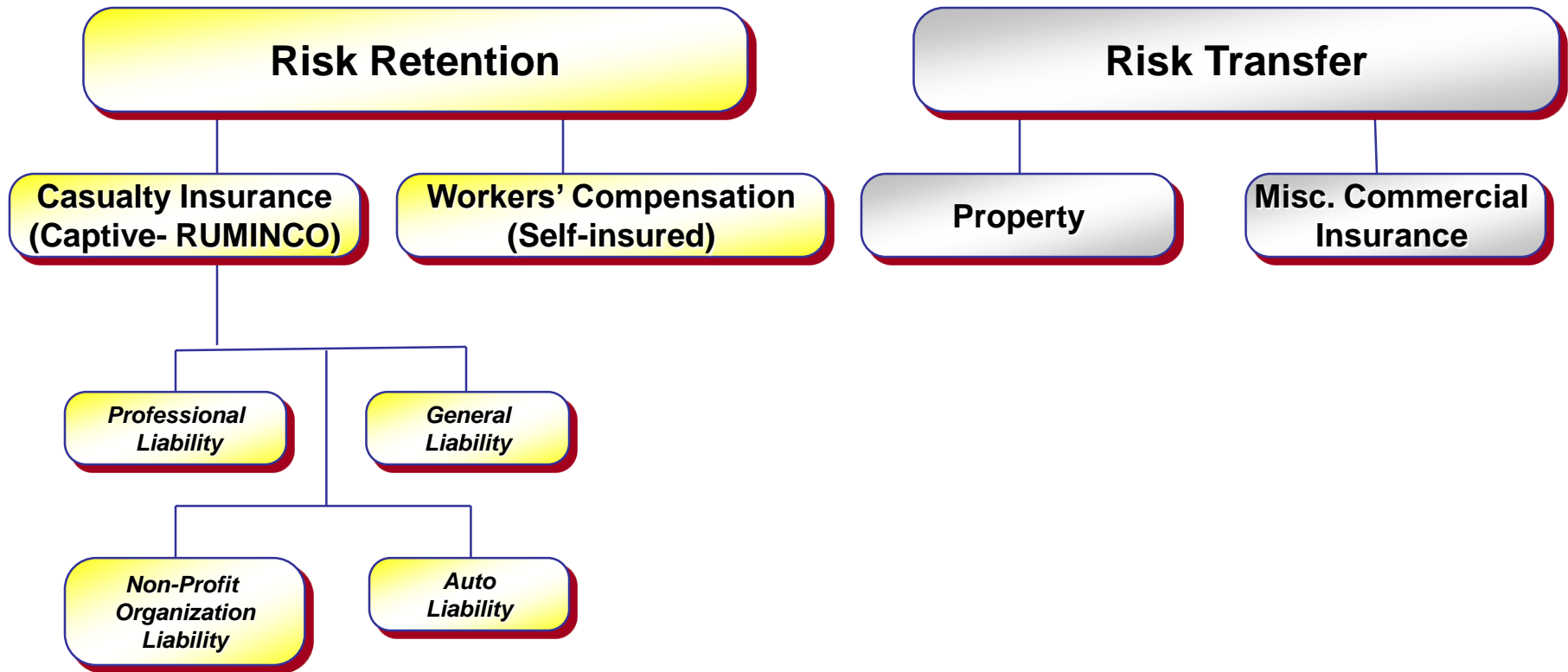
February 12, 2015



UNIVERSITY OF MINNESOTA

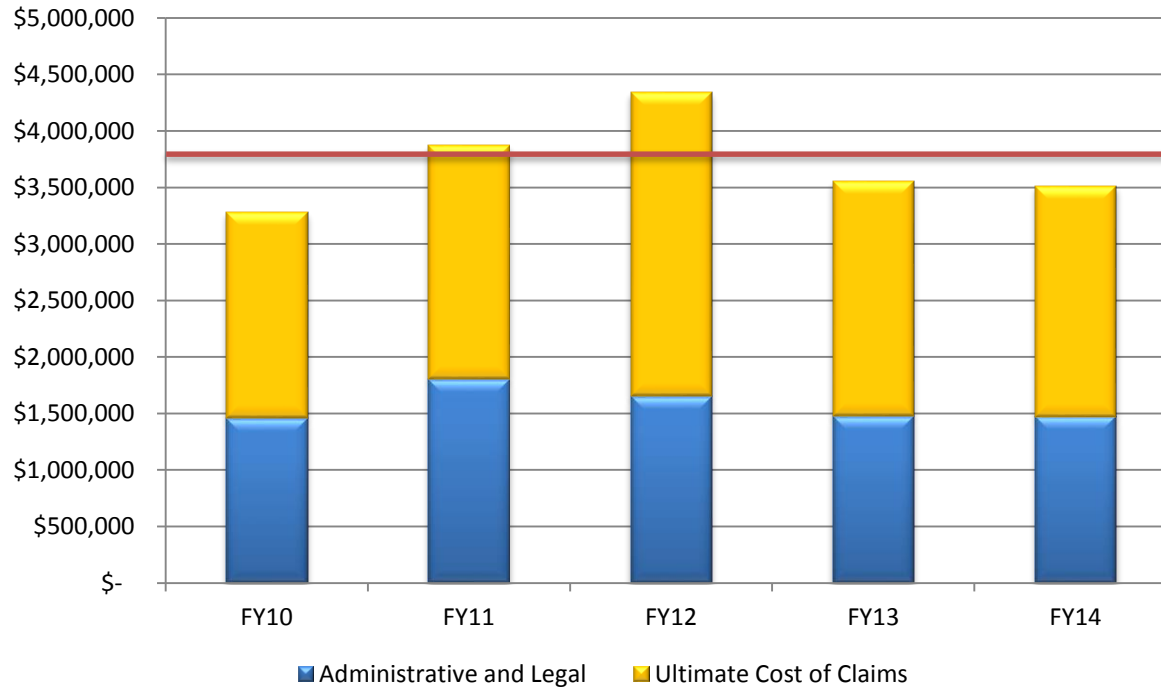
Driven to Discover

# Risk Finance Program Structures



# Casualty Insurance (Captive-RUMINCO)

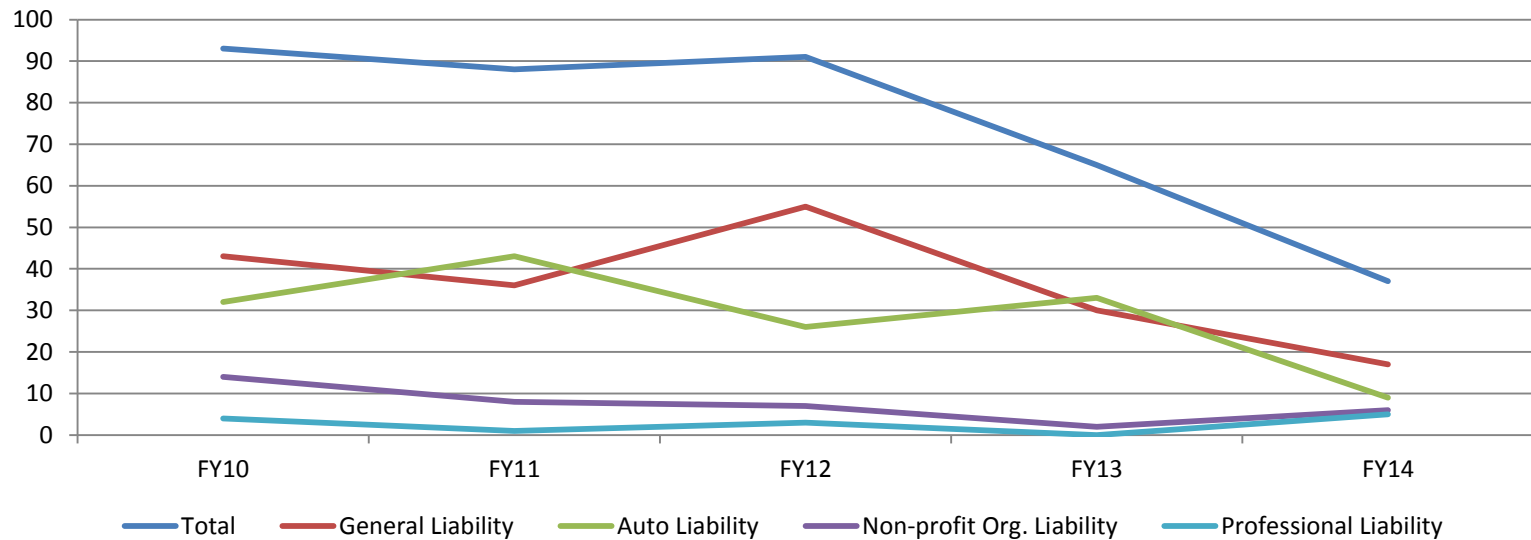
## Claims and Operations Costs





# Casualty Insurance (Captive-RUMINCO)

## RUMINCO Claim Count by Coverage

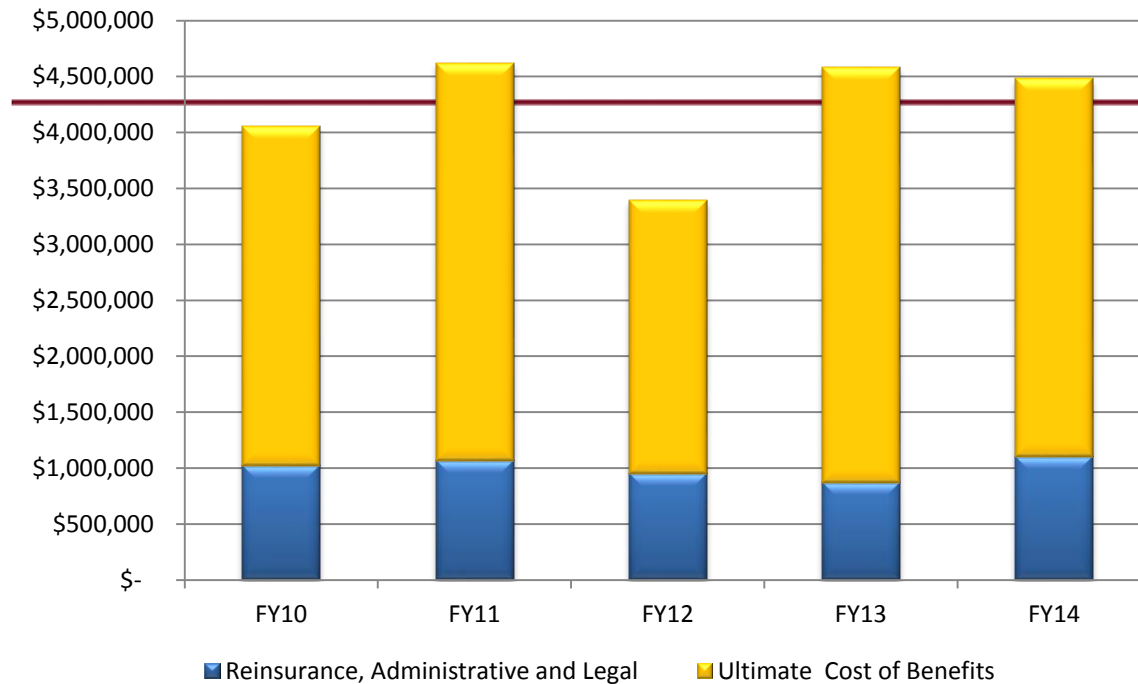


*A seeming pattern in claim count; statistically, no trend yet exists.*



# Workers' Compensation (Self-Insured)

## Program Cost

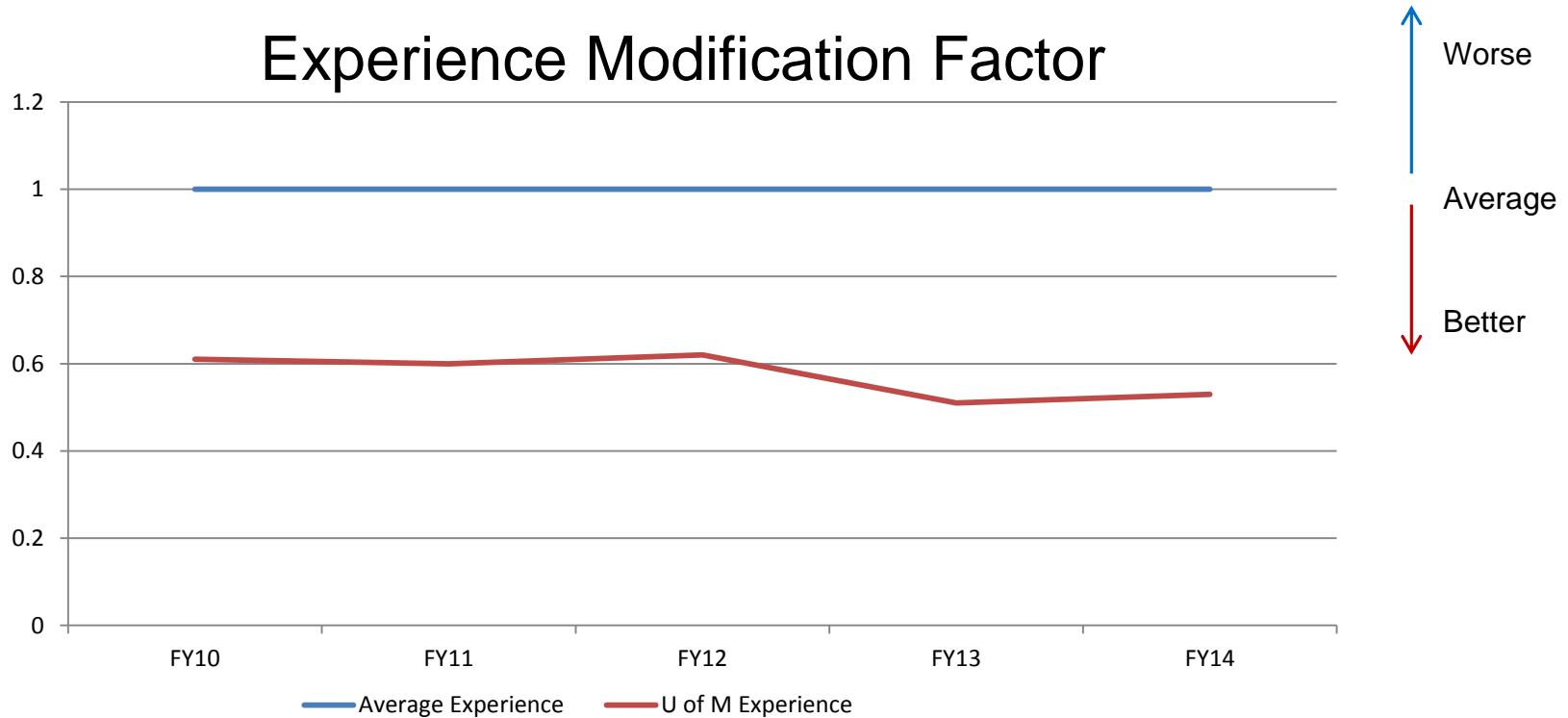


5 Year Average  
\$4.23 million



# Workers' Compensation (Self-Insured)

## Experience Modification Factor

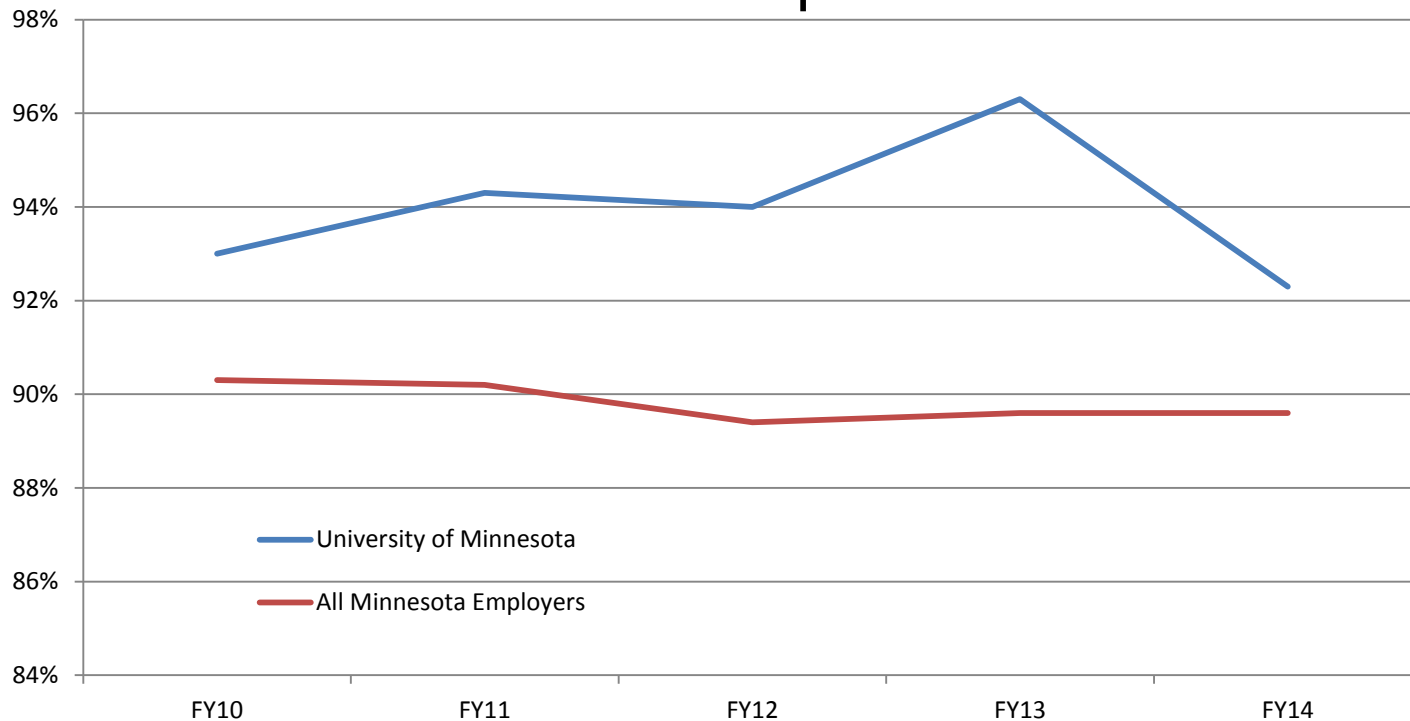


*University of Minnesota loss performance is much better than average.  
The University remains a very safe place to work.*



# Workers' Compensation (Self-Insured)

## Lost Time Claim Response



*On-time claim response remains strong. 77% of late responses were vendor errors.  
Our actual on-time performance was 98%.*



# Property Insurance

Starting FY11:

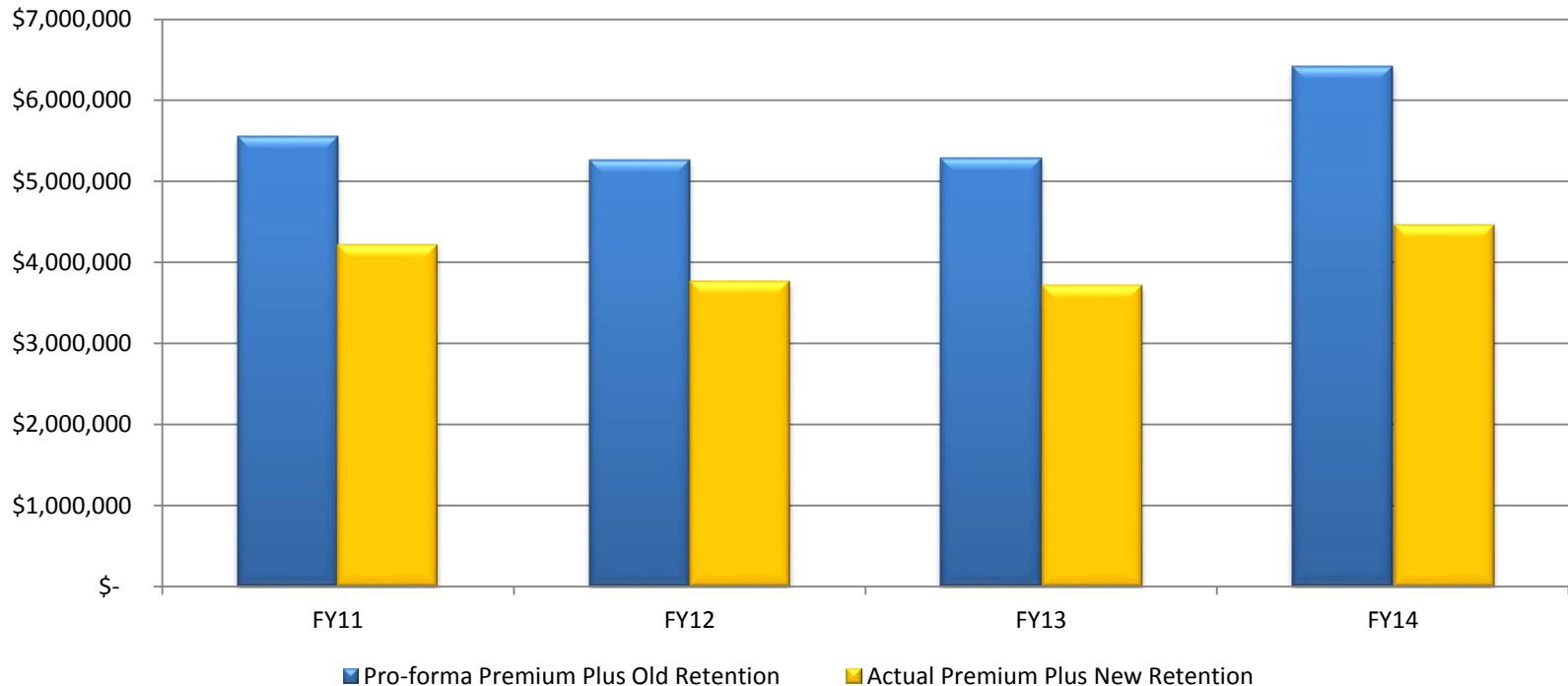
1. **Increased deductible**
  - \$200,000 to \$500,000
2. **Reduced rate**
  - FY10 \$0.036
  - FY11-14 \$0.0232 Average (-35%)

*Has rate change offset deductible change?*



# Property Insurance

## Year-on-Year Savings; Property Deductible Change

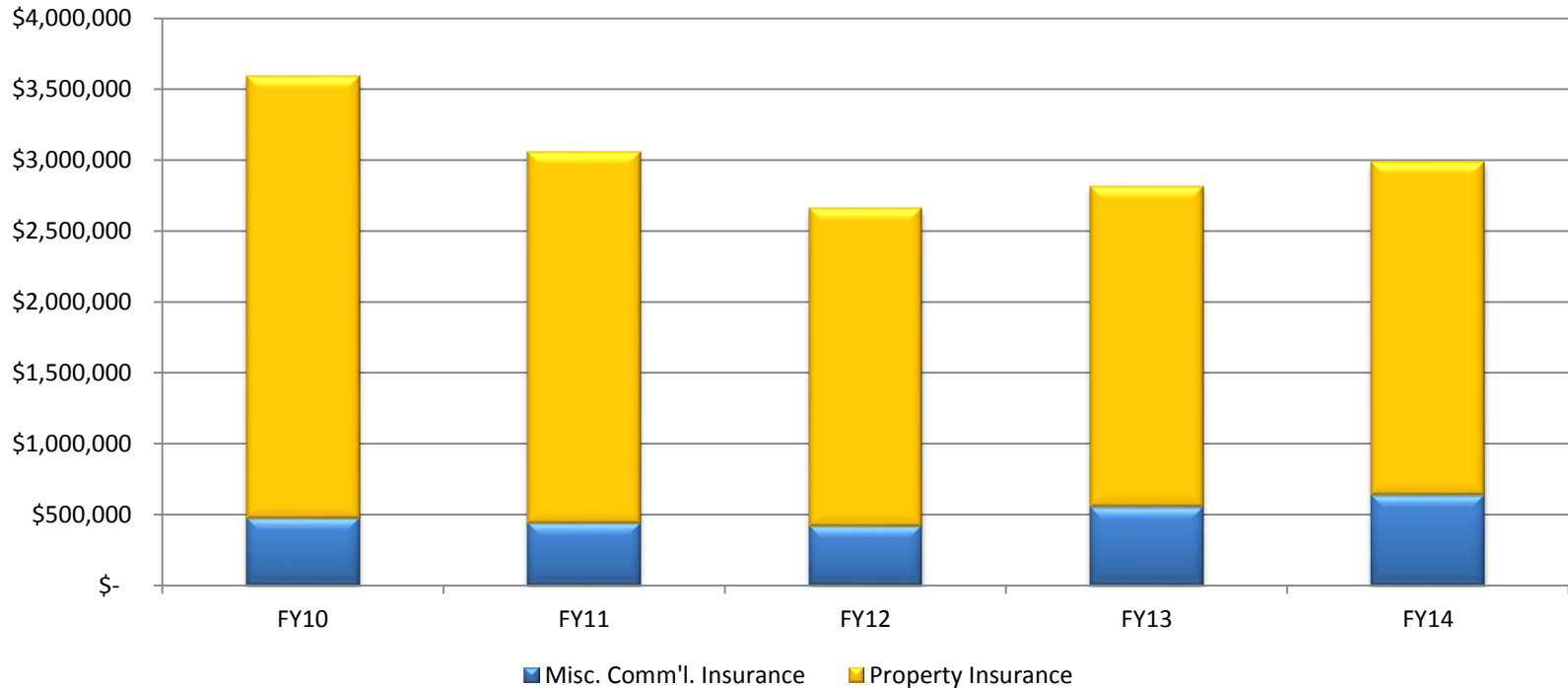


*Pro forma comparison of old premiums plus retained losses at old deductible, to new premiums plus retained losses at new deductible. Program changes saved a total of \$6.35MM over the past four years.*



# Commercial Insurance

## Cost of Commercial Insurance

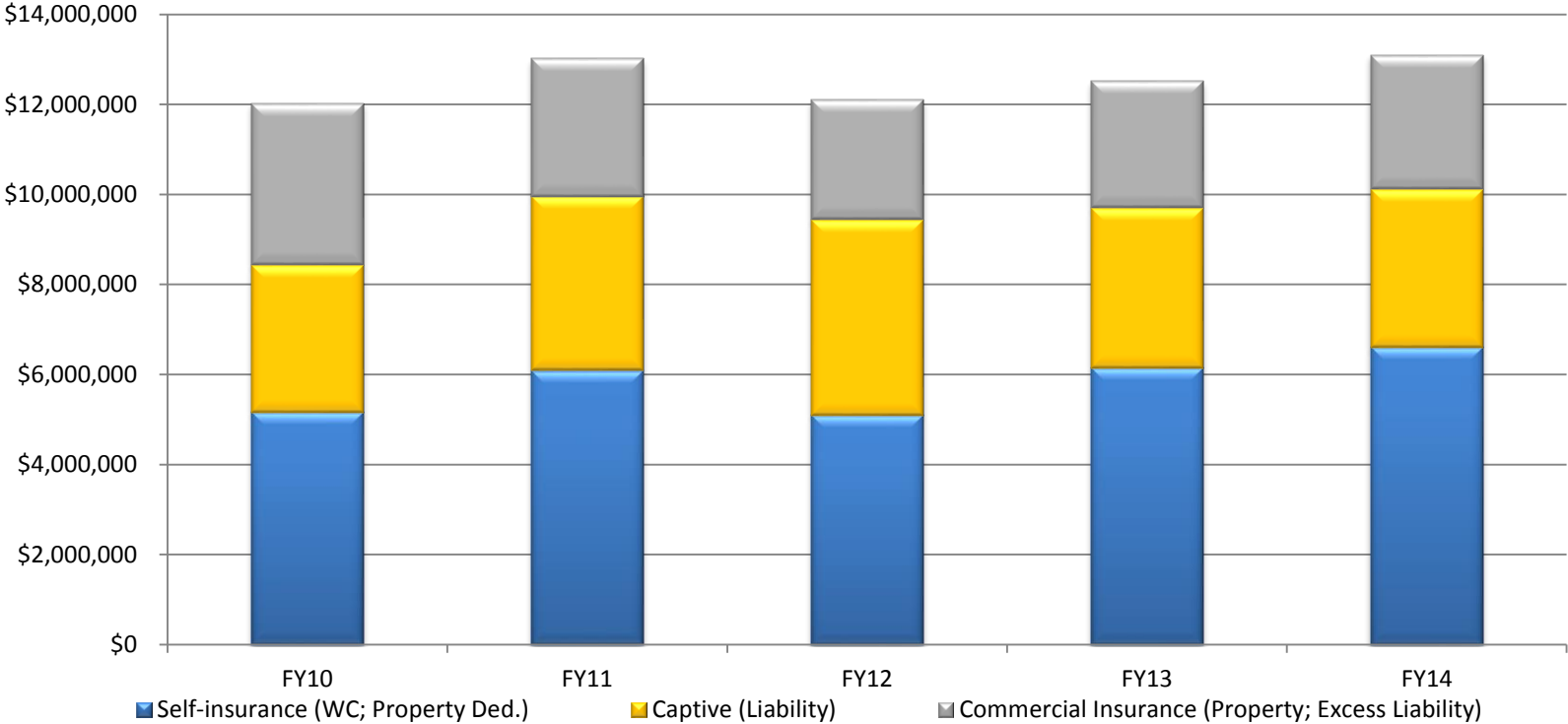


*The aggregate cost of insurance premiums paid to outside parties is below FY10 levels, despite material increases in exposure bases and in coverage.*



# Five Year Cost of Risk

## Total Risk Management Program Cost



*Total Program Cost has remained steady over the past five years.*





# FY14 Project Status

- Slip/Trip/Fall Accidents
- Back Injuries from Trash Handling
- Vehicular Cell Phone Use



# FY15 Projects

- Light Duty Return to Work Program
- Back Injuries from Trash Handling (Cont.)
- Coordination of Evacuation Services





# BOARD OF REGENTS DOCKET ITEM SUMMARY

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**Finance**

**February 12, 2015**

**Agenda Item:** Enterprise System Upgrade Program Budget

**Review**       **Review + Action**       **Action**       **Discussion**

*This is a report required by Board policy.*

**Presenters:** Richard Pfutzenreuter, Vice President & Chief Financial Officer  
Scott Studham, Vice President & Chief Information Officer  
Dennis Wenzel, Director, ESUP Program

## **Purpose & Key Points**

The administration is seeking board approval for a \$1,250,000 (1.5%) increase in the budget for the Enterprise Systems Upgrade Program's (ESUP) budget. The increase is the result of shifting the go-live date from February 2015 to April 2015 to better manage a number of risks identified at the December Go / No Go check point. A discussion of the risks that were identified, and the mitigation steps, is included in the docket materials.

## **Background Information**

The current Board-authorized budget for ESUP is \$83,545,000.

## **President's Recommendation**

The President recommends approval of the increase to the ESUP budget.

## **Enterprise System Upgrade Program Shift in Go Live Date and Budgetary Impact**

### Background

As part of the Program's standard methodology, a review of open defects and risks took place as part of the December Go / No Go check point. Risks were identified and reported. Although most of the risks have been mitigated, there were a select group of risks that have since been realized as open issues. These issues require significant analysis and regressive testing in order to prepare for a go-live. The added time and resources is necessary to best prepare the software for delivery, but has forced the go-live date to shift to April, 2015.

Note: It is important to understand that an ERP System deployment as large as ESUP, in a "big bang" fashion, is a high risk endeavor. The team's focus is on conducting the Program using a methodology that manages risks and issues; however, elimination of all risks is not possible.

### Risks Identified

The Program team analyzed a series of risks. The following list triggered a broader testing review, modified deployment plan, and the request for added resources:

- An issue in Human Resources Contract Pay management triggered a late breaking change to core Payroll and Payroll Accounting system code. The Contract Pay remediation, although small (>18 hours), forced a full Payroll and Payroll Accounting regression test. Full regression, to include a full parallel payroll, requires 3+ weeks to complete
- Regression testing identified several differences between payroll that was run in the current 8.9 environment, and a parallel test run in the new 9.2 environment. Issue resolution was required to mitigate differences. Although issues have been identified and solutions are being developed, another round of parallel and end-to-end testing is necessary to validate the changes.
- During the final end-to-end testing, issues were identified that prevented a smooth processing of data. Issues were largely medium to low in terms of risk, but the volume was greater than expected by the HRMS work stream
- Changes in HRMS conversion significantly impacted Financial Payroll Accounting. Issues were categorized in three groups: Business process change requiring no system action; conversion processing error between 8.9 and 9.2 requiring a one-time conversion change; and conversion processing error requiring a code or process change to prevent on-going issues. Issues have been identified and resolutions proposed. Regression testing on final issues begins this week.

Program Budget Impact

The Program has managed the budget conservatively, assuming a February 2015 cut-over. However, to extend the full Program team through an April cut-over requires added resources. The Program is requesting an increase in the program budget of \$1,250,000, which is about 1.5% of the original budget. The following provides a breakdown of the needs, and estimated costs, for the major components of the request:

1. Maintenance of current team (UMN and contractors) through April 2015: ~\$350,000 above \$83.5M original budget.
2. Increased use of contractors to mitigate known risks: ~\$860,000
  - Backfill for staff management replacements; 2 for 3 months (estimated \$160K)
  - Add conversion/development resources to focus on Payroll-related issues pre and post-go-live; 5 for 3 months (estimated \$350k)
  - Review of business process changes to anticipate additional communication activities; 1 for 3 months (estimated \$70k)
  - Augment PMO/HRMS Project Directors; 3 for 3 months (estimated \$210k)
  - Replace Enhanced Support PM (UMN staff recently resigned); 1 for 3 months (estimated \$70k)

Overall Program by Category				
Description	Approved Budget	Actual	Forecast to April 20, 2015	Total Actual + Forecast
Staffing (Non CedarCrestone)	\$ 34,874,156	\$ 33,445,552	\$ 8,046,057	\$ 41,491,609
Equipment and Operations	1,642,276	1,720,520	190,000	1,910,520
Hardware and Software	10,035,764	7,880,182	785,333	8,665,515
Partner Staffing and Lab	<u>29,389,200</u>	<u>28,425,712</u>	<u>4,287,800</u>	<u>32,713,512</u>
<b>Total</b>	<b>\$ 75,941,396</b>	<b>\$ 71,471,965</b>	<b>\$ 13,309,190</b>	<b>\$ 84,781,155</b>
<b>Contingency</b>	<b>\$ 7,603,829</b>			-
<b>Grand Total</b>	<b>\$ 83,545,225</b>	<b>\$ 71,471,965</b>	<b>\$ 13,309,190</b>	<b>\$ 84,781,155</b>
<b>Projected Program Deficit</b>				<b>\$ (1,235,930)</b>



# BOARD OF REGENTS DOCKET ITEM SUMMARY

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**Finance**

**February 12, 2015**

**Agenda Item:** Consent Report

Review                       Review + Action                       Action                       Discussion

*This is a report required by Board policy.*

**Presenters:** Richard Pfutzenreuter, Vice President & Chief Financial Officer

### **Purpose & Key Points**

#### General Contingency

The purpose of this item is to seek approval for allocations from General Contingency greater than \$250,000. There are no items requiring approval this period.

#### Purchase of Goods and Services \$1,000,000 and Over

The purpose of this item is to seek approval for purchases of goods and services of \$1,000,000 and over.

- To Allied Blacktop Co., for \$4,500,000 (\$900,000 annually) for maintenance of Twin Cities campus asphalt surfaces (includes streets, parking lots, loading zones, etc.), as requested by Parking and Transportation Services (PTS), for the period of April 1, 2015, through August 31, 2019. PTS is self-funded through parking revenue, and has budgeted the cost of the contract into its annual budget. Vendor was selected through a competitive process.
- To Barrie, DiRozario, DiLorenzo (BDD) for up to \$3,000,000 for services provided in the development and implementation of the University’s integrated marketing campaign for the period of March 1, 2015, through February 28, 2018, for University Relations. The integrated marketing campaign will be funded through private funds provided by the University of Minnesota Foundation and funding through O&M funds, identified as a line item in University Relations’ budget process. Vendor was selected through a competitive process.
- To Cardinal Health for an estimated \$8,000,000 for the purchase of pharmaceuticals and related supplies for the period of March 1, 2015, through October 31, 2016, for Boynton Health Services Pharmacy. This purchase will be paid for from the sale of prescriptions and

other items to patients and from payments by University departments for pharmaceuticals. Vendor was selected through a competitive process.

- To Contemporary Services Corporation (CSC) for an additional \$3,500,000 for security and crowd management services for athletic facilities including TCF Bank Stadium, Williams Arena and Mariucci Arena for the period of February 2015 through July 31, 2016, for the Department of Intercollegiate Athletics. Security and crowd management services will be funded by department budgeted funds. Approximately \$880,000 will be invoiced to the Vikings, Minnesota State High School League, and concert promoters. Vendor was selected through a competitive process.
- To Identisys, Inc. not to exceed \$1,500,000 in cardstock, related supplies, and printer maintenance for the period of April 1, 2015, to March 31, 2018, with contract extensions through March 31, 2021 for the U Card Office. Funding is provided by participating campus departments operating funds. Vendor was selected through a competitive process.
- To The Kenwood Company for \$2,775,000 for maintenance of Twin Cities campus parking structure surfaces, as requested by Parking and Transportation Services (PTS), for the period of April 1, 2015, through August 30, 2019. PTS is self-funded through parking revenue, and has budgeted the cost of this contract into its annual budget. Vendor was selected through a competitive process.
- To OptumHealth for an estimated \$18,500,000 for stop loss insurance coverage for UPlan participants for an initial contract period of one year, beginning January 1, 2015, for the Office of Human Resources Employee Benefits, with five one-year options to renew. This contract will be funded out of the Fringe Benefits Recovery. Vendor was selected through a competitive process.

### **Background Information**

Approvals are sought in compliance with Board of Regents Policy as follows:

- General Contingency: Reservation and Delegation of Authority, Sec.VII, Subd. 1.
- Purchase of Goods and Services \$1,000,000 and Over: Reservation and Delegation of Authority, Sec.VII, Subd. 6

### **President's Recommendation**

The President recommends approval of the Consent Report.

# General Contingency

Fiscal Year 2014-15

Recipient	Allocation	Balance	Purpose
<b>1 FY2015 General Contingency</b>		<b>\$1,000,000</b>	
2 Carryforward from FY2014 into FY2015	785,396	1,785,396	
3 VP University Services	*	500,000	UMarket Logistics Dock
4 VP University Services	*	250,000	U Relations Space Remodel
5 VP University Services	(85,000)	1,120,396	U Market Sprinkler System (return of unused funds)
6 College of Liberal Arts	25,000	1,095,396	Human Rights Program
7 Office of Public Safety	*	271,300	PSECC Radio Technology
8 Environmental Health & Safety	200,000	624,096	UMore GUE Additional Investigation & Response Action Plan
9 VP University Services	150,000	945,396	UM Morris Biomass (Scope 1)
<b>10 New items this reporting period:</b>			
11 None			
<b>12 FY 2014-15 Ending Balance</b>	<b>945,396</b>		

\* Subject to Board approval due to cost of \$250,000 or more



Purchase of Goods and Services \$1,000,000 and over

To Allied Blacktop Co., for \$4,500,000 (\$900,000 annually) for maintenance of Twin Cities campus asphalt surfaces (includes streets, parking lots, loading zones, etc.), as requested by Parking and Transportation Services (PTS), for the period of April 1, 2015 through August 31, 2019.

*PTS is responsible for the administration of all Twin City campus areas streets and parking facilities, which includes approximately 14.3 miles of streets and over 100 separate parking lots.*

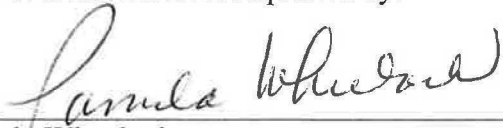
*Comprehensive seasonal maintenance (includes curb/gutter repair, power sweeping, seal coating, patching, leveling and other repairs) is required to ensure the accessibility, safety, cleanliness, structural integrity and longevity of these asphalt surfaces.*

*Through a competitive process, Allied Blacktop Co. provided the best value based on a combination of price, work plan, past references and level of equipment/staff readily available to complete the work.*

*PTS is self-funded through parking revenue. We are currently under contact for the FY15 budget year. For the upcoming FY16 budget year 900K+ has been budgeted relating to asphalt projects. Future projections are over 600K per year with an opportunity to budget for additional projects, as needs arise.*

Submitted by: Sandra Cullen, Assistant Director  
Facilities and Transportation Systems  
Parking and Transportation Services  
Twin Cities Campus  
Phone: (612) 625-6009  
Fax: (612) 624-8899

Approval for this item requested by:



Pamela Wheelock  
Vice President for University Services



Date

Purchase of Goods & Services \$1,000,000 and over

To Barrie, DiRozario, DiLorenzo (BDD) for up to \$3,000,000 for services provided in the development and implementation of the University's integrated marketing campaign for the period of March 1, 2015 through February 28, 2018 for University Relations.

*In 2006, the University of Minnesota established a comprehensive institutional brand, Driven to Discover, to clearly and consistently convey how the University improves lives in the state and beyond. It launched that year with a public campaign including paid media and a broad campus presence. These efforts were evaluated through public opinion research and internal audience surveys and found to be successful. Since that time, the campaign has been refreshed annually to meet defined objectives, and the annual opinion research has continued to show positive results.*

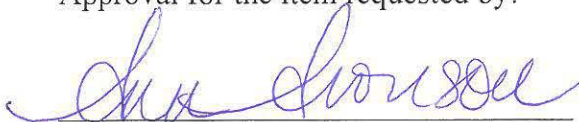
*A continued, integrated campaign will be critical to the pursuit of the University's strategic vision and goals, as well as the Foundation's capital campaign to support student scholarships and other University priorities..*

*Through a competitive process, Barrie, D'Rozario, DiLorenzo demonstrated they have the best experience, defined process, and creative capabilities to deliver on this next phase of the Driven to Discover campaign.*

*The integrated marketing campaign will be funded through private funds provided by the University of Minnesota Foundation and funding through O & M funds, identified as a line item in University Relation's budget process.*

Submitted by: Ann Aronson  
Chief Marketing Officer, University Relations  
Deputy Chief of Staff for Office of the President  
14 Morrill Hall  
Phone: 612-624-1755

Approval for the item requested by:

  
Ann Aronson

2/3/14  
Date

## Purchase of Goods and Services \$1,000,000 and over

To Cardinal Health for an estimated \$8,000,000 for the purchase of pharmaceuticals and related supplies for the period of March 1, 2015 through October 31, 2016 for Boynton Health Service Pharmacy.

*The pharmaceuticals purchased by the Boynton Pharmacy are used to fill prescriptions for U of M students, staff, dependents and retirees; to stock various clinics at Boynton Health Service; or wholesaled to other U of M departments.*

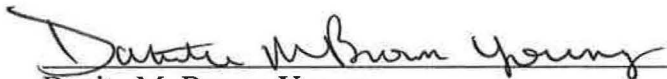
*Cardinal Health was selected through a competitive process led by the State of Minnesota, Department of Administration, Materials Management Division, on behalf of the Minnesota Multi-State Contracting Alliance for Pharmacy (MMCAP). Total MMCAP purchases are over 1 billion dollars annually.*

*MMCAP has been in existence for 30 years. Over 5,000 facilities from 47 states participate in this buying group. Because of the large purchasing volume, members are able to get the most advantageous pricing available and next-day delivery for most items, thus enabling prompt service to Boynton's patients and other University departments.*

*This purchase will be paid for from the sale of prescriptions and other items to patients and from payments by U of M departments for pharmaceuticals.*

Submitted by: Michelle Jacobson, PharmD  
Pharmacy Supervisor  
Boynton Health Service Pharmacy  
Phone: (612) 624-2193

Approval of the item requested by:

  
Danita M. Brown Young  
Vice Provost for Student Affairs & Dean of Students

1-21-15  
Date

Purchase of Goods and Services \$1,000,000 and over

To Contemporary Services Corporation (CSC) for an additional \$3,500,000 for security and crowd management services for athletic facilities including TCF Bank Stadium, Williams Arena and Mariucci Arena from February 2015 and ending July 31, 2016 for the Department of Intercollegiate Athletics.


*Intercollegiate Athletics, through Purchasing Services, issued an RFP for crowd management and security services in 2009. CSC was the successful respondent and has been providing crowd control and security services at TCF Bank Stadium, Williams Arena and Mariucci Arena since August of 2009. Original contract was for five years with option to renew for two additional years. The additional funds will cover the two year renewal period.*

*The annual cost for this service has been approximately \$800,000 per year. With the addition of the Vikings games at TCF Bank Stadium an additional \$3,500,000 is required to allow CSC to provide services through July 31, 2016, with a new total of contract of \$7,000,000.*

*Security and crowd management services will be funded by department budgeted funds. Approximately \$880,000 will be invoiced to the Vikings, Minnesota State High School League, and concert promoters.*

Submitted by: Scott Ellison, Associate AD for Facilities  
Intercollegiate Athletics  
Room 250, Bierman Athletic Building  
Minneapolis Campus  
Phone: 612-625-8860  
Fax: 612-626-7859

Approval for this item requested by:

  
\_\_\_\_\_  
VP or Exec. VP Signature

1/14/15  
\_\_\_\_\_  
Date

Purchase of Goods and Services \$1,000,000 and over

To Identisys, Inc. not to exceed \$1,500,000 in cardstock, related supplies, and printer maintenance for the period of April 1, 2015 to March 31, 2018 with contract extensions through March 31, 2021 for the U Card Office.

*The Twin Cities U Card Office provides the University community with identity management tools that interface with University systems, including the U Card, department ID badges, and temporary access cards. The U Card is a multifunctional ID card available to all eligible University members. The U Card Office also administers the Gopher GOLD program, the Twin City Campus' online declining balance program.*

*The U Card Office recently led the effort to redesign the U Card, which has not been redesigned in over twenty years. The Twin Cities, Duluth, Morris, Crookston, and Rochester campuses all agreed to participate in the RFP for cardstock for the redesigned card, which is moving from a horizontal to vertical orientation. The design on the front of the card will generally be consistent across system campuses, but the back of the card will be different for each. The implementation of the redesigned card will vary by campus.*

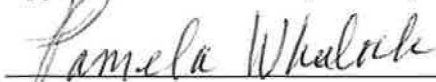
*A request for proposal was issued in December, 2014 for cardstock, related supplies, and printer maintenance. Identisys, Inc. offered the best pricing, lead time, return process, BCED response, and ability to provide U Cards to suit the diverse needs of the University of Minnesota.*


*This is a recurring expense through each departments' operating fund.*

Submitted by: Amy Keran, Director  
U Card Office  
G22 Coffman Memorial Union  
300 Washington Ave SE  
Minneapolis, MN 55455  
Phone: (612) 626-9909

Leslie Bowman, Executive Director  
Contract Administration  
216 Printing Services Building  
2818 Como Avenue S E  
Minneapolis, MN 55414  
(612) 624-0010

Approval for this item requested by:

  
Pam Wheelock, Vice President, University Services

  
Date

Purchase of Goods and Services \$1,000,000 and over

To The Kenwood Company for \$2,775,000 for maintenance of Twin Cities campus parking structure surfaces, as requested by Parking and Transportation Services (PTS), for the period of April 1, 2015 through August 30, 2019.

*PTS is responsible for the administration of structured parking facilities located throughout the Twin Cities Campus. The University currently has 16 structured parking facilities located throughout the three campus areas comprising the Twin Cities Campus.*

*The project involves the annual surface cleaning, sealing, stain removal and semi-annual hydro-mowing of concrete surfaces within University parking facilities.*

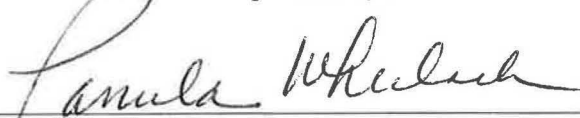
*In addition to improving aesthetics and safety, concrete maintenance increases facility longevity by reducing the intrusion of chlorides, automotive, and environmental by-products.*

*Through a competitive process, The Kenwood Company provided the best value based on a combination of price, work plan, past references and level of equipment/staff readily available to complete the work.*

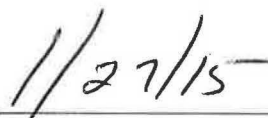
*PTS is self-funded through parking revenue. We are currently under contract for the FY15 budget year. For the upcoming FY16 budget year, \$575K has been budgeted. Future projections are estimated to be an average of \$550K per year with an opportunity to budget for additional projects, as needs arise.*

Submitted by: Sandra Cullen, Assistant Director  
Facilities and Transportation Systems  
Parking and Transportation Services  
Twin Cities Campus  
Phone: (612) 625-6009  
Fax: (612) 624-8899

Approval for this item requested by:



Pamela Wheelock  
Vice President for University Services



Date

Purchase of Goods and Services \$1,000,000 and over

To OptumHealth for the estimated \$18,500,000 for stop loss insurance coverage for UPlan participants for an initial contract period of one year, beginning January 1, 2015 for the Office of Human Resources Employee Benefits, with five one-year options to renew.

*OptumHealth was selected as a provider for stop loss coverage as a result of a request for proposal conducted December 2014. The initial contract will be for one year, with five one-year options to renew the contract.*

*Stop loss insurance is a critical part of risk management for the University of Minnesota's self-funded UPlan Medical Program. Stop loss insurance protects the University of Minnesota from unpredictable and catastrophic risks, limits the risk of self-funding the UPlan, and limits the UPlan liability to a specific dollar amount per covered life per plan year. Stop loss insurance provides reimbursement to the UPlan for an \$800,000 deductible.*

*This contract will be funded out of the Fringe Benefits Recovery.*

Submitted by: Ken Horstman  
Director, Benefits and Compensation

Approval for this item is requested by:



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Kathryn F. Brown  
Vice President, Office of Human Resources

February 12, 2015



# BOARD OF REGENTS DOCKET ITEM SUMMARY

Finance

February 12, 2015

**Agenda Item:** Information Items

Review       Review + Action       Action       Discussion

*This is a report required by Board policy.*

**Presenters:** Richard Pfutzenreuter, Vice President & Chief Financial Officer

## Purpose & Key Points

### Annual Report on Central Reserves

The purpose of this item is to report on the status of the University’s Central Reserves.

The central reserves fund refers to resources that are recorded in a central account in the University’s general ledger, which are then allocated out in small, targeted amounts to specific units, transferred to O&M to support the O&M allocations in the budget, or held as a reserve. The primary revenue sources for the central reserves fund include investment earnings, realized gains or losses in market value from the Temporary Investment Pool (TIP), realized gain in market value related to TIP funds invested in the Consolidated Endowment Fund, and other miscellaneous revenues.

The purpose of the central reserves fund is to insulate the University from potential major financial risks, including unanticipated or uninsured catastrophic events, temporary institutional revenue declines or expenditure gaps, unforeseen legal obligations and costs, failures in central infrastructure or failures of major business systems.

Under normal circumstances, Board of Regents policy holds that the central reserves fund should not fall below 4 percent of state appropriations, or \$25,000,000, whichever is greater.

The Central Reserves year-end balance on June 30, 2014, was \$1,726,387 less than what was anticipated in the original FY 2014 approved budget. This reduction can be attributed to a lower ending balance for FY 2013 (that carries forward into FY 2014) than was included in the FY 2014 budget approval due to over-estimated investment income at that point in time (as was reported in the FY 2013 Annual Report on Central Reserves). The less than estimated carry-forward into FY 2014 was then partially offset by capital gains in FY 2014. The beginning balance for FY 2014 was \$15,554,354; actual net revenues for the year were \$14,800,921; and transfers and payments out of the fund totaled \$11,690,000, resulting in a final ending balance of \$18,665,275.

The approved budget plan for FY 2015, set before the FY 2014 results were final, included a planned beginning balance of \$18,608,980; net revenues totaling \$13,030,675, and



transfers/payments out of \$11,790,000, resulting in an ending balance of \$19,849,655. At this point in the year, those estimates have been updated as follows:

- The beginning balance was increased slightly to reflect the actual amount carried forward from FY 2014 (\$18,665,275 or \$56,295 more than anticipated primarily due to a slight reduction in actual fees and operating costs).
- Net revenues for the year are currently projected to be \$14,690,131, which is \$1,659,456 more than the approved budget due to a slight increase in the estimated yield on average TIP balances, and projected capital gains and additional gains in mortgage investments.
- The expected transfers/payments out remain at the approved budget level of \$11,790,000.

The combined impact of these updated estimates leaves the projected balance in the central reserves fund for June 30, 2015 at \$21,565,406; \$1,715,751 greater than in the approved budget and \$3,434,594 less than the policy goal of \$25,000,000.

#### Quarterly Asset Management Report

The purpose of this item is to report on the quarterly performance results for assets managed by the Office of Investments & Banking (OIB) for the quarter ended December 31, 2014. The OIB prepares this report for review by the Board of Regents and the Investment Advisory Committee as required by Board of Regents Policy: *Board Operations and Agenda Guidelines* and Board of Regents Policy: *Endowment Fund*.

- The invested assets of the University totaled approximately \$2.5 billion on December 31, 2014.
- The Consolidated Endowment Fund (CEF) value as of December 31, 2014, was \$1,264.5 million, a decrease of \$5.3 million over the last quarter. The total investment return for CEF was up 0.9% over the last 3 months compared to a benchmark return of -0.9%.
- The investment return for CEF exceeded the benchmark largely through outperformance in the Private Capital and Inflation Hedges portfolios. The primary contributor was the Inflation Hedges portfolio, which was up 1.4% vs. its specific benchmark of -6.8%.
- The market value of the short term reserves (TIP) was \$945.6 million as of December 31, 2014. The investment return on the portfolio over the last 3 months was 0.6% compared to a benchmark return of 0.1% due largely to the effect of a longer duration in the portfolio. The decrease in value was largely due to timing of cash flows as part of the University's normal business cycle.

#### Semi-Annual Purchasing Report

The purpose of this item is to provide a quarterly report of purchasing activity as required by Board of Regents Policy: *Purchasing* and Board of Regents Policy: *Board Operations and Agenda Guidelines*, including detailed reports with brief discussion on the following activity:

- Summary of Purchasing Activity
- Purchases made as Approved Exceptions to Competitive Process
- Purchases made as Preapproved Exceptions to Competitive Process
- Regents Purchasing Policy Violations

## Debt Management Advisory Committee Update

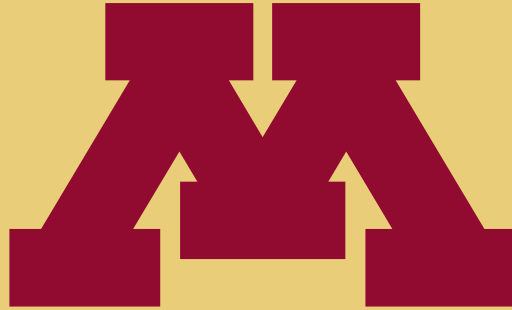
The purpose of this item is to provide a report on the meeting of the Debt Management Advisory Committee (DMAC) held on February 11, 2015. The agenda for the meeting included: Discussion of the Annual Capital Financing and Debt Management Report and review of future debt plans.

### **Background Information**

Annual Report on Central Reserves: Submitted as an information item to the Finance Committee every February. Estimated revenues, transfers and allocations in Central Reserves for the current and coming fiscal years are included in the President's Annual Operating Budget submitted to the Board of Regents for review and approval in May and/or June of each year.

Quarterly Asset Management Report: Submitted as an information item to the Finance Committee on a quarterly basis in September (as the annual report), December, February and June.

Semi-Annual Purchasing Report: Submitted as an information item to the Finance Committee in September (period ending June 30) and February (period ending December 31).



UNIVERSITY OF MINNESOTA

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# Quarterly Asset Management Report

Stuart Mason, CIO

# Table of Contents

1. Overview – All Funds
2. Highlights and Commentary
  - a. Consolidated Endowment Fund (CEF)
  - b. Temporary Investment Pool (TIP)
  - c. Group Income Pool (GIP)
  - d. RUMINCO

# Overview – All Funds

OIB Managed Funds (\$ millions)	Dec '14	June '14	June '13	June '12	June '11
Consolidated Endowment Fund (CEF)	\$ 1,264.5	\$ 1,272.5	\$ 1,079.7	\$ 977.6	\$ 956.8
Long-Term Reserves (GIP)	61.6	45.9	46.4	44.7	44.3
Short-Term Reserves (TIP)	945.6	1,054.6	1,031.4	972.2	824.9
RUMINCO Ltd.	40.9	39.2	35.8	32.6	32.3
Invested Assets Related to Indebtedness	226.8	66.9	87.0	189.7	181.9
<b>Total Managed Assets</b>	<b>2,539.4</b>	<b>2,479.1</b>	<b>2,280.3</b>	<b>2,216.8</b>	<b>1,963.5</b>

Other Funds (\$ millions)	Dec '14	June '14	June '13	June '12	June '11
U of M Foundation Fund	1,936.4	1,928.2	1,610.0	1,560.1	1,564.4
Faculty Retirement Plans	4,750.0	4,769.7	4,199.8	3,807.9	3,709.3

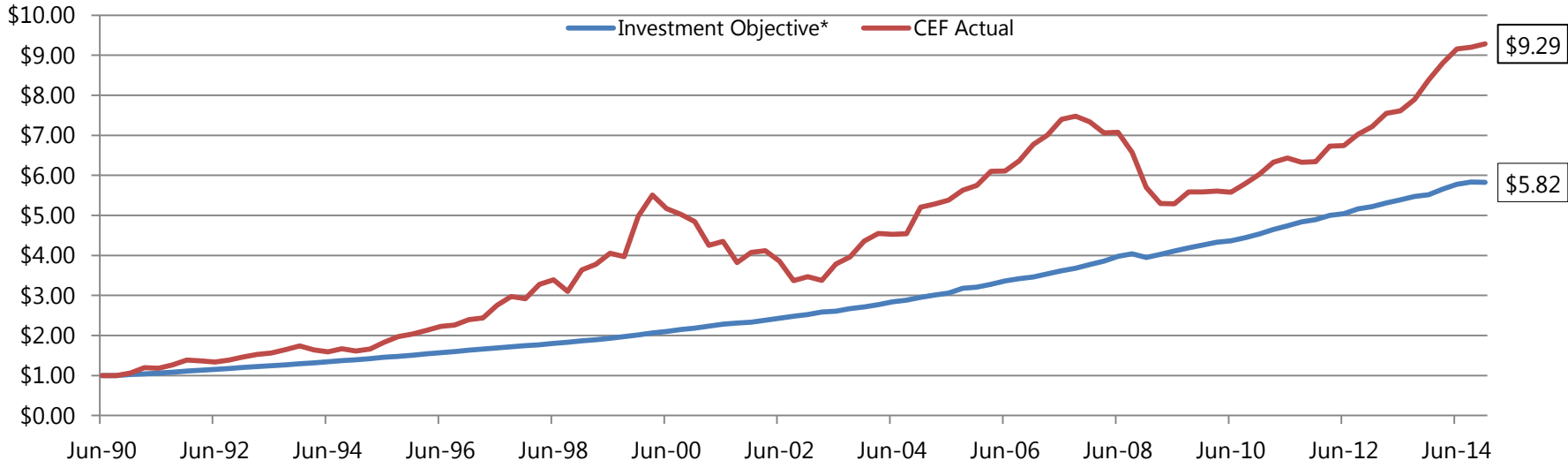
# CEF Review

## Investment Policy Objectives:

1. Maintain Inflation Adjusted Endowment Value
2. Acceptable Risk Parameters
3. Stable Distributions

# Maintain Inflation-Adjusted Value

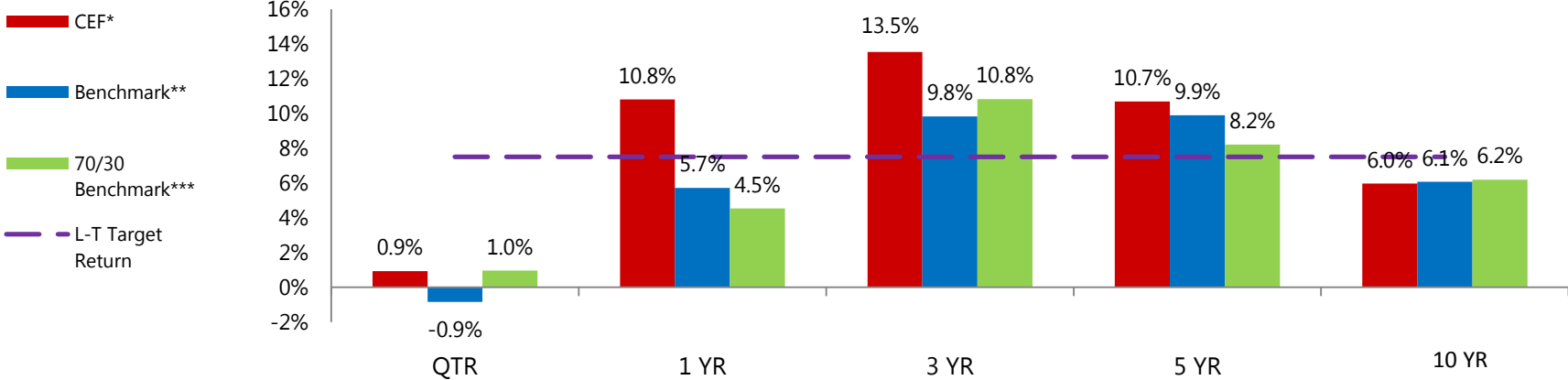
CEF Endowment Performance Growth of \$1 since June 30, 1990



\* CPI plus payout plus actual expenses (calculated quarterly)

# Maintain Inflation-Adjusted Value

CEF Performance vs. Benchmarks



Q4 2014 outperformance driven primarily by the following:

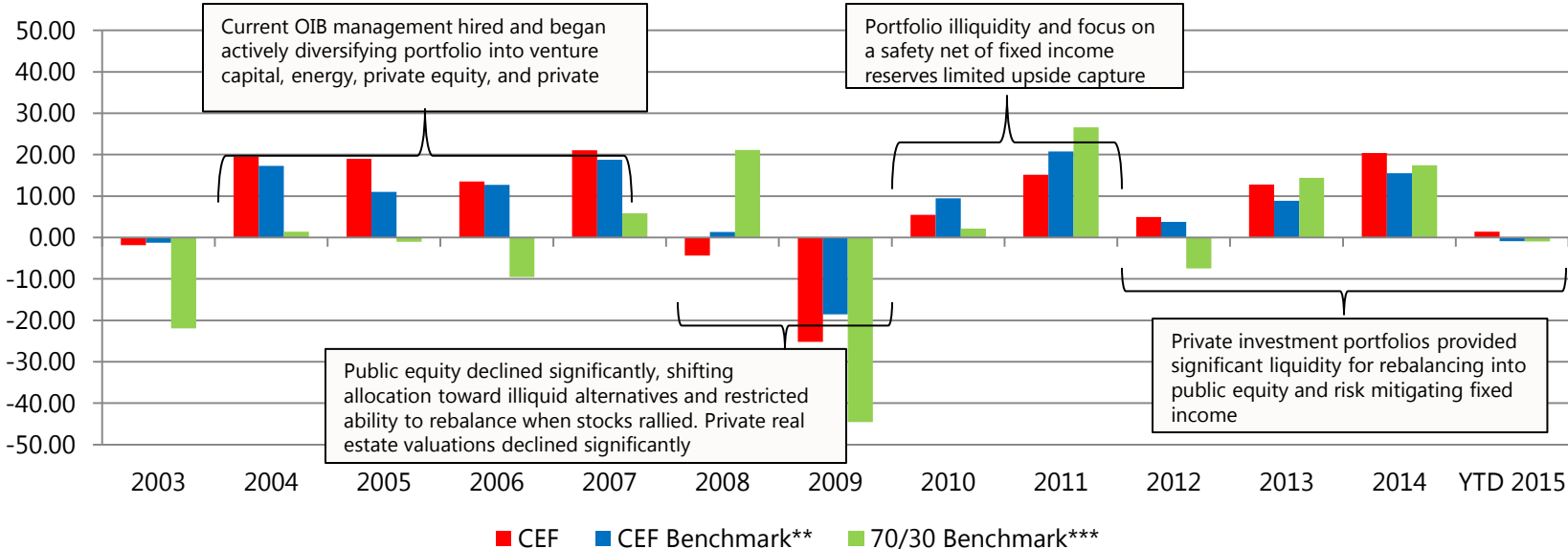
- Strategic overweight and outperformance (241 bps) by private capital managers
- Outperformance (824 bps) by inflation hedging managers

\* Net of Manager Fees  
 \*\* Benchmark: CEF Custom Index  
 \*\*\* Benchmark: 70% MSCI ACWI IMI / 30% Barclay's Capital Aggregate



# Maintain Inflation-Adjusted Value

## Fiscal Year Performance\* Comparison



\* Net of Manager Fees

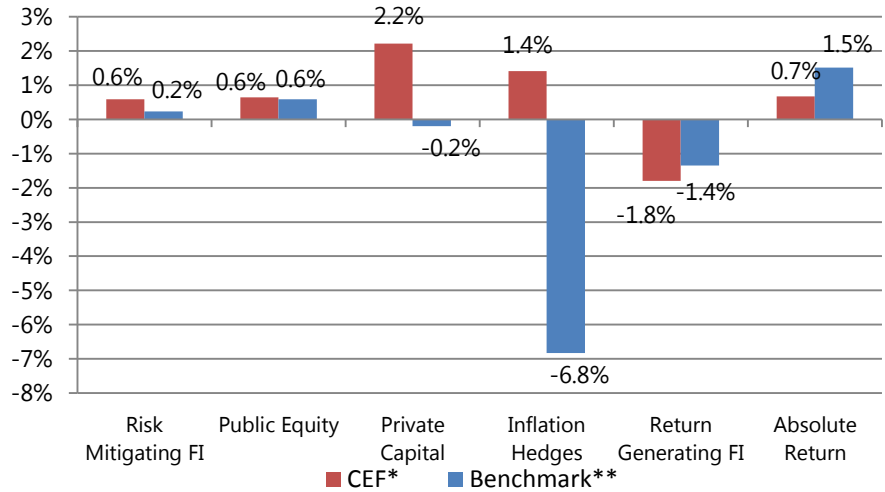
\*\* Benchmark: CEF Custom Index

\*\*\* Benchmark: 70% MSCI ACWI IMI / 30% Barclay's Capital Aggregate

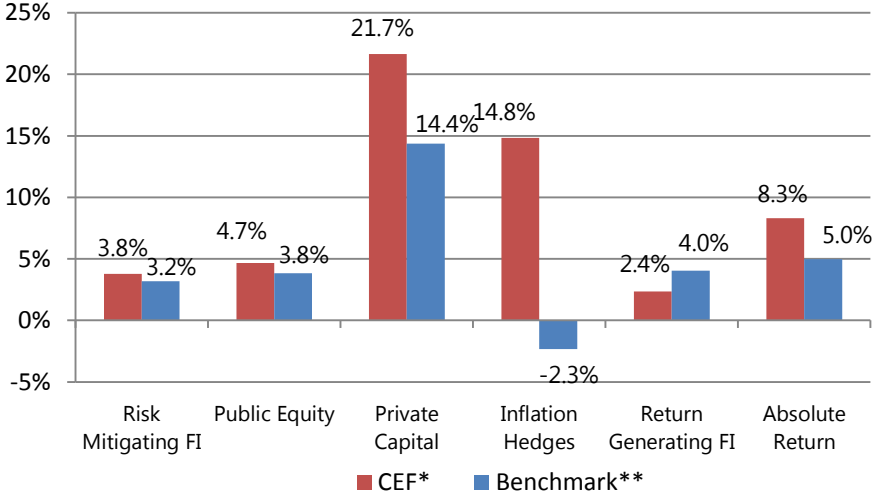
# Maintain Inflation-Adjusted Value

## Sector vs. Benchmark Returns

1 Quarter

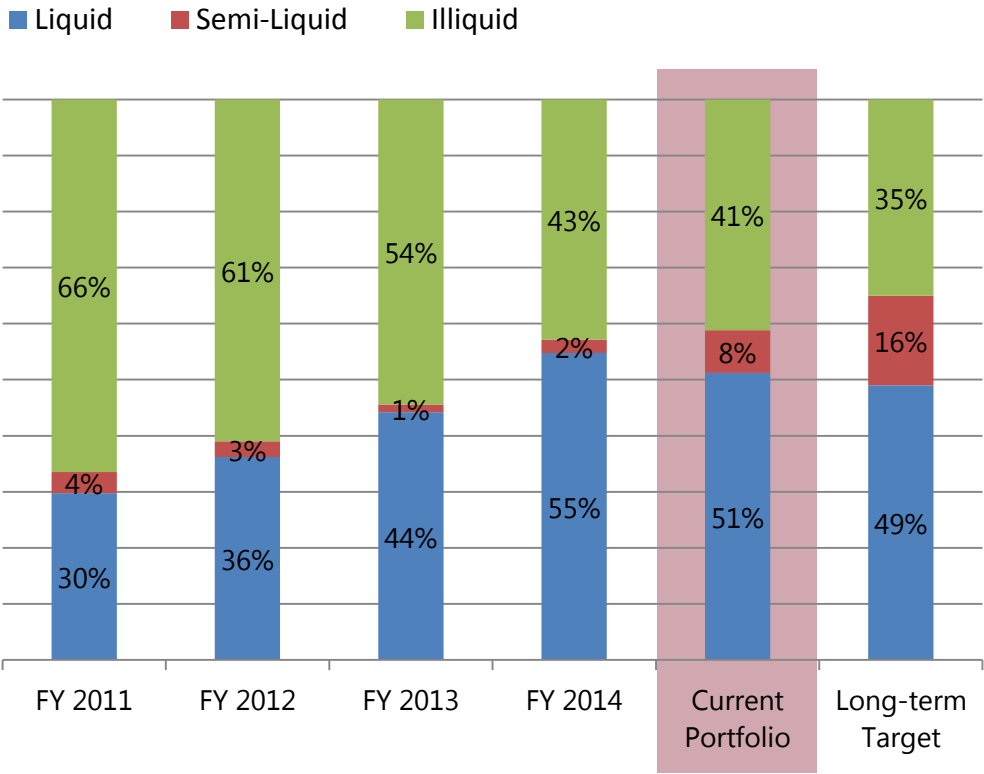


1 Year



\* Net of Manager Fees  
 \*\* Components of CEF Custom Index

# Endowment Liquidity



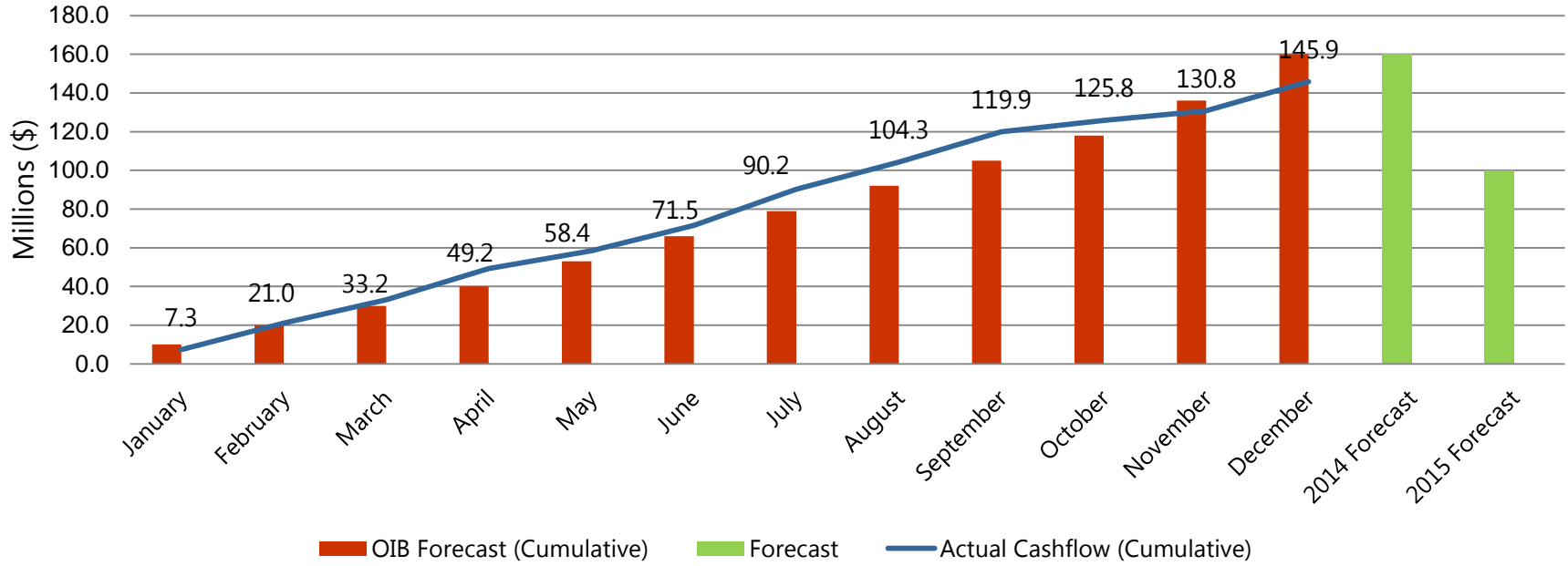
**Definition:** Liquidity is a measure of assets that can be sold at reasonable prices within one year. Higher levels of liquidity enable timely rebalancing and responses to new opportunities

**Target:** Within a target range of 30 to 40% invested in illiquid assets. Illiquid assets market value plus unfunded commitments should not exceed 55%

**Strategy:** Reduce illiquid investments to 35-40% of the overall portfolio during FY 2015

# Acceptable Risk Parameters

## Net Cash Flows from Illiquid Portfolio Actual vs. Forecast



# Acceptable Risk Parameters

## Top 10 Managers

Manager	Total Market Value (\$M)	% of Total Fund
Blackrock*	228.7	18.1
TCW	90.8	7.2
Parametric Clifton	66.9	5.3
Goldman Sachs	58.3	4.6
Acadian	49.6	3.9
Emergence	41.1	3.2
Lazard	34.8	2.8
Reams	34.5	2.7
Pembroke	31.7	2.5
PineBridge	28.2	2.2

**Definition:** Maintain concentration in managers and funds at appropriate levels

**Target:** No individual fund > 10%, no manager > 20%

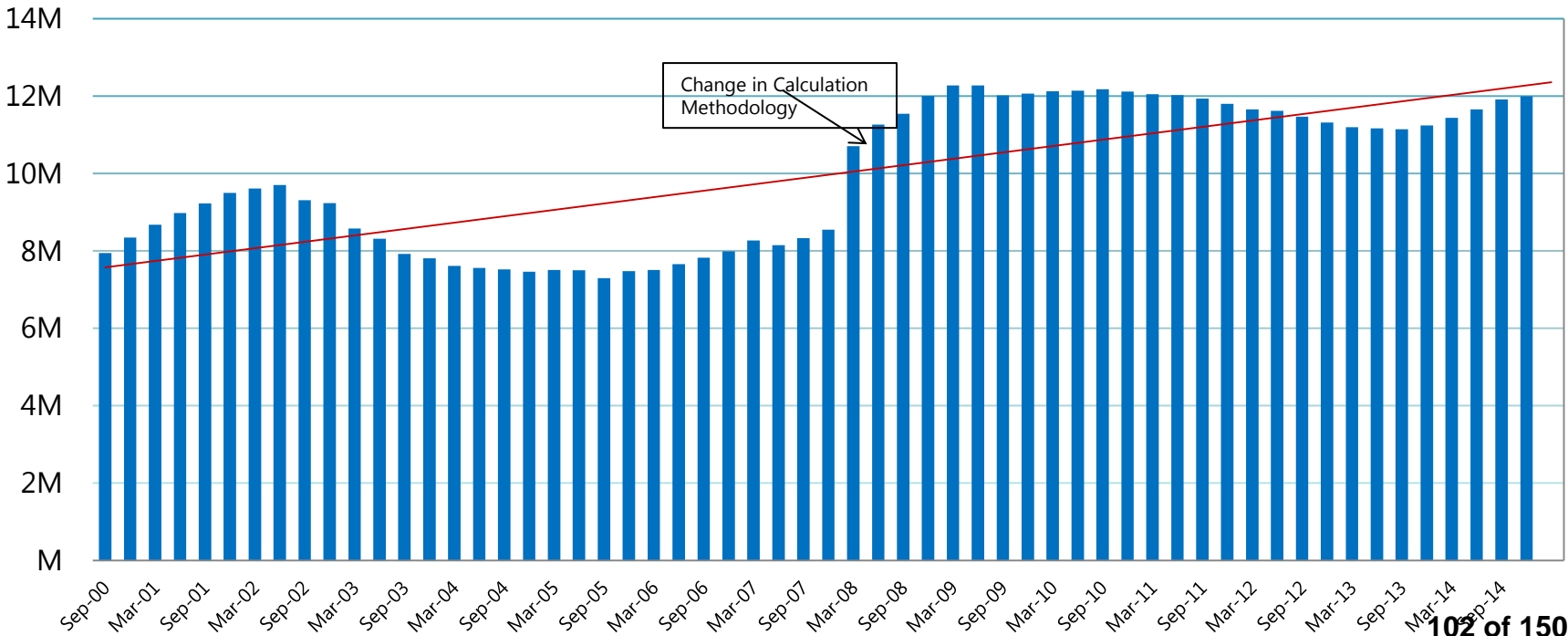
**Strategy:** Closely monitor large core positions and adjust holding size to maintain compliance with targets

\* Blackrock investment consists of three funds, the largest of which is a Russell 1000 index fund at 9.6% of the endowment

# Stable Distributions

Actual CEF Distribution (gross of reinvestment)

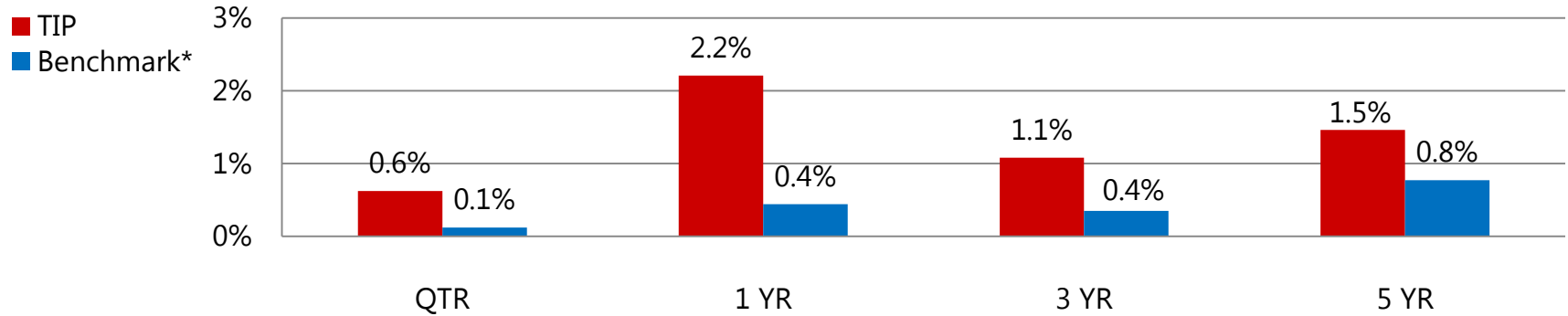
Actual Payout    Trendline



# TIP Review

# TIP – Fund Performance

Market Value: \$945.6M



Q4 2014 outperformance driven primarily by:

- Longer portfolio duration relative to benchmark

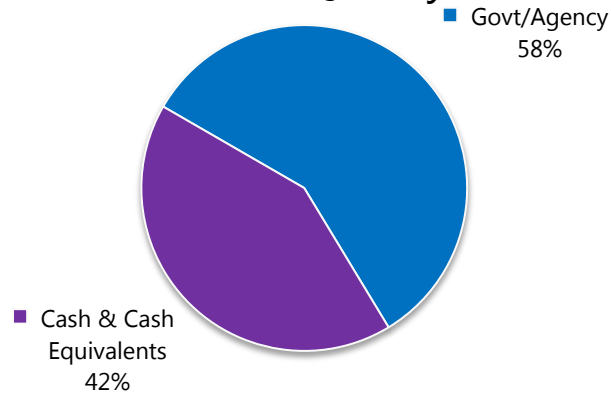
\* Benchmark: 70% BofAML U.S. Treasuries 1-3 Yr / 30% 91 Day T-Bill



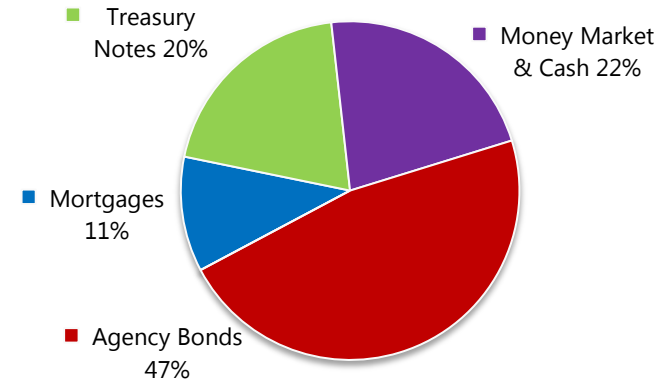
# TIP – Asset Allocation

Market Value: \$945.6M

## Credit Quality



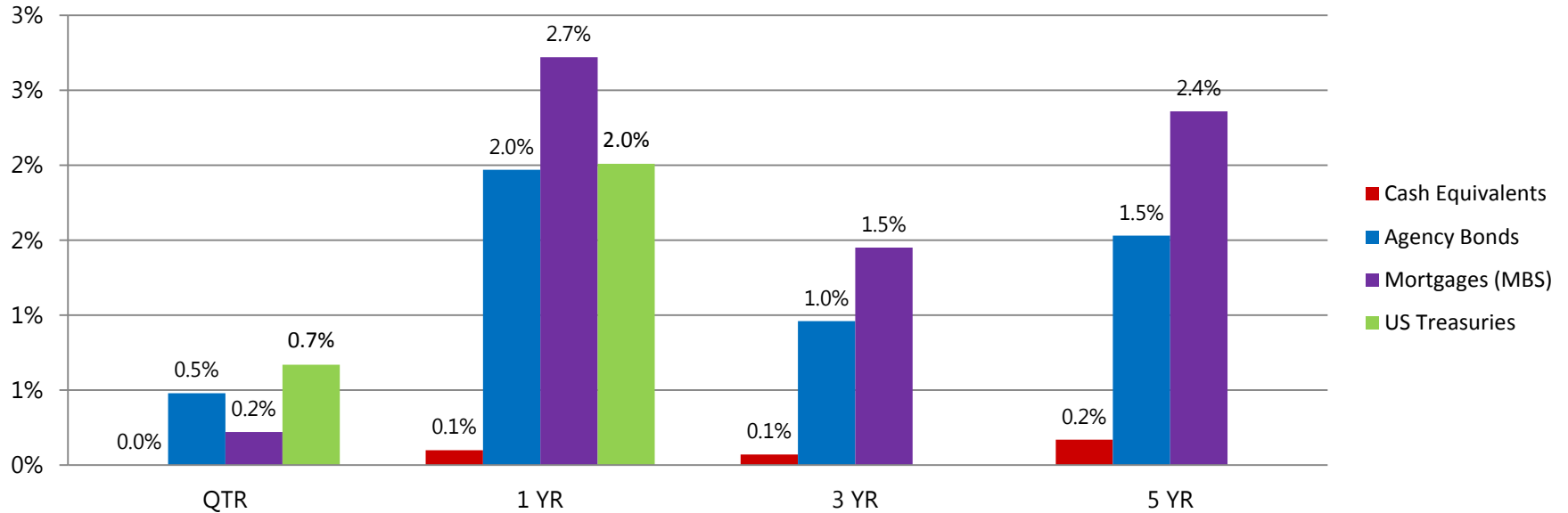
## Sector Exposure



Statistic	Portfolio	Benchmark
Average Duration	2.07	1.43
Average Credit Rating	Govt/Agency	Govt/Agency
Current Yield	0.96%	0.49%

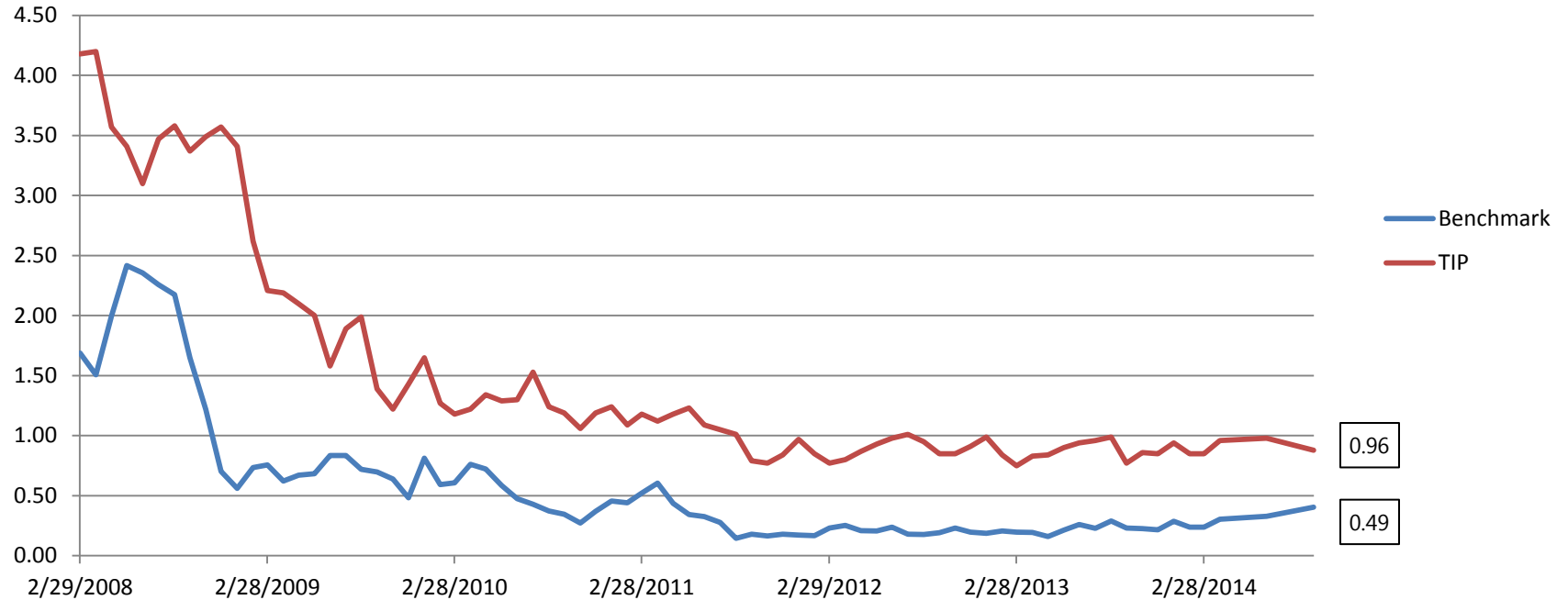
# TIP – Performance by Sector

Market Value: \$945.6M



# TIP – Yield History

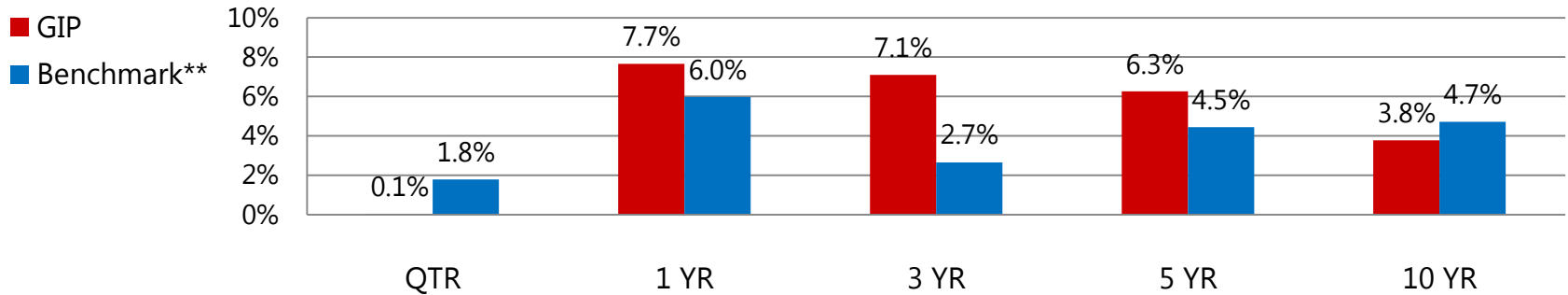
Market Value: \$945.6M



# GIP Review

# GIP – Fund Performance\*

Market Value: \$61.6M\*\*\*



## Q4 2014 underperformance driven primarily by:

- Investment in CEF (23.5% allocation) underperformed the benchmark by -206 bps
- Underweight to US Treasuries relative to the benchmark
- EM Debt underperformed the benchmark by -565 bps

\* Performance is net of manager fees

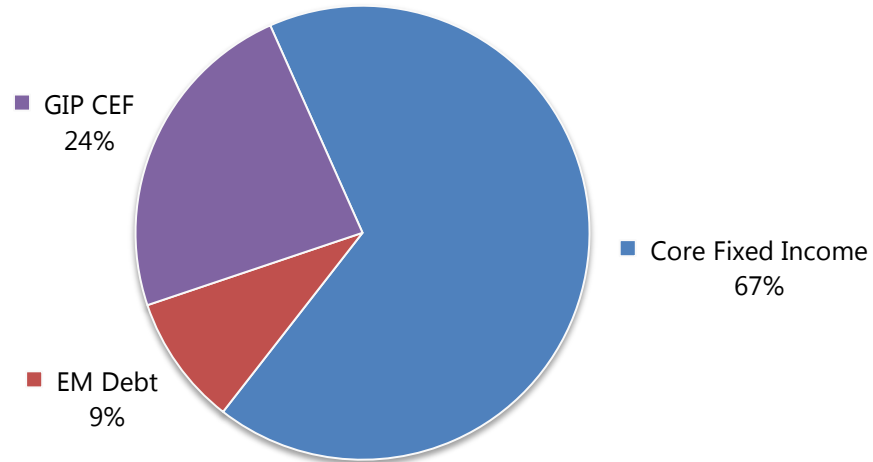
\*\* Benchmark: 100% Barclays Capital Aggregate

\*\*\* Total GIP market value and investment performance includes the \$14.5 million investment in CEF

# GIP – Asset Allocation

Market Value: \$61.6M

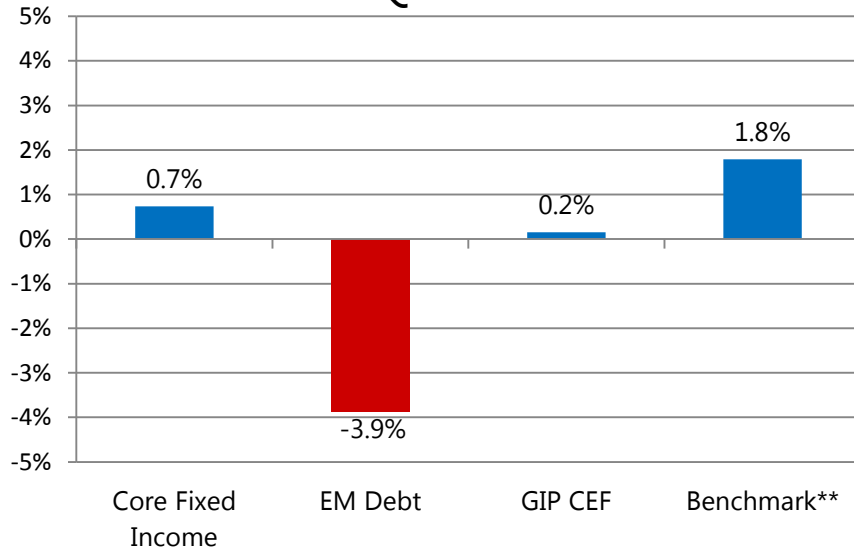
## Portfolio Composition



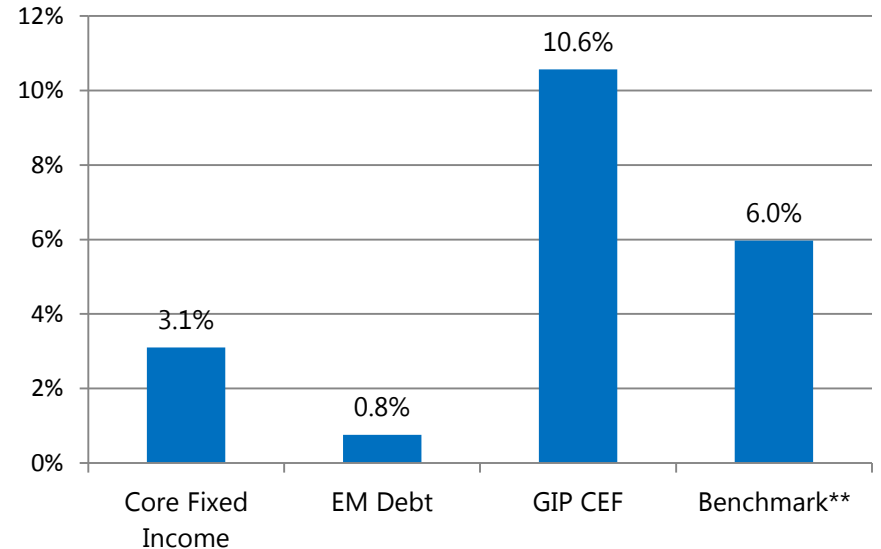
# GIP – Performance\* by Sector

Market Value: \$61.6M

## 1 Quarter



## 1 Year



\* Performance is net of manager fees

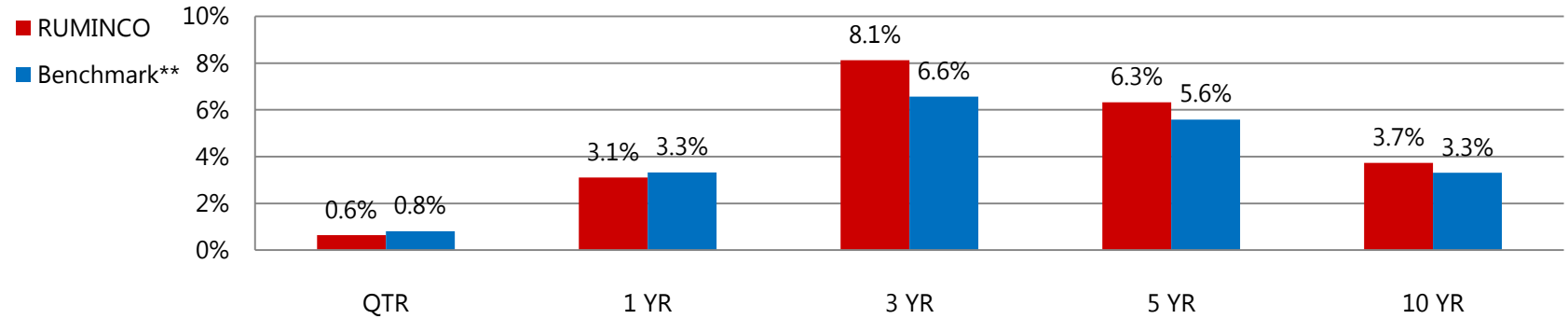
\*\* Benchmark: 100% Barclays Capital Aggregate

# RUMINCO Review



# RUMINCO – Fund Performance\*

Market Value: \$40.9M



Q4 2014 performance driven primarily by:

- Underperformance by Global Equities
- TCW Total Return portfolio outperformed

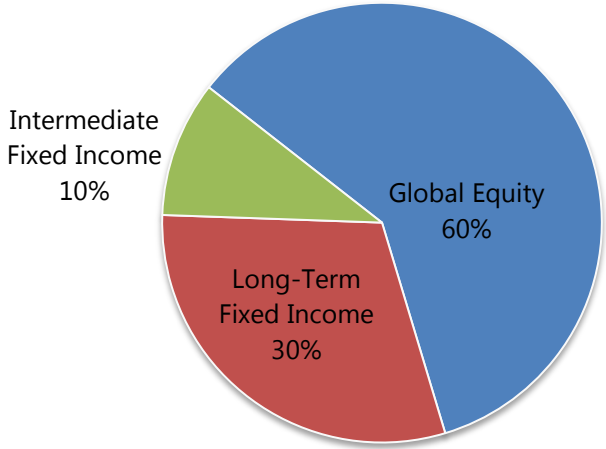
\* Performance is net of manager fees

\*\* Benchmark as of 7/1/2014: 60% MSCI AC World Net, 30% Barclays Capital Aggregate, 10% BofAML U.S. Corp & Govt 1-3 Yr

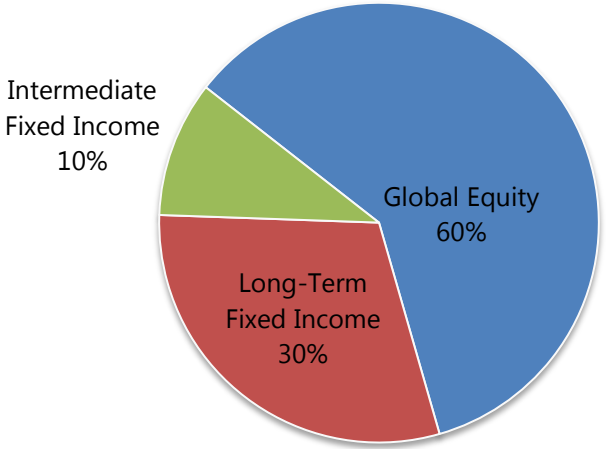
# RUMINCO – Asset Allocation

Market Value: \$40.9M

### Portfolio Composition



### Portfolio Targets





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February 12, 2015

The Honorable David McMillan, Chair, Finance Committee  
The Honorable John Frobenius, Vice Chair, Finance Committee  
The Honorable Clyde Allen  
The Honorable Richard Beeson  
The Honorable Laura Brod  
The Honorable Dean Johnson

Committee Members:

Enclosed are Purchasing Services' reports on purchasing activity for the first and second quarters, fiscal year '15. Regents policy requires that purchasing activity, including exceptions to competitive purchases, be reported to the Board of Regents. This letter provides explanatory background and brief analysis of the report and attachments that follow.

## **Background**

The enclosed reports and attachments provide statistics, graphics and some detail on four categories of purchasing activity for the two quarters:

- Summary of Purchasing Activity
- Purchases made as Approved Exceptions to the competitive purchasing process
- Purchases made as Preapproved Exceptions to the competitive purchasing process
- Regents Purchasing Policy Violations

“Total Purchasing Activity” represents the total amount of goods and services purchased for the quarter and year-to-date across all funding sources, including construction projects.

“Approved Exceptions” refers to purchases where, following proper protocol, the vendor was not selected through a Request for Bid or Request for Proposal process. All of the approved exceptions were justified in writing by the requisitioning department, with the justification reviewed and approved by the Director of Purchasing before the purchase took place. Additionally, the appropriate Vice President and the University Controller approved all exceptions of \$250,000 and over, except pre-approved exceptions. Section II provides a listing of the transactions that followed this process and were approved as exceptions.

“Pre-approved Exceptions” are also purchases where the vendor has not been selected through a competitive process. However, they are exceptions that occur routinely with consistent reasons, so that the approval of the justification has become standardized. Refer to Section III of the report for a listing of transactions processed as pre-approved exceptions during the quarter.

“Regents Purchasing Policy Violations” refers to purchase transactions which bypassed the competitive process without following proper protocol and without the necessary approvals. Section IV provides a listing of purchasing violations.

The reports compare dollars spent on purchases in the respective quarter of the current year to dollars spent on purchases in same quarter of the two previous years. The same quarter-to-quarter comparison is made for approved exceptions and for preapproved exceptions. With that in mind, the following observations are worth noting:

First Quarter:

- Quarterly Purchasing Activity and Exceptions trended closely with the prior quarters.
- There were no Regents Purchasing Policy Violations in the first quarter of FY15.

Second Quarter:

- Pre-approved Exceptions were up significantly because of large expenditures for the next five years of Oracle maintenance.
- There were no Regents Purchasing Policy Violations in the second quarter of FY15.

If you have any questions on the report, please do not hesitate to contact Tim Bray, Director of Purchasing, or me.

Sincerely,

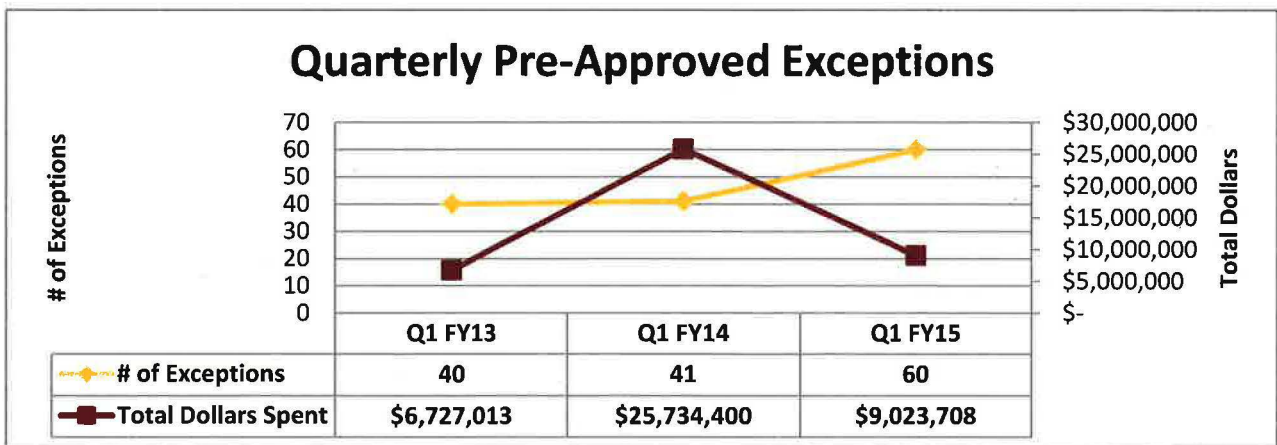
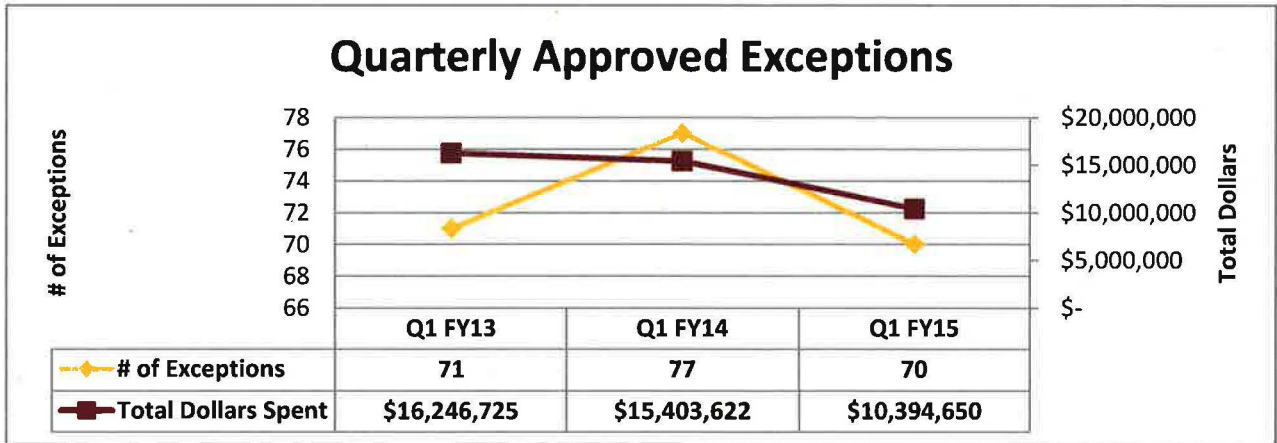
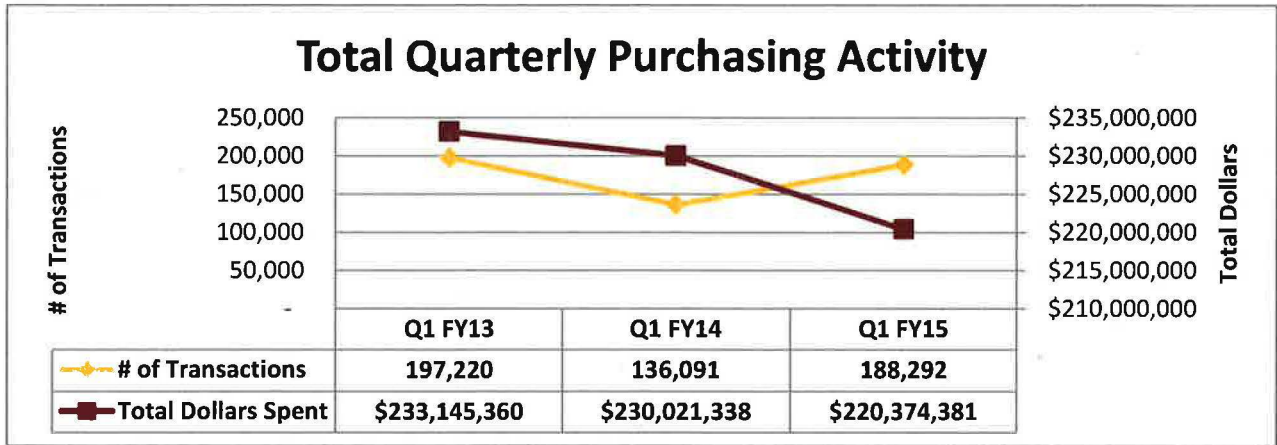


Michael D. Volna  
Associate Vice President-Finance & Controller

Cc: Richard Pfitzenreuter, CFO, Treasurer and Vice President for Budget & Finance  
Brian Steeves, Deputy Director, Board of Regents  
Tim Bray, Director, Purchasing Services

# University of Minnesota Quarterly Purchasing Report As of September 30, 2014

## I. Summary of Purchasing Activity for 1<sup>st</sup> Quarter



	Q1 FY13	Q1 FY14	Q1 FY15
<b>Q1 Exceptions</b>	111	118	130
<b>Q1 Exception Dollars</b>	\$22,973,738	\$41,138,022	\$19,418,358

**II. Purchases made as Approved Exceptions to Competitive Purchasing Process**

<b>Exception #1:</b>	<b>Total # of Exceptions</b>	<b>Total Dollars</b>
Purchasing of research products (animal feed, serum, test equip/supplies) for clinical trials. Also purchasing from a previous supplier to ensure consistency of research results.	15	\$3,661,504

<b>Exception #2:</b>	<b>Total # of Exceptions</b>	<b>Total Dollars</b>
Equipment that requires brand compatibility with existing equipment and is available only from manufacturer or sole source authorized distributor.	15	\$3,169,677

<b>Exception #3:</b>	<b>Total # of Exceptions</b>	<b>Total Dollars</b>
Funding source or granting agency specified a single supplier.	4	\$410,291

<b>Exception #4:</b>	<b>Total # of Exceptions</b>	<b>Total Dollars</b>
Other	35	\$2,813,099

<b>Emergency Exception #1:</b>	<b>Total # of Exceptions</b>	<b>Total Dollars</b>
A threat to health, welfare, safety.	0	\$0

<b>Emergency Exception #2:</b>	<b>Total # of Exceptions</b>	<b>Total Dollars</b>
A significant loss to the University.	1	\$340,080

<b>Emergency Exception #3:</b>	<b>Total # of Exceptions</b>	<b>Total Dollars</b>
A failure to provide core services to University students/faculty/staff.	0	\$0

<b>Emergency Exception #4:</b>	<b>Total # of Exceptions</b>	<b>Total Dollars</b>
Emergency equipment repairs and parts or emergency facility repairs and parts under \$100,000.	0	\$0

**TOTAL Approved Exceptions** **70** **\$10,394,650**

**III. Pre-Approved Exceptions to Competitive Purchasing**

<b>Exception #2:</b>	<b>Total # of Exceptions</b>	<b>Total Dollars</b>
Media advertising, purchase or access to uniquely compiled database information.	9	\$557,129

<b>Exception #4:</b>	<b>Total # of Exceptions</b>	<b>Total Dollars</b>
Closeout of used items which requestor or Purchasing has verified to be at least 30% below comparable new equipment (does not include refurbished or remanufactured furniture).	2	\$230,800

<b>Exception #6:</b>	<b>Total # of Exceptions</b>	<b>Total Dollars</b>
Service (1) available only from another governmental agency or public entity or (2) required by law to be provided by another governmental entity.	12	\$1,517,203

<b>Exception #7:</b>	<b>Total # of Exceptions</b>	<b>Total Dollars</b>
Service/maintenance agreements with the original manufacturer/ developer for equipment and software.	15	\$3,785,707

<b>Exception #9:</b>	<b>Total # of Exceptions</b>	<b>Total Dollars</b>
Software license renewals and software upgrades available only from developer. This includes adding licenses to an existing license agreement.	9	\$1,006,215

<b>Exception #11:</b>	<b>Total # of Exceptions</b>	<b>Total Dollars</b>
Fairview purchases related to research projects.	3	\$361,673

<b>Exception #12:</b>	<b>Total # of Exceptions</b>	<b>Total Dollars</b>
Entertainers, lecturers, speakers and honoraria.	3	\$925,223

<b>Exception #14:</b>	<b>Total # of Exceptions</b>	<b>Total Dollars</b>
Study Abroad Administrators (Does not include group airfares).	6	\$589,758

<b>Exception #16:</b>	<b>Total # of Exceptions</b>	<b>Total Dollars</b>
	1	\$50,000

**TOTAL Approved Exceptions** 60 \$9,023,708

There are 25 categories of Pre-Approved Exceptions. Only those categories which had qualifying transactions are reported above.

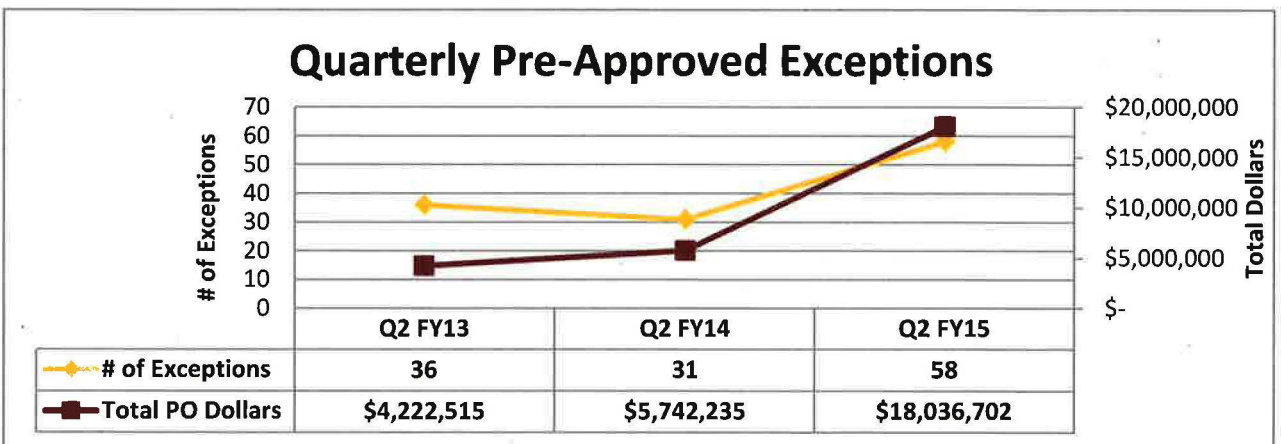
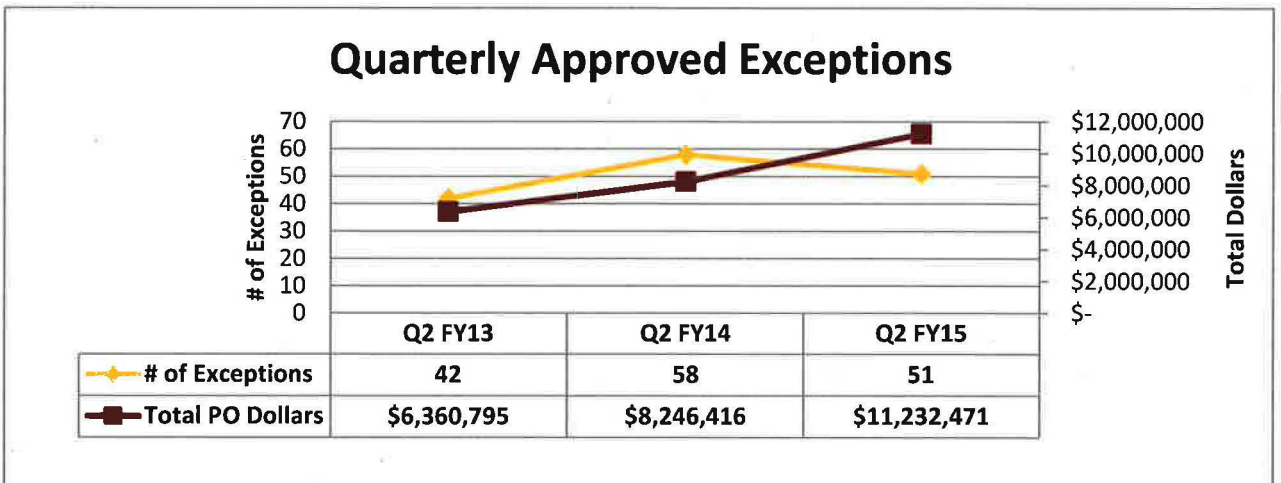
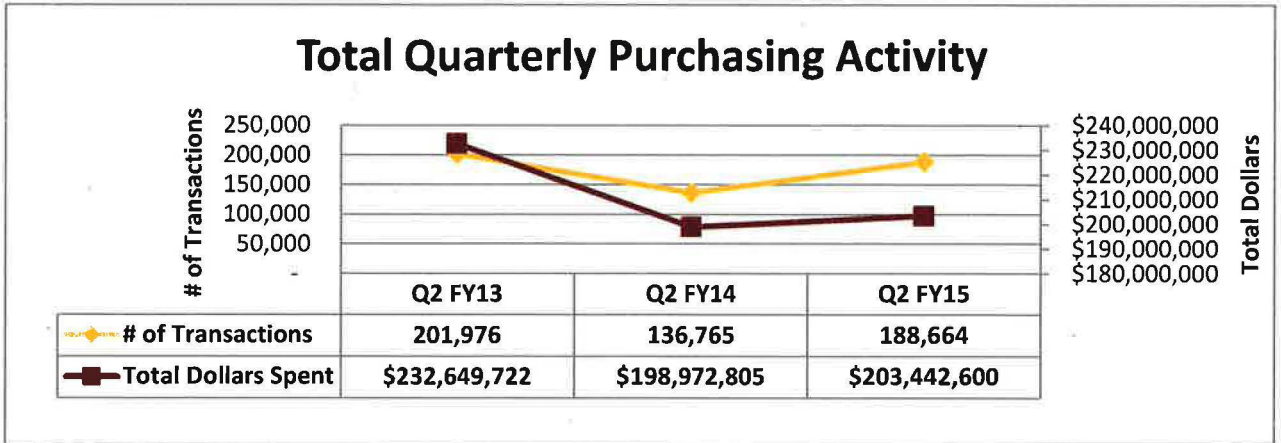
**IV. Regents Policy Violations**

There are no Regents Policy Violations to report.



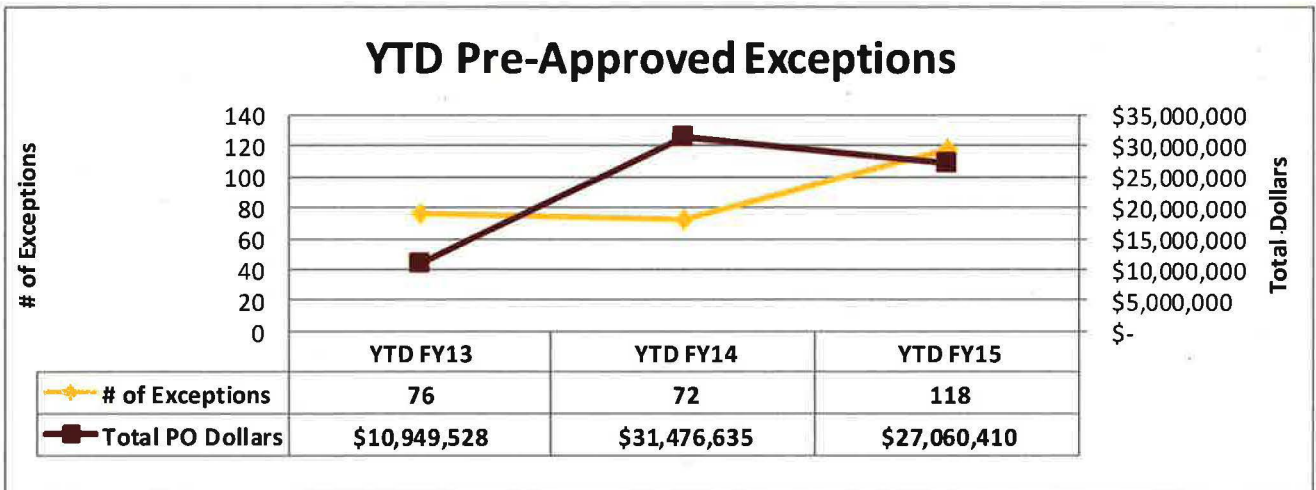
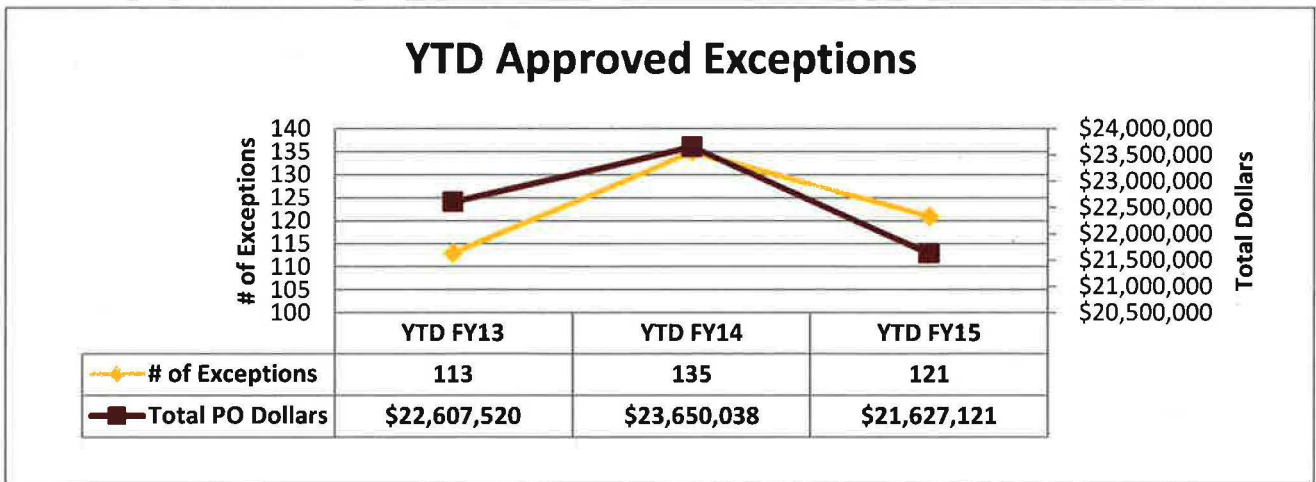
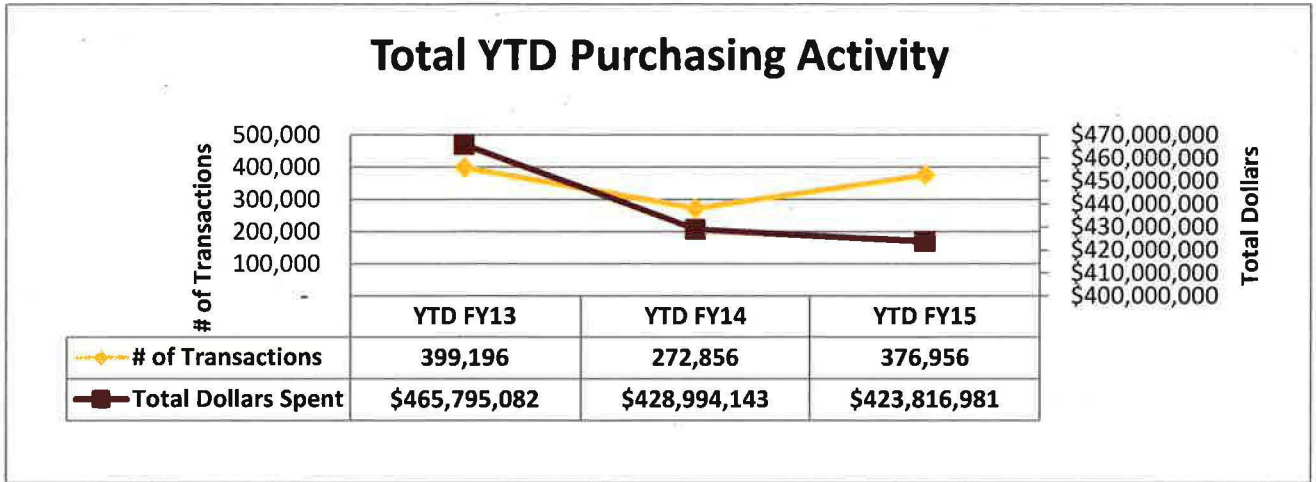
# University of Minnesota Quarterly Purchasing Report As of December 31, 2014

## I. Summary of Purchasing Activity for 2<sup>nd</sup> Quarter



<b>Q2 Exceptions</b>	<b>78</b>	<b>89</b>	<b>109</b>
<b>Q2 Exception Dollars</b>	<b>\$10,583,310</b>	<b>\$1,988,651</b>	<b>\$29,269,173</b>

Summary of Purchasing Activity YTD through December 31, 2014



YTD Exceptions	189	207	239
YTD Exception Dollars	\$33,557,048	\$55,126,673	\$48,687,531

**II. Purchases made as Approved Exceptions to Competitive Purchasing Process**

<b>Exception #1:</b>	<b>Total # of Exceptions</b>	<b>Total Dollars</b>
Purchasing of research products (animal feed, serum, test equip/supplies) for clinical trials. Also purchasing from a previous supplier to ensure consistency of research results.	11	\$6,289,406

<b>Exception #2:</b>	<b>Total # of Exceptions</b>	<b>Total Dollars</b>
Equipment that requires brand compatibility with existing equipment and is available only from manufacturer or sole source authorized distributor.	12	\$2,037,599

<b>Exception #3:</b>	<b>Total # of Exceptions</b>	<b>Total Dollars</b>
Funding source or granting agency specified a single supplier.	4	\$527,226

<b>Exception #4:</b>	<b>Total # of Exceptions</b>	<b>Total Dollars</b>
Other	23	\$2,255,564

<b>Emergency Exception #1:</b>	<b>Total # of Exceptions</b>	<b>Total Dollars</b>
A threat to health, welfare, safety.	0	\$0

<b>Emergency Exception #2:</b>	<b>Total # of Exceptions</b>	<b>Total Dollars</b>
A significant loss to the University.	1	\$122,676

<b>Emergency Exception #3:</b>	<b>Total # of Exceptions</b>	<b>Total Dollars</b>
A failure to provide core services to University students/faculty/staff.	0	\$0

<b>Emergency Exception #4:</b>	<b>Total # of Exceptions</b>	<b>Total Dollars</b>
Emergency equipment repairs and parts or emergency facility repairs and parts under \$100,000.	0	\$0

**TOTAL Approved Exceptions** **51** **\$11,232,471**

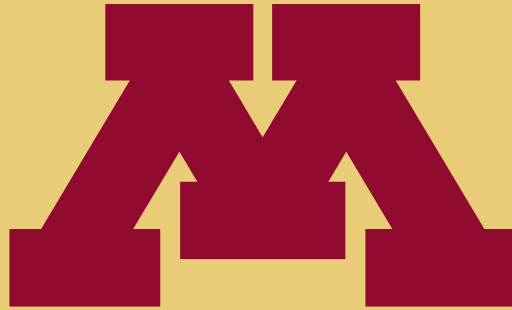
### III. Pre-Approved Exceptions to Competitive Purchasing

<b>Exception #1:</b>	<b>Total # of Exceptions</b>	<b>Total Dollars</b>
Lodging, travel (does not include group airfare or charter air).	1	\$60,920
<b>Exception #3:</b>	<b>Total # of Exceptions</b>	<b>Total Dollars</b>
Farm commodities such as grain or livestock.	1	\$89,389
<b>Exception #4:</b>	<b>Total # of Exceptions</b>	<b>Total Dollars</b>
Closeout of used items which requestor or Purchasing has verified to be at least 30% below comparable new equipment (does not include refurbished or remanufactured furniture).	3	\$273,908
<b>Exception #5:</b>	<b>Total # of Exceptions</b>	<b>Total Dollars</b>
Subcontractors previously arranged by Sponsored Projects Administration (SPA).	1	\$76,655
<b>Exception #6:</b>	<b>Total # of Exceptions</b>	<b>Total Dollars</b>
Service (1) available only from another governmental agency or public entity or (2) required by law to be provided by another governmental entity.	8	\$1,858,868
<b>Exception #7:</b>	<b>Total # of Exceptions</b>	<b>Total Dollars</b>
Service/maintenance agreements with the original manufacturer/ developer for equipment and software.	17	\$13,367,636
<b>Exception #9:</b>	<b>Total # of Exceptions</b>	<b>Total Dollars</b>
Software license renewals and software upgrades available only from developer. This includes adding licenses to an existing license agreement.	5	\$339,328
<b>Exception #10:</b>	<b>Total # of Exceptions</b>	<b>Total Dollars</b>
Development, design and/or creation of original artwork.	1	\$75,500
<b>Exception #11:</b>	<b>Total # of Exceptions</b>	<b>Total Dollars</b>
Fairview purchases related to research projects.	1	\$100,000
<b>Exception #12:</b>	<b>Total # of Exceptions</b>	<b>Total Dollars</b>
Entertainers, lecturers, speakers and honoraria.	6	\$563,782
<b>Exception #14:</b>	<b>Total # of Exceptions</b>	<b>Total Dollars</b>
Study Abroad Administrators (Does not include group airfares).	14	\$1,230,716
<b>TOTAL Approved Exceptions</b>	<b>58</b>	<b>\$ 18,036,702</b>

There are 25 categories of Pre-Approved Exceptions. Only those categories which had qualifying transactions are reported above.

**IV. Regents Policy Violations**

There are no Regents Policy Violations to report.



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# Quarterly Asset Management Report

Stuart Mason, CIO

# Table of Contents

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2. Highlights and Commentary
  - a. Consolidated Endowment Fund (CEF)
  - b. Temporary Investment Pool (TIP)
  - c. Group Income Pool (GIP)
  - d. RUMINCO

# Overview – All Funds

OIB Managed Funds (\$ millions)	Dec '14	June '14	June '13	June '12	June '11
Consolidated Endowment Fund (CEF)	\$ 1,264.5	\$ 1,272.5	\$ 1,079.7	\$ 977.6	\$ 956.8
Long-Term Reserves (GIP)	61.6	45.9	46.4	44.7	44.3
Short-Term Reserves (TIP)	945.6	1,054.6	1,031.4	972.2	824.9
RUMINCO Ltd.	40.9	39.2	35.8	32.6	32.3
Invested Assets Related to Indebtedness	226.8	66.9	87.0	189.7	181.9
<b>Total Managed Assets</b>	<b>2,539.4</b>	<b>2,479.1</b>	<b>2,280.3</b>	<b>2,216.8</b>	<b>1,963.5</b>

Other Funds (\$ millions)	Dec '14	June '14	June '13	June '12	June '11
U of M Foundation Fund	1,936.4	1,928.2	1,610.0	1,560.1	1,564.4
Faculty Retirement Plans	4,750.0	4,769.7	4,199.8	3,807.9	3,709.3



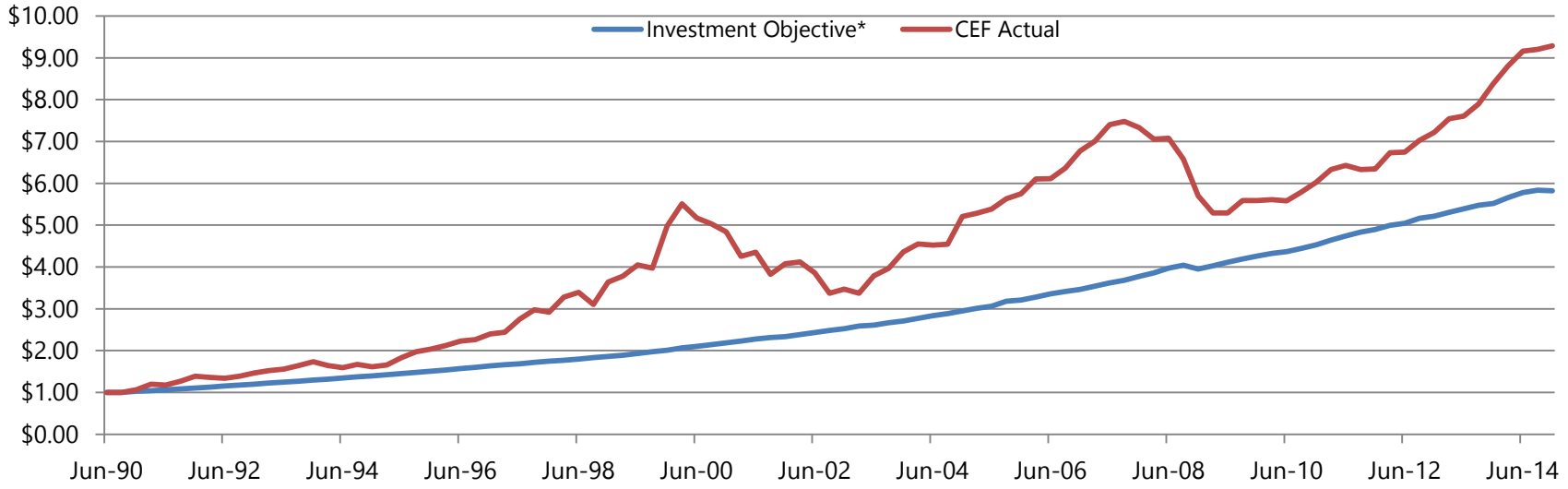
# CEF Review

## Investment Policy Objectives:

1. Maintain Inflation Adjusted Endowment Value
2. Acceptable Risk Parameters
3. Stable Distributions

# Maintain Inflation-Adjusted Value

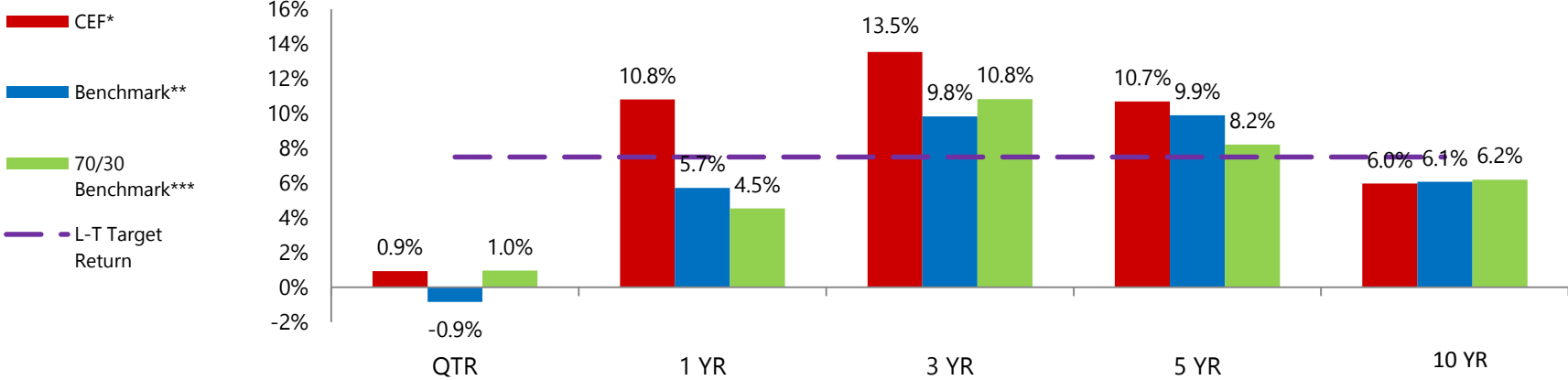
CEF Endowment Performance Growth of \$1 since June 30, 1990



\* CPI plus payout plus actual expenses (calculated quarterly)

# Maintain Inflation-Adjusted Value

CEF Performance vs. Benchmarks



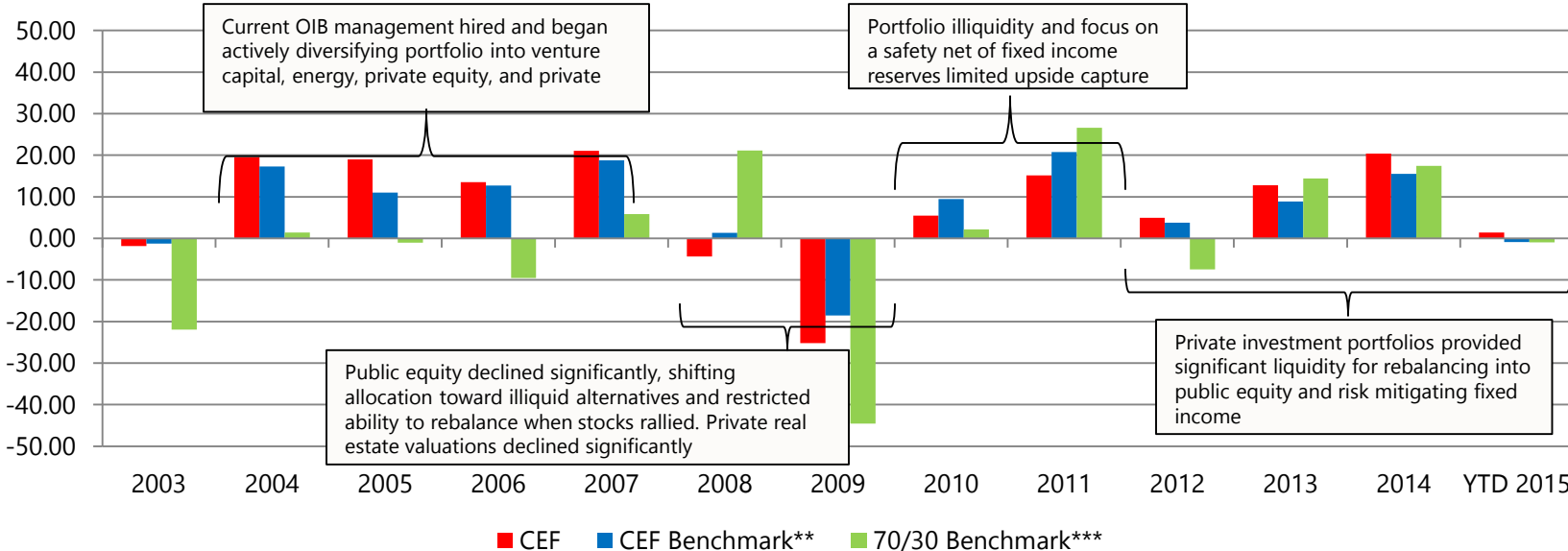
Q4 2014 outperformance driven primarily by the following:

- Strategic overweight and outperformance (241 bps) by private capital managers
- Outperformance (824 bps) by inflation hedging managers

\* Net of Manager Fees  
 \*\* Benchmark: CEF Custom Index  
 \*\*\* Benchmark: 70% MSCI ACWI IMI / 30% Barclay's Capital Aggregate

# Maintain Inflation-Adjusted Value

## Fiscal Year Performance\* Comparison

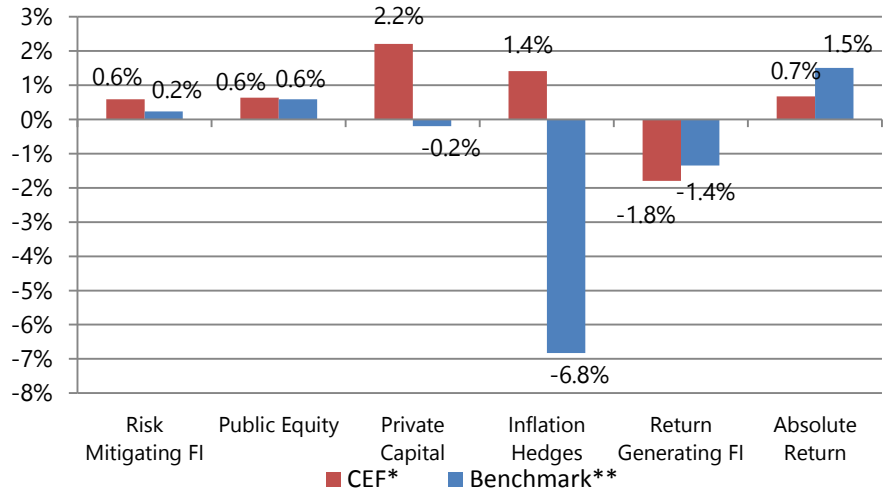


\* Net of Manager Fees  
 \*\* Benchmark: CEF Custom Index  
 \*\*\* Benchmark: 70% MSCI ACWI IMI / 30% Barclay's Capital Aggregate

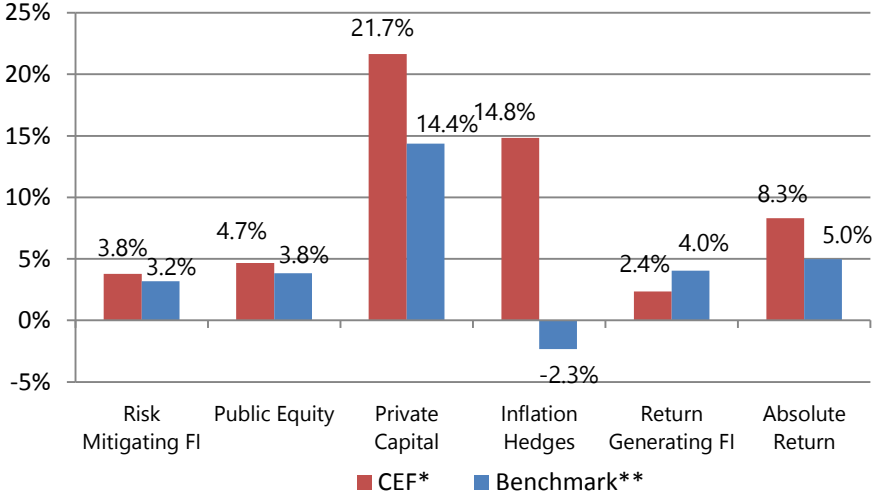
# Maintain Inflation-Adjusted Value

## Sector vs. Benchmark Returns

1 Quarter

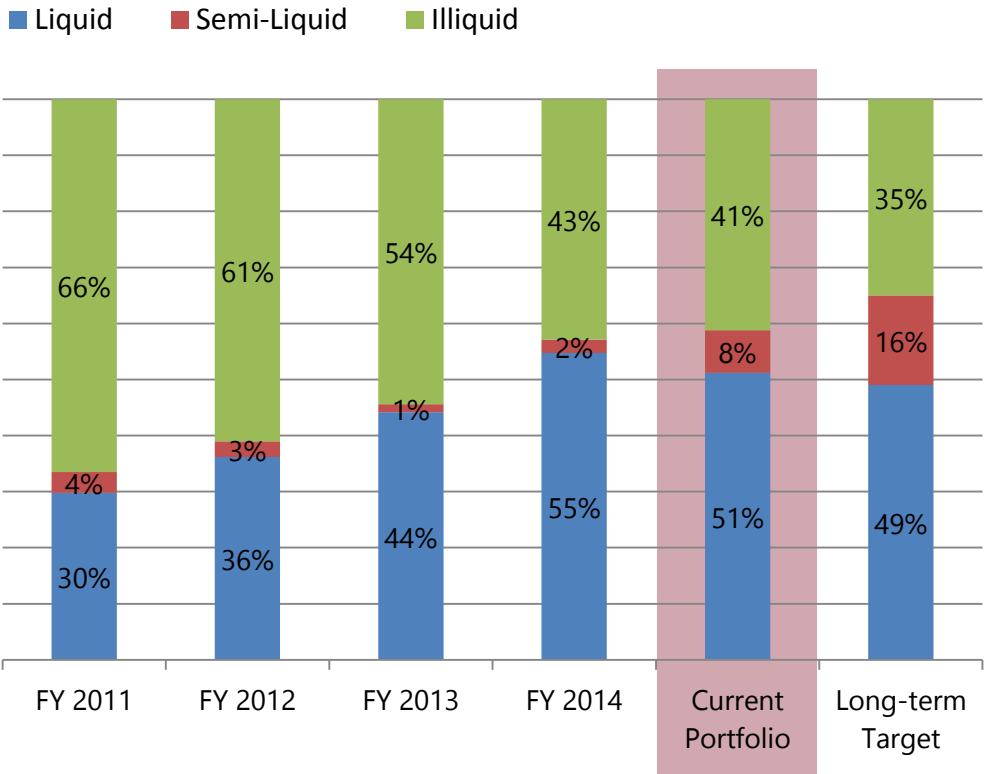


1 Year



\* Net of Manager Fees  
 \*\* Components of CEF Custom Index

# Endowment Liquidity



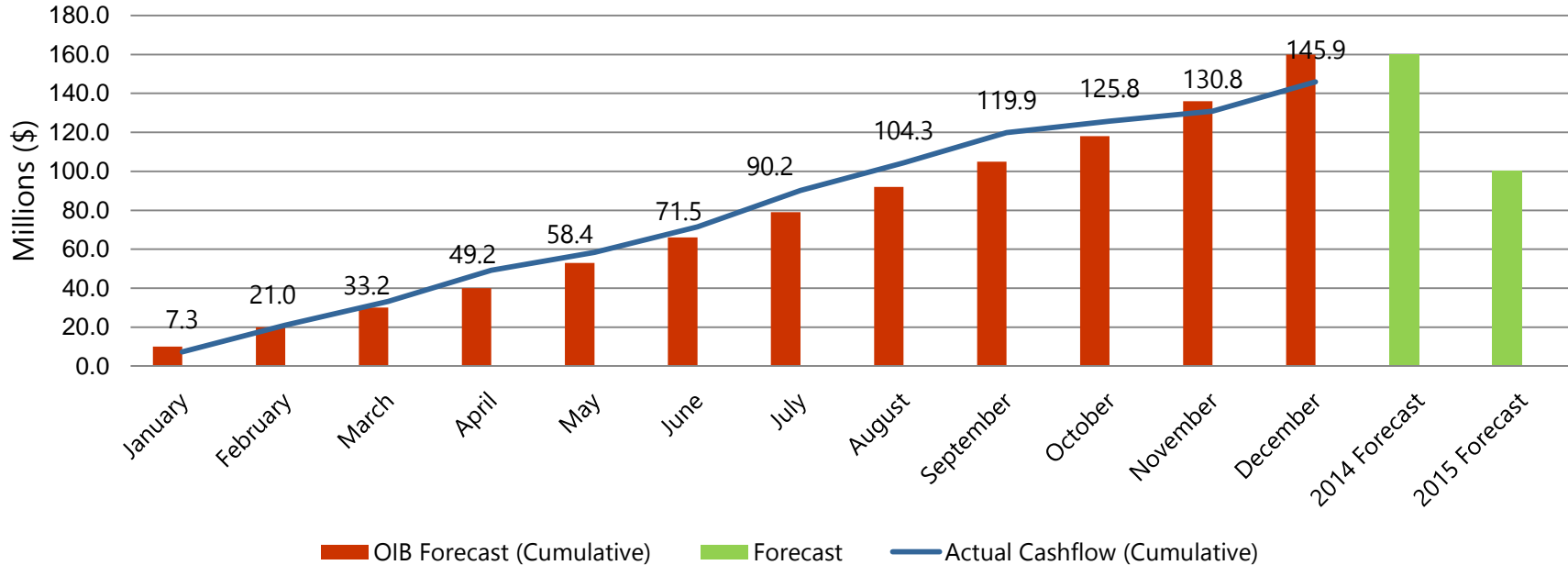
**Definition:** Liquidity is a measure of assets that can be sold at reasonable prices within one year. Higher levels of liquidity enable timely rebalancing and responses to new opportunities

**Target:** Within a target range of 30 to 40% invested in illiquid assets. Illiquid assets market value plus unfunded commitments should not exceed 55%

**Strategy:** Reduce illiquid investments to 35-40% of the overall portfolio during FY 2015

# Acceptable Risk Parameters

## Net Cash Flows from Illiquid Portfolio Actual vs. Forecast



# Acceptable Risk Parameters

## Top 10 Managers

Manager	Total Market Value (\$M)	% of Total Fund
Blackrock*	228.7	18.1
TCW	90.8	7.2
Parametric Clifton	66.9	5.3
Goldman Sachs	58.3	4.6
Acadian	49.6	3.9
Emergence	41.1	3.2
Lazard	34.8	2.8
Reams	34.5	2.7
Pembroke	31.7	2.5
PineBridge	28.2	2.2

**Definition:** Maintain concentration in managers and funds at appropriate levels

**Target:** No individual fund > 10%, no manager > 20%

**Strategy:** Closely monitor large core positions and adjust holding size to maintain compliance with targets

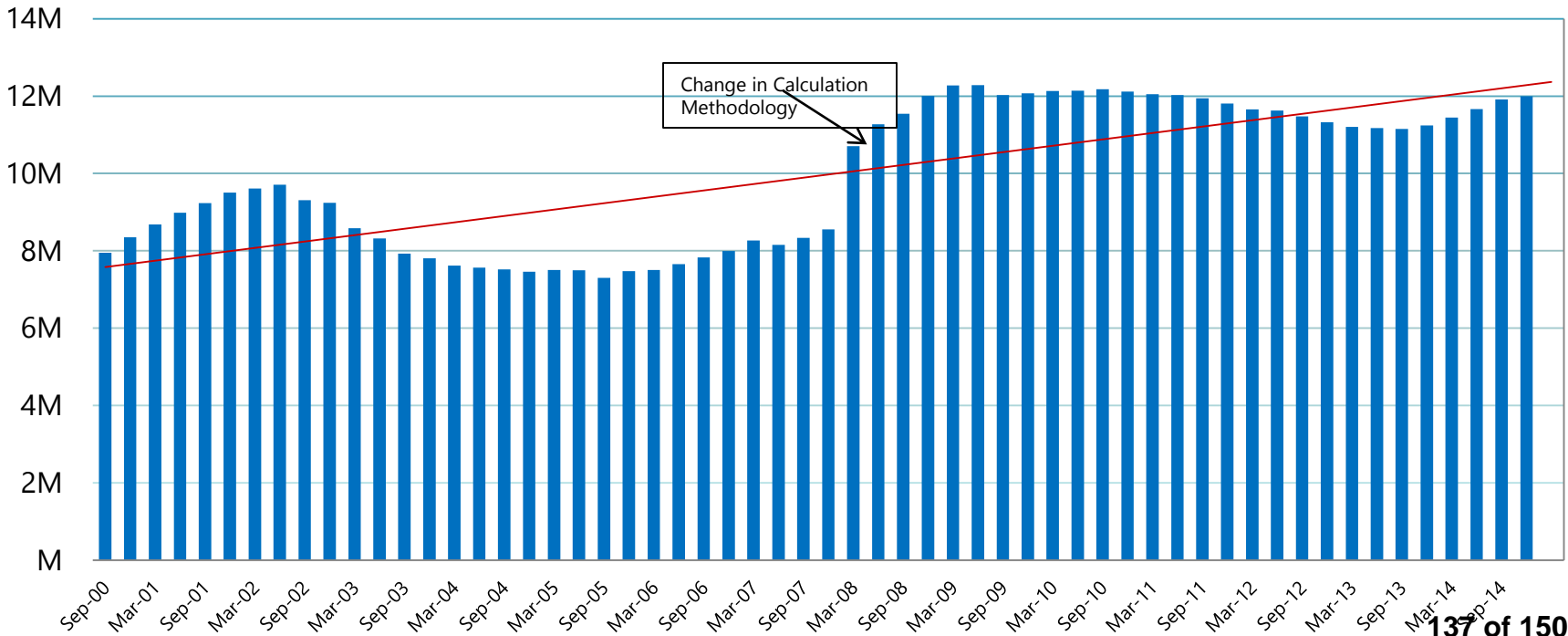
\* Blackrock investment consists of three funds, the largest of which is a Russell 1000 index fund at 9.6% of the endowment



# Stable Distributions

Actual CEF Distribution (gross of reinvestment)

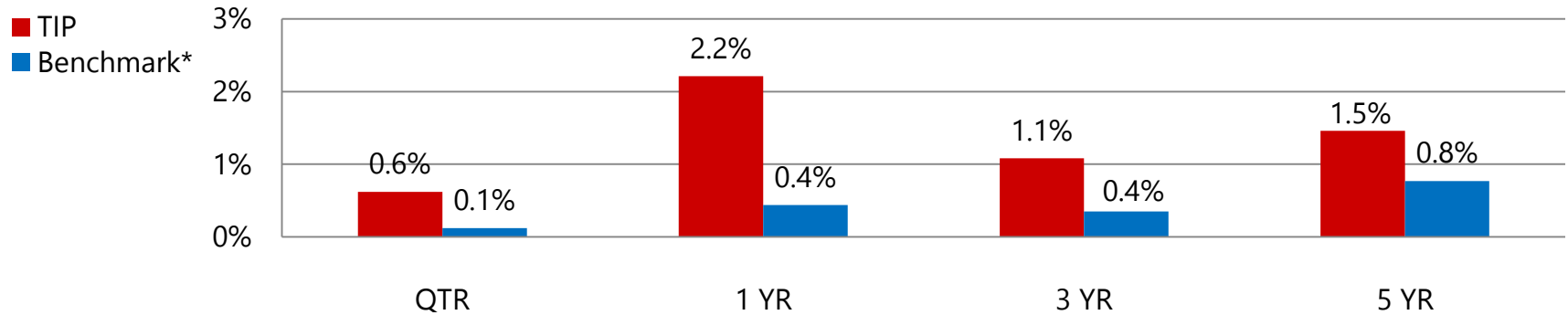
Actual Payout    Trendline



# TIP Review

# TIP – Fund Performance

Market Value: \$945.6M



Q4 2014 outperformance driven primarily by:

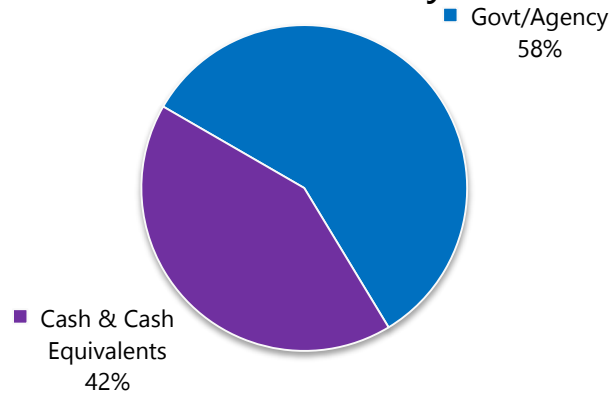
- Longer portfolio duration relative to benchmark

\* Benchmark: 70% BofAML U.S. Treasuries 1-3 Yr / 30% 91 Day T-Bill

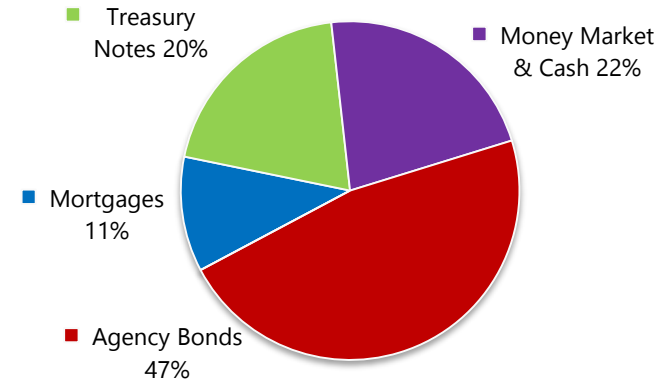
# TIP – Asset Allocation

Market Value: \$945.6M

## Credit Quality



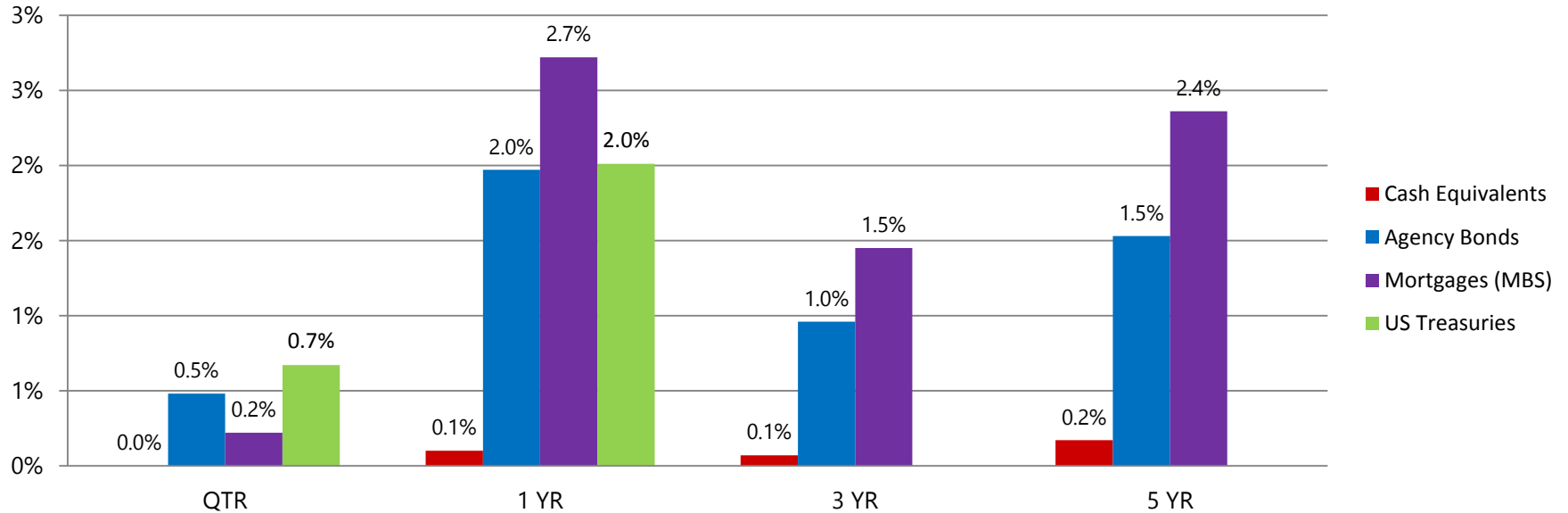
## Sector Exposure



Statistic	Portfolio	Benchmark
Average Duration	2.07	1.43
Average Credit Rating	Govt/Agency	Govt/Agency
Current Yield	0.96%	0.49%

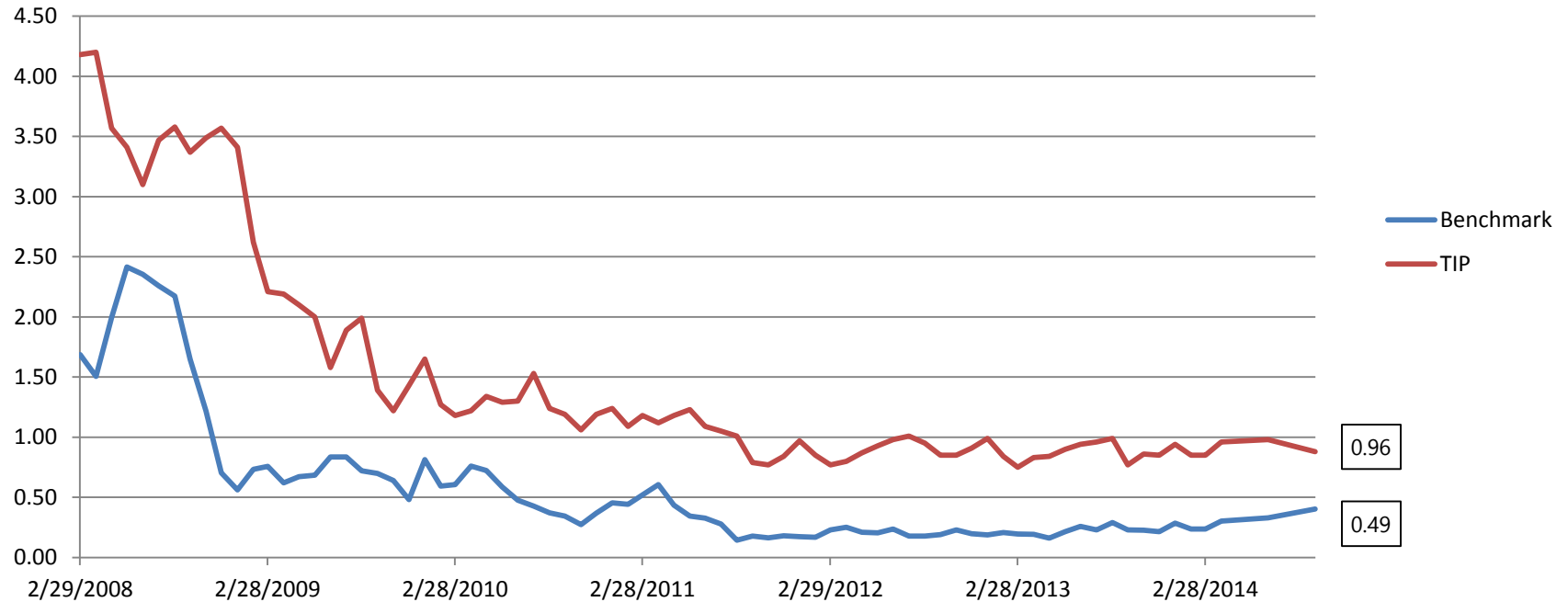
# TIP – Performance by Sector

Market Value: \$945.6M



# TIP – Yield History

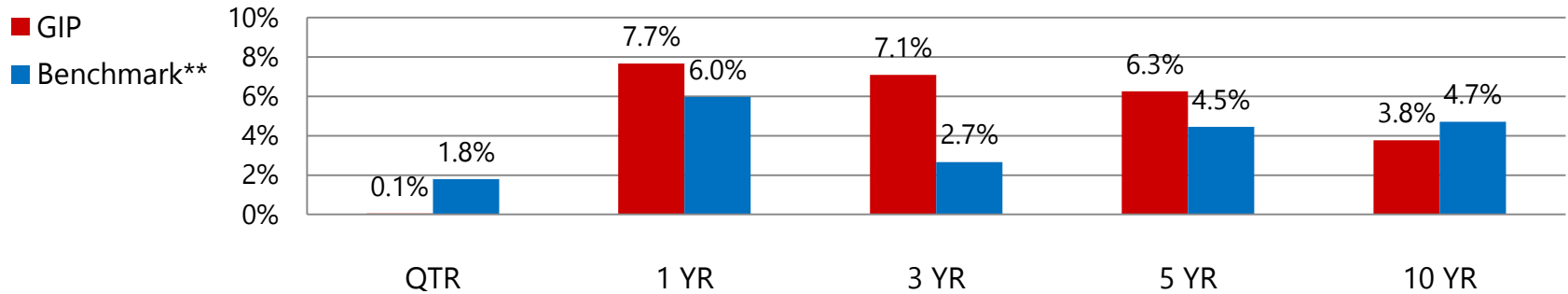
Market Value: \$945.6M



# GIP Review

# GIP – Fund Performance\*

Market Value: \$61.6M\*\*\*



Q4 2014 underperformance driven primarily by:

- Investment in CEF (23.5% allocation) underperformed the benchmark by -206 bps
- Underweight to US Treasuries relative to the benchmark
- EM Debt underperformed the benchmark by -565 bps

\* Performance is net of manager fees

\*\* Benchmark: 100% Barclays Capital Aggregate

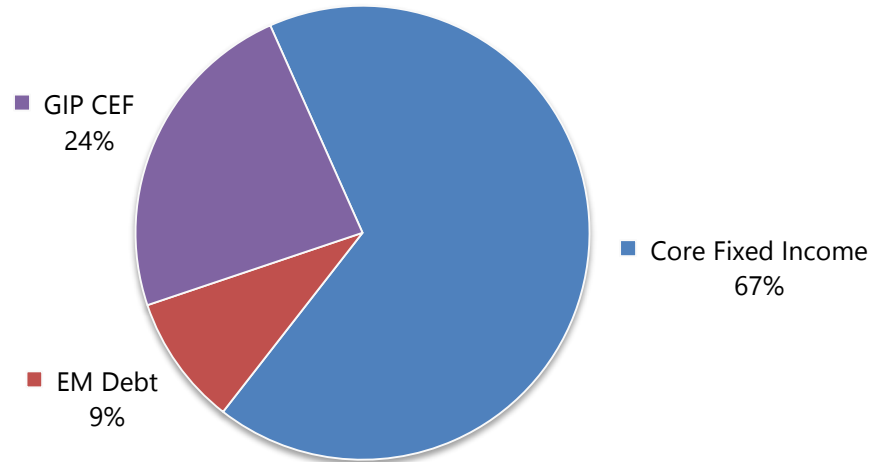
\*\*\* Total GIP market value and investment performance includes the \$14.5 million investment in CEF



# GIP – Asset Allocation

Market Value: \$61.6M

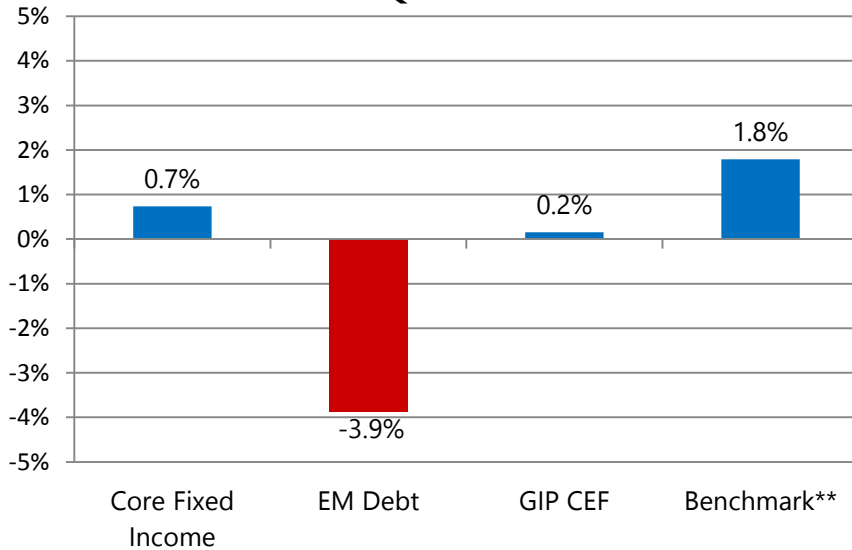
## Portfolio Composition



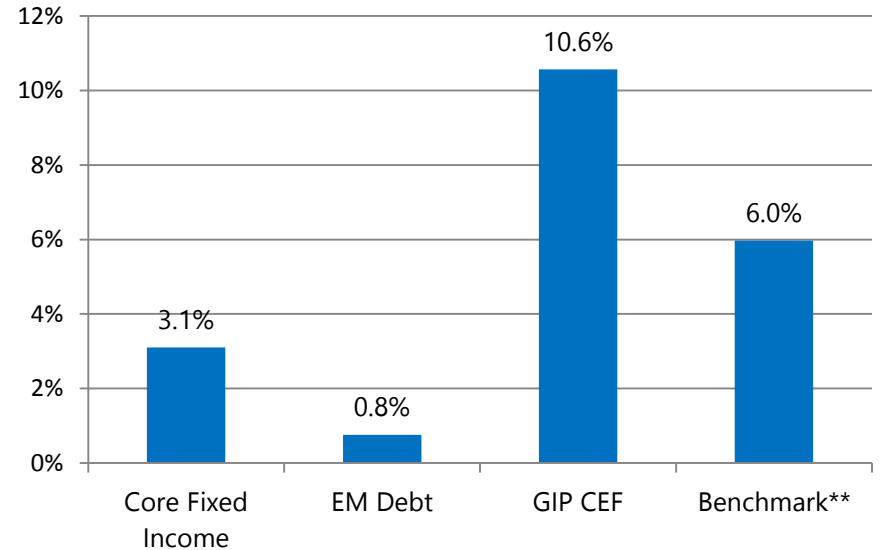
# GIP – Performance\* by Sector

Market Value: \$61.6M

## 1 Quarter



## 1 Year



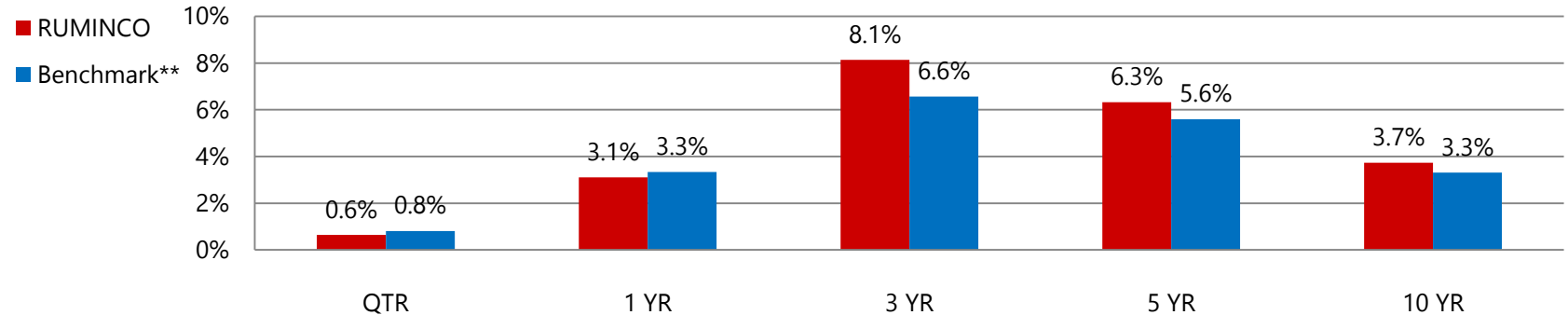
\* Performance is net of manager fees

\*\* Benchmark: 100% Barclays Capital Aggregate

# RUMINCO Review

# RUMINCO – Fund Performance\*

Market Value: \$40.9M



Q4 2014 performance driven primarily by:

- Underperformance by Global Equities
- TCW Total Return portfolio outperformed

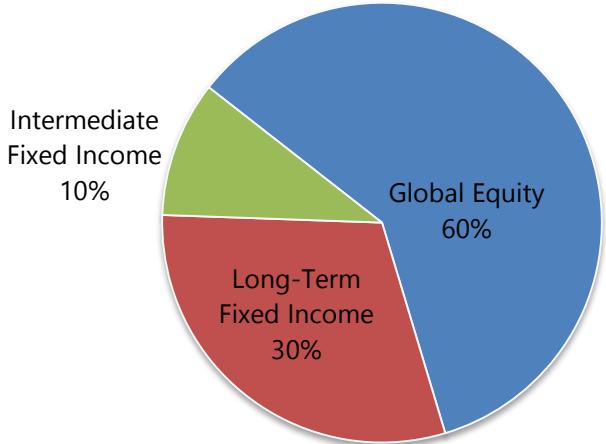
\* Performance is net of manager fees

\*\* Benchmark as of 7/1/2014: 60% MSCI AC World Net, 30% Barclays Capital Aggregate, 10% BofAML U.S. Corp & Govt 1-3 Yr

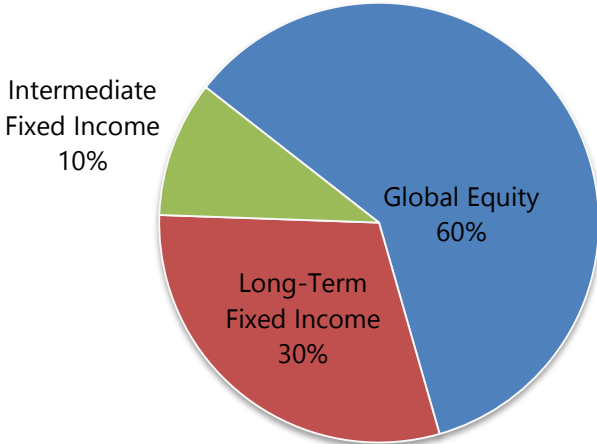
# RUMINCO – Asset Allocation

Market Value: \$40.9M

### Portfolio Composition



### Portfolio Targets





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