

Annual Asset Management Report

June 30, 2011

Office of Investments &
Banking



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Overview – All Funds

OIB Managed Funds (\$ millions)	June-11	Jun-10	Jun-09
Consolidated Endowment Fund (CEF) *	\$ 956.8	\$ 861.5	\$ 827.2
Long-Term Reserves (GIP)**	44.3	41.9	32.3
Short-Term Reserves (TIP)	748.2	697.6	595.7
RUMINCO Ltd.	32.3	31.2	28.3
Invested Assets Related to Indebtedness	<u>181.9</u>	<u>45.5</u>	<u>58.4</u>
Total	1,963.5	1,677.7	1,541.9

Other Funds Not Managed by OIB

U of M Foundation Fund	\$ 1,328.0	\$ 1,133.4	\$ 1,057.9
MN Medical Foundation Fund	236.4	189.4	181.9
Basic Faculty Retirement Plan	\$ 3,012.2	\$ 2,629.9	\$ 2,168.8

* Includes TIP, GIP and PUF investments, which as of 6/30/11 were \$108.7M, \$10.4M, and \$396.6M, respectively

** GIP market value excludes the \$10.4M invested in CEF. Elsewhere in the presentation this value is included for purposes of calculating total fund performance

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CEF Review

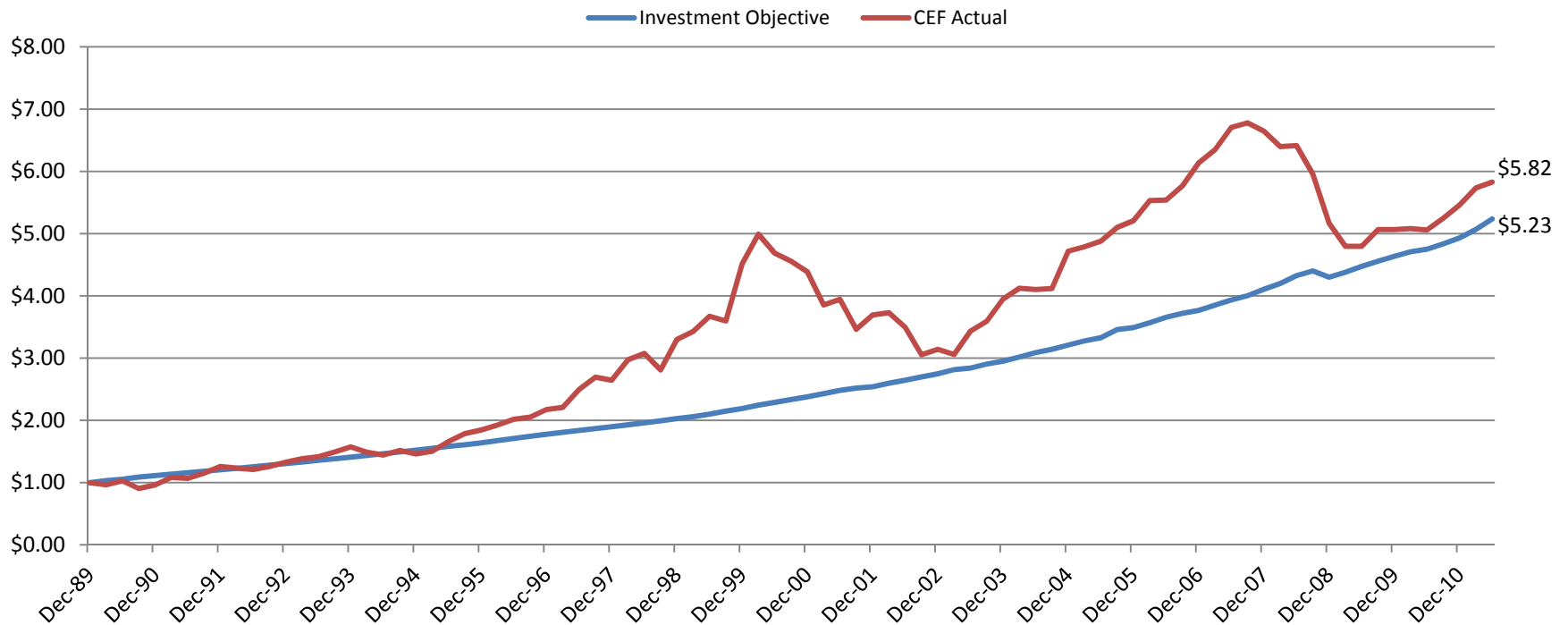
Investment Policy Objectives:

- 1) Maintain Inflation Adj. Endowment Value
- 2) Acceptable Risk Parameters
- 3) Stable Distributions



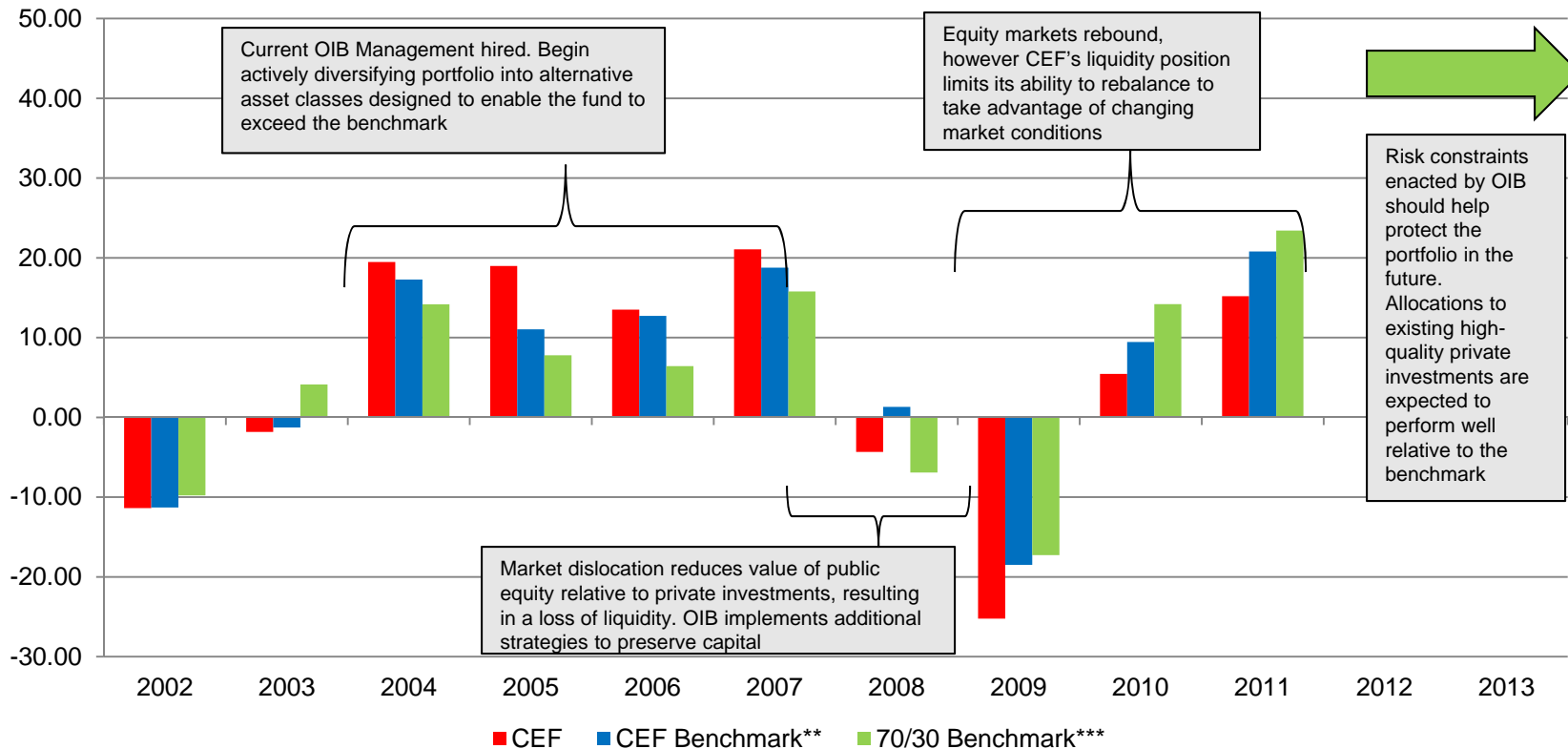
Maintain Inflation-Adj. Endowment Value

CEF Endowment Performance Growth of \$1 since December 31, 1989



Maintain Inflation-Adj. Endowment Value

Fiscal Year Performance* Comparison



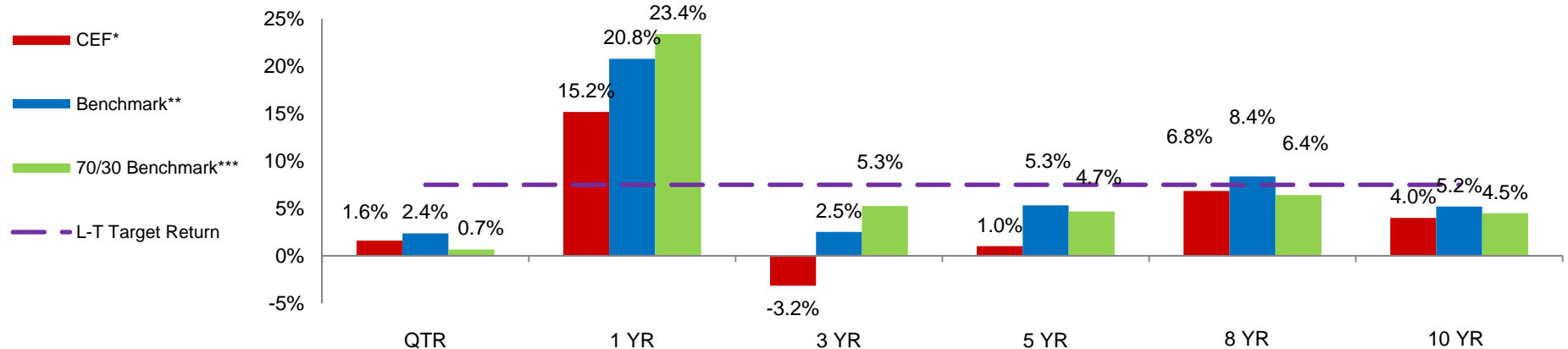
* Net of Manager Fees

** Benchmark: CEF Custom Index – 20% Russell 3000, 20% MSCI AC World ex US (NET), 20% State Street PE One QTR Lag, 20% NCREIF Property One QTR Lag and 20% Barclays Capital Aggregate

*** Benchmark: 70% Russell 3000, 30% Barclays Capital Aggregate

Maintain Inflation-Adj. Endowment Value

CEF Performance vs. Benchmarks



- One year performance driven by:
 - Strong global public & private equity performance
 - Hedge Funds slightly underperformed benchmark
 - Real assets performance was positive (10.0%) but underperformed benchmark by 606bps
 - Fixed income significantly outperformed its benchmark by 394 bps
- Three and five year performance negatively impacted by significant decline in private real estate values
- Fund Value \$957MM****

* Net of Manager Fees

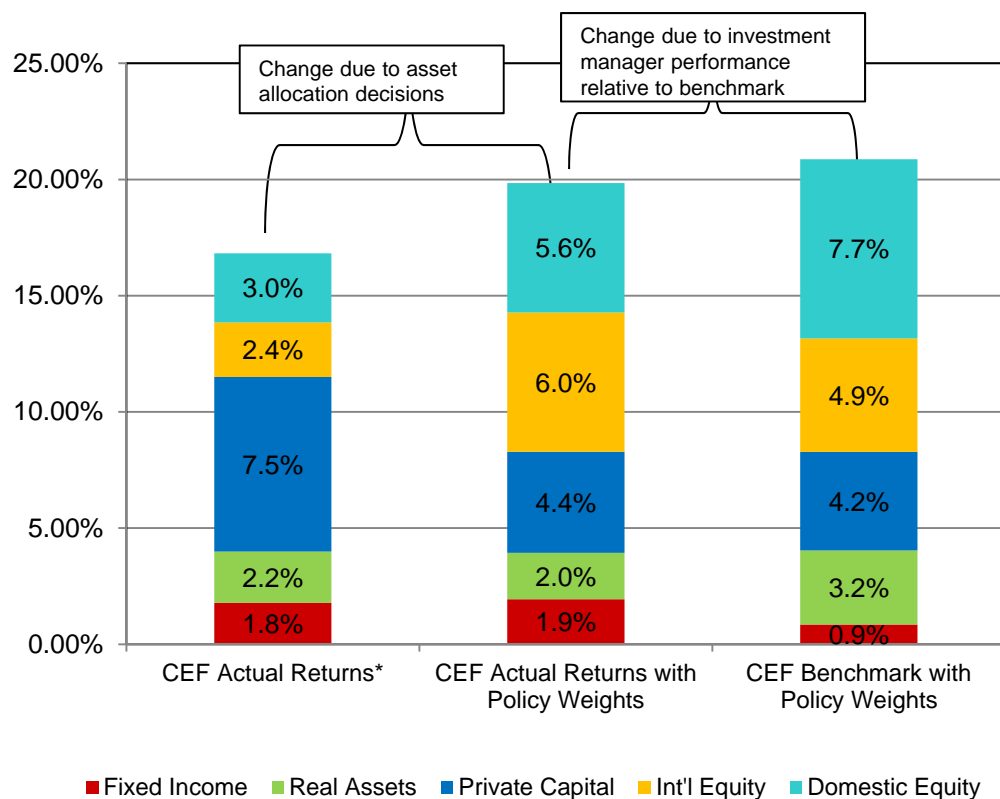
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*** Benchmark: 70% Russell 3000, 30% Barclays Capital Aggregate

**** Total CEF Market Value includes \$108.7M in TIP and \$10.4M in GIP investments

1 Year Contribution to Return by Asset Class

Fiscal Year 2011

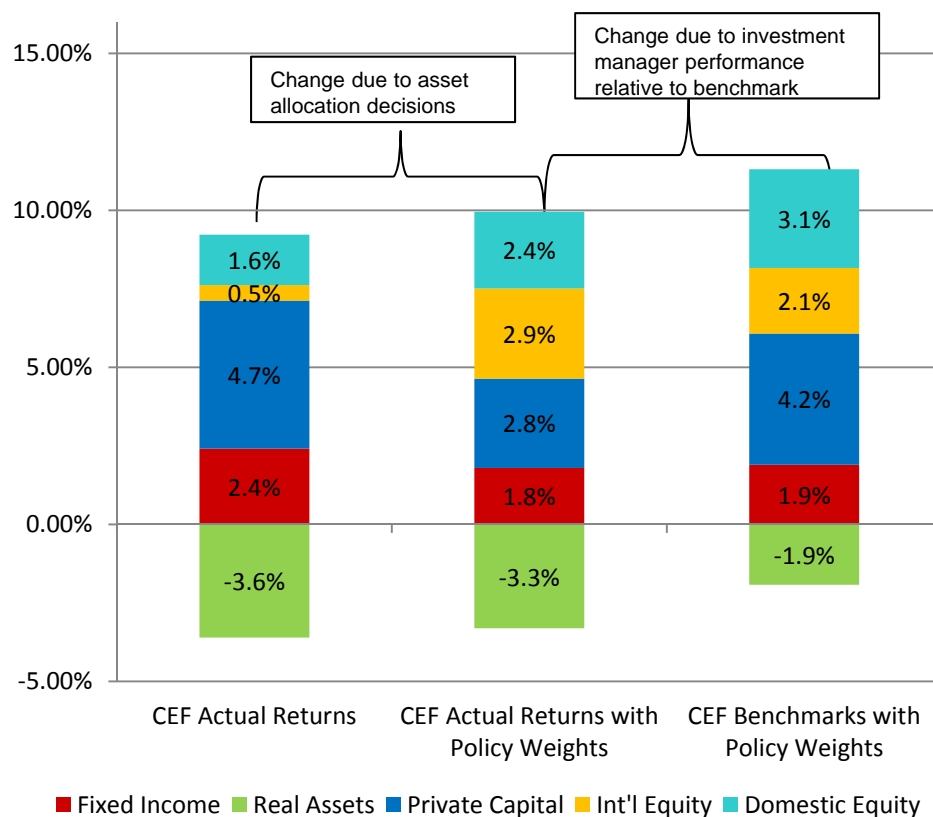


* Excludes the affect of cash and assets in the process of liquidation, which for FY2011 was (1.6%)

Asset Allocation Decisions	Effect (%)
Underweight to public equity	(6.2)
Overweight to private capital	3.1
Other	<u>0.1</u>
Total Asset Allocation Effect	(3.0)
Individual Manager Performance	Effect (%)
Outperformance by int'l public equity managers	1.1
Outperformance by fixed income managers	1.0
Underperformance by real asset managers	(1.2)
Domestic equity performance drag caused by lower volatility hedge funds	(2.1)
Other	<u>0.2</u>
Total Manager Performance Effect	(1.0)
Total*	(4.0)

1 Year Contribution to Return by Asset Class

Fiscal Year 2010



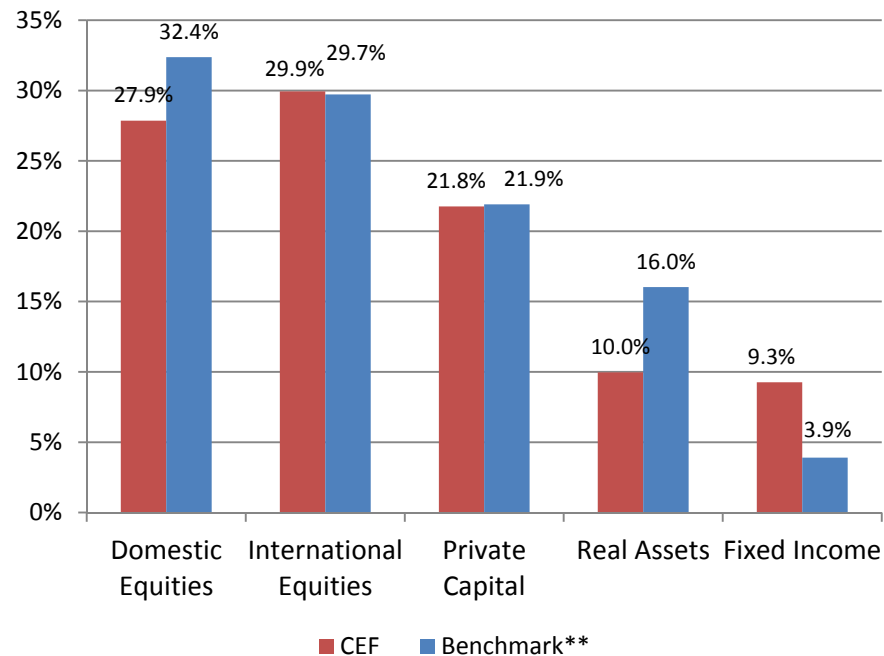
* Excludes the affect of cash and assets in the process of liquidation, which for FY2010 was (0.1%)

Asset Allocation Decisions	Effect (%)
Underweight to public equity	(3.2)
Overweight to private capital	1.9
Overweight to fixed income	0.6
Other	(0.3)
Total Asset Allocation Effect	(1.0)
Individual Manager Performance	Effect (%)
Outperformance by int'l public equity managers	0.8
Underperformance by private capital managers	(1.4)
Underperformance by real asset managers	(1.4)
Domestic equity performance drag caused by lower volatility hedge funds	(0.7)
Other	(0.1)
Total Manager Performance Effect	(2.8)
Total*	(3.8)

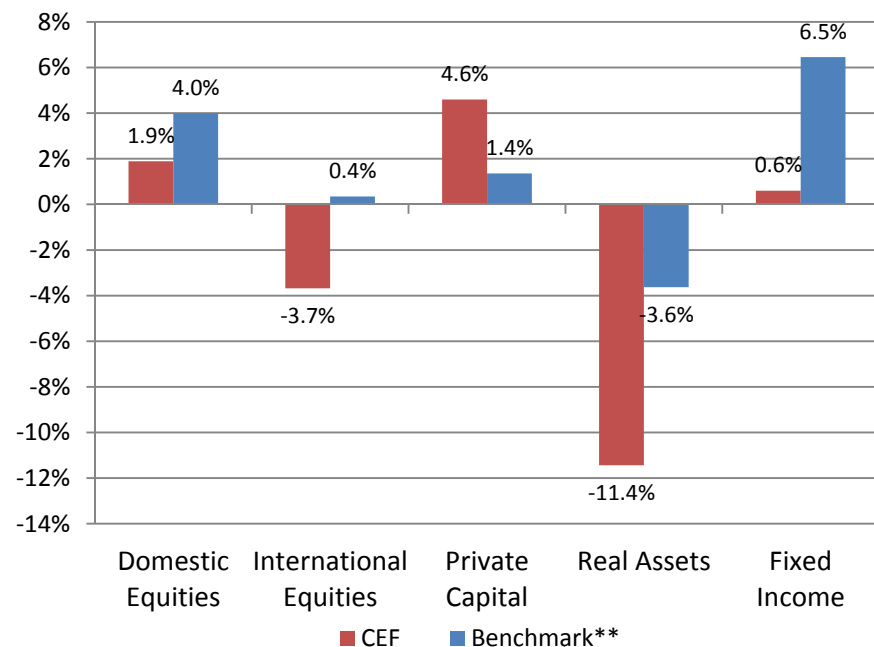
Maintain Inflation-Adj. Endowment Value

Sector vs. Benchmark Returns

1 Year



3 Year



* Net of Manager Fees

** Benchmark: Domestic Equity = Russell 3000; Int'l Equity = MSCI AC World ex US (NET); Private Capital = State Street PE One QTR Lag; Real Assets = NCREIF Property One QTR Lag; Fixed Income = Barclays Capital Aggregate

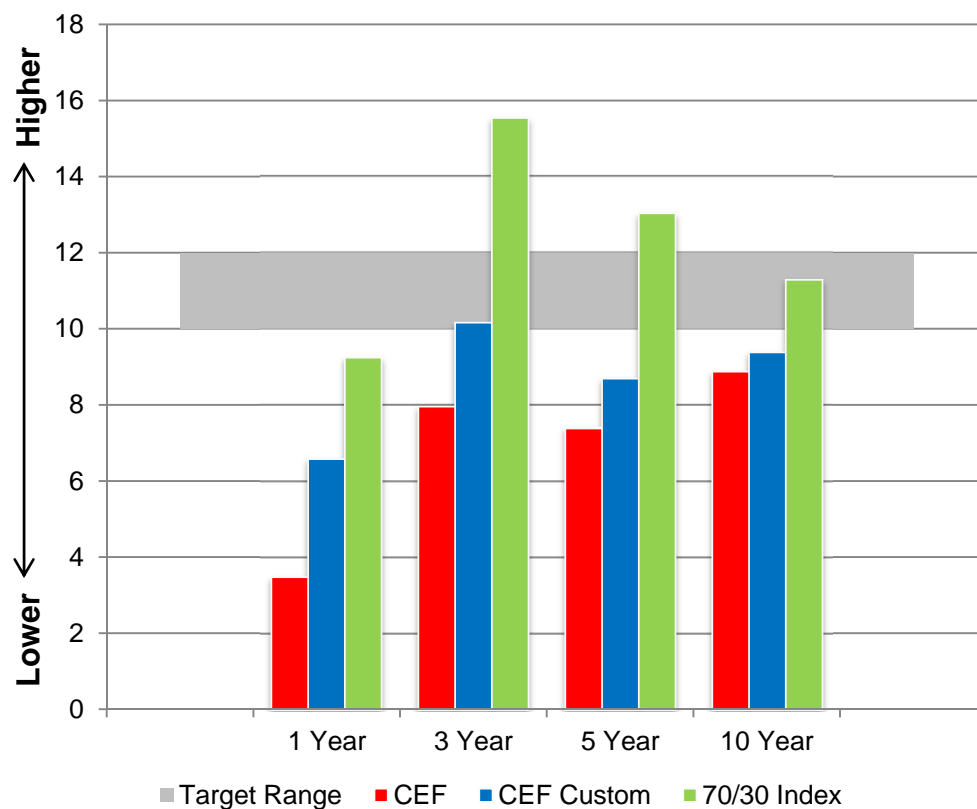
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Acceptable Risk Parameters

Standard Deviation vs. Benchmark



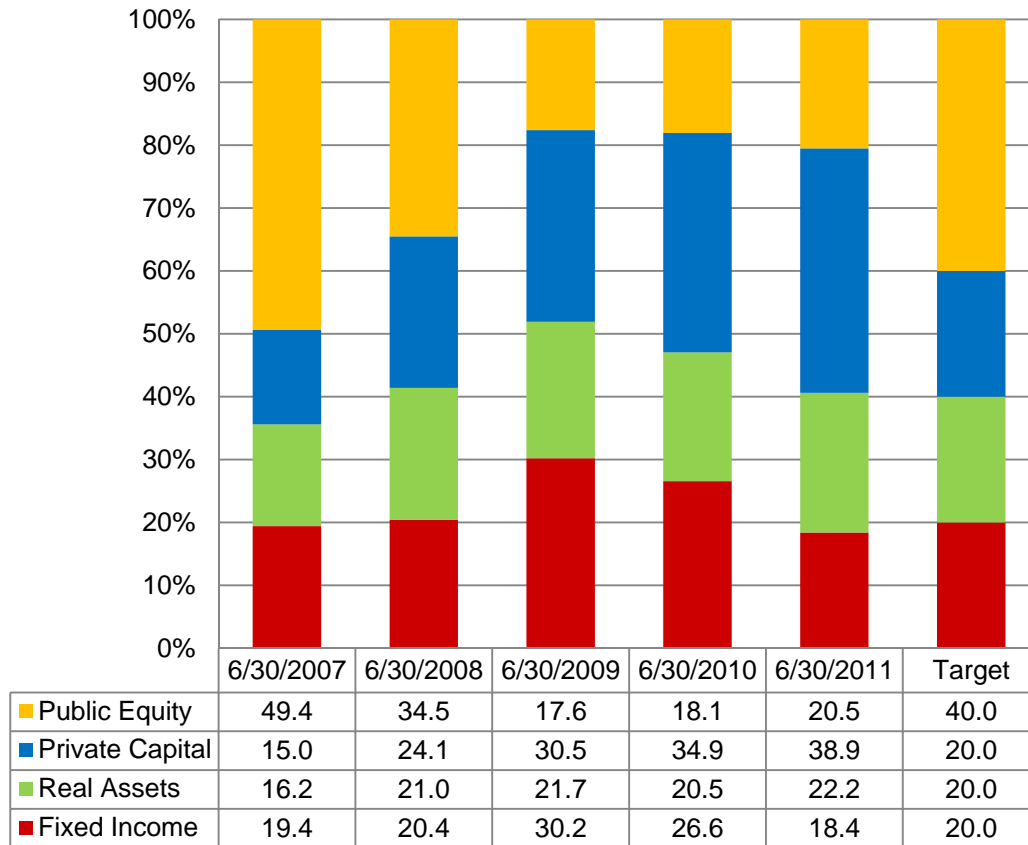
Definition: Standard Deviation is a measure of the volatility of returns

Target: 10-12% when measured over an entire market cycle

Strategy: Reduce risk, as measured by Standard Deviation, through diversification and hedging strategies

Acceptable Risk Parameters

Asset Allocation vs. Policy Targets



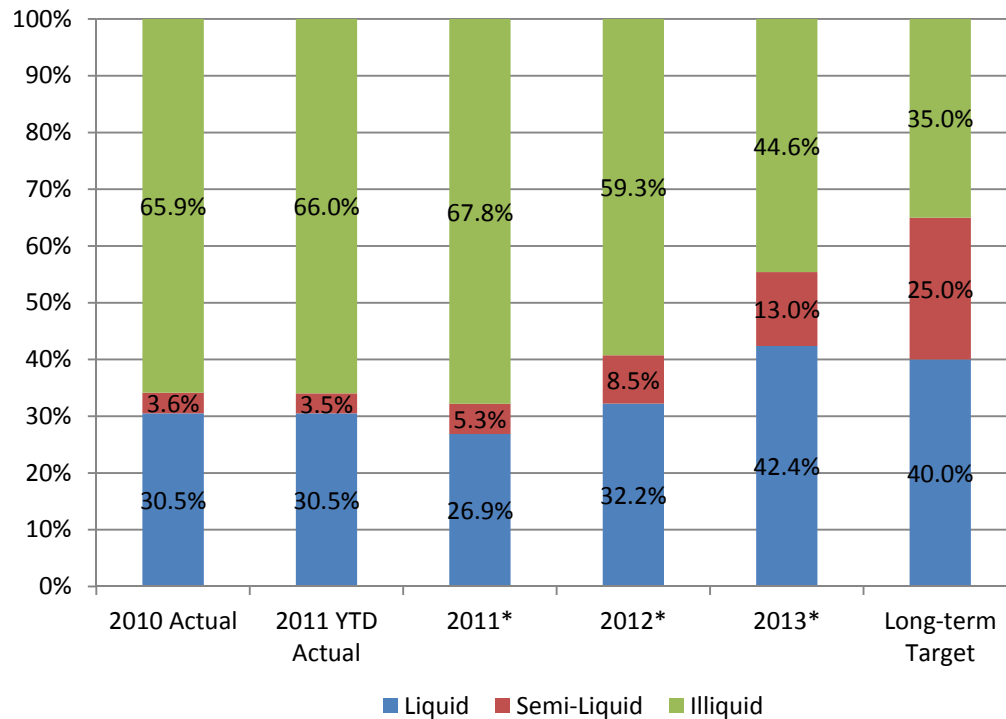
Definition: Movements away from Policy Asset Allocation Targets increase the risk of over/underperformance relative to the benchmark

Target: Maintain asset allocation within a reasonable range of policy targets

Strategy: Use increasing liquidity to aggressively rebalance to policy targets. Re-evaluate the appropriateness of current asset allocation targets

Acceptable Risk Parameters

3 year Plan - Liquidity



Definition: Appropriate levels of liquid and semi-liquid, those assets that can be sold at reasonable prices within one year, enables timely rebalancing and responses to new opportunities

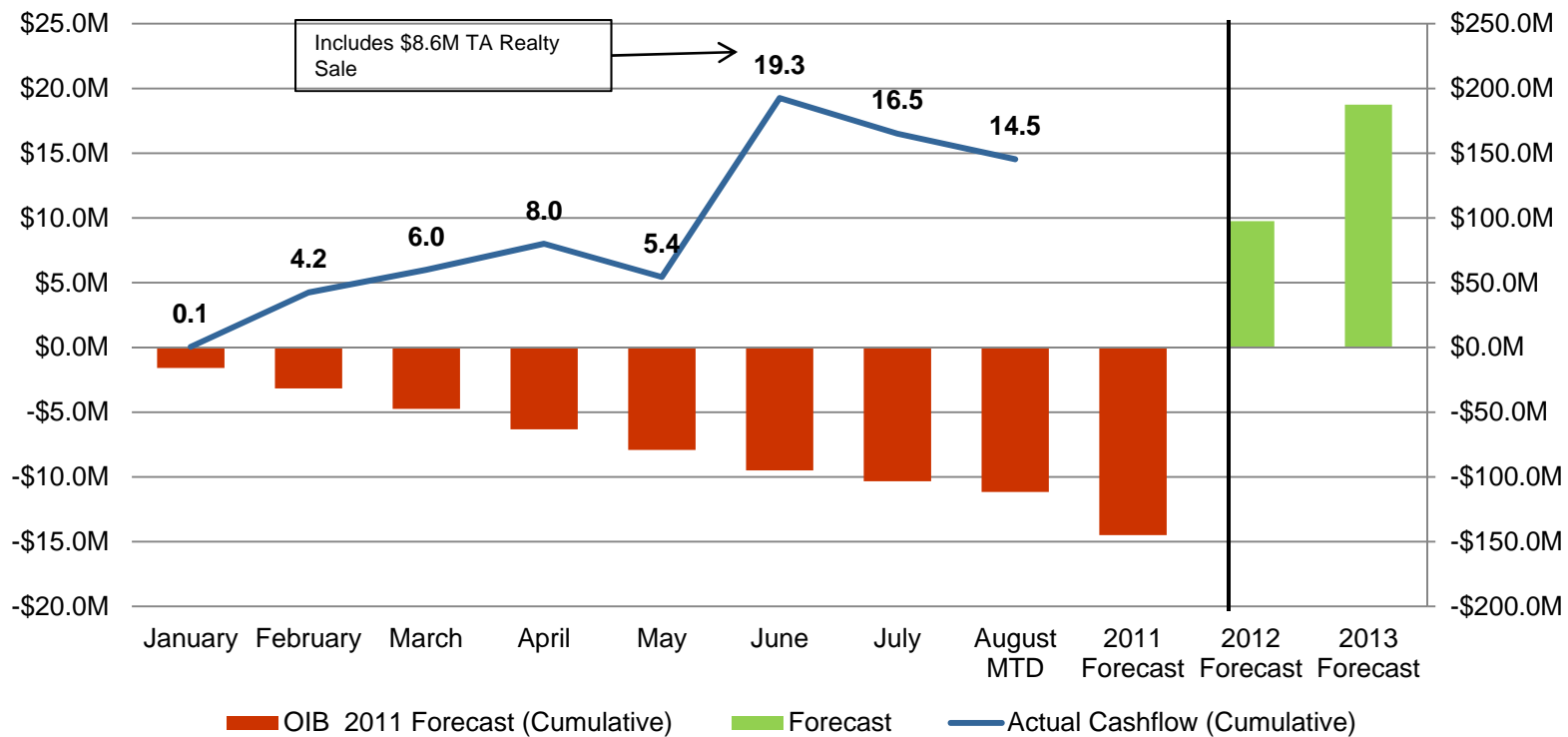
Target: No more than 35% invested in illiquid assets. Illiquid assets market value plus unfunded commitments should not exceed 55%

Strategy: Reduce illiquid investments to 35-40% of the overall portfolio over the next 3 years

* Forecast

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	88.2	9.3
PIMCO	81.3	8.5
Goldman Sachs	61.1	6.4
State Street	55.8	5.8
TCW	49.3	5.1
PineBridge	46.4	4.9
Oaktree Capital	39.5	4.1
Varde	36.9	3.9
Kayne Anderson	29.9	3.1
LaSalle	30.8	3.1

Definition: Maintain concentration in managers and funds at appropriate levels

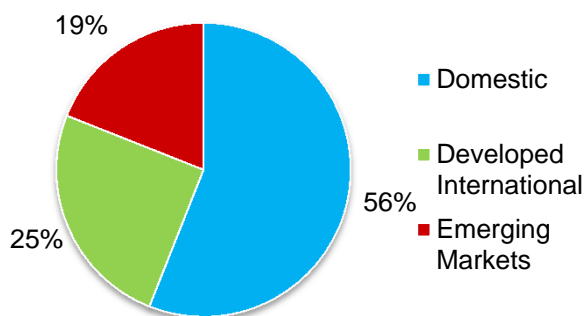
Target: No individual fund > 10%, no manager > 20%

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

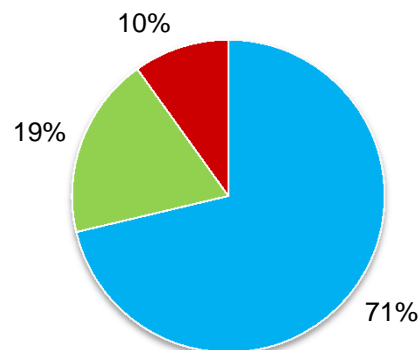
Acceptable Risk Parameters

Geographic Diversification

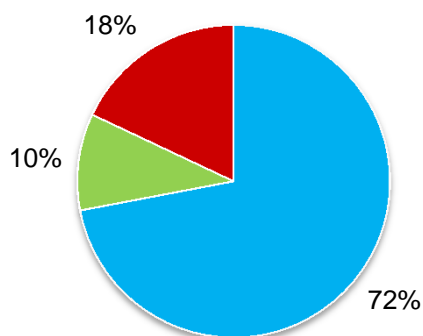
Public Equity



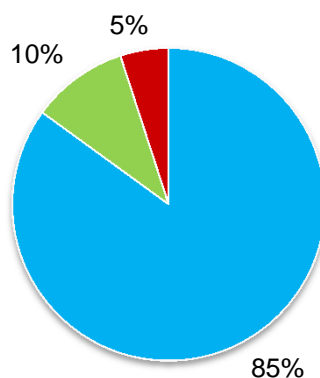
Private Equity



Real Assets



Fixed Income



Definition: Geographic concentration limits opportunity and exposes the portfolio to unnecessary risk of regional cycles

Target: Diversified geographic exposure for each asset class

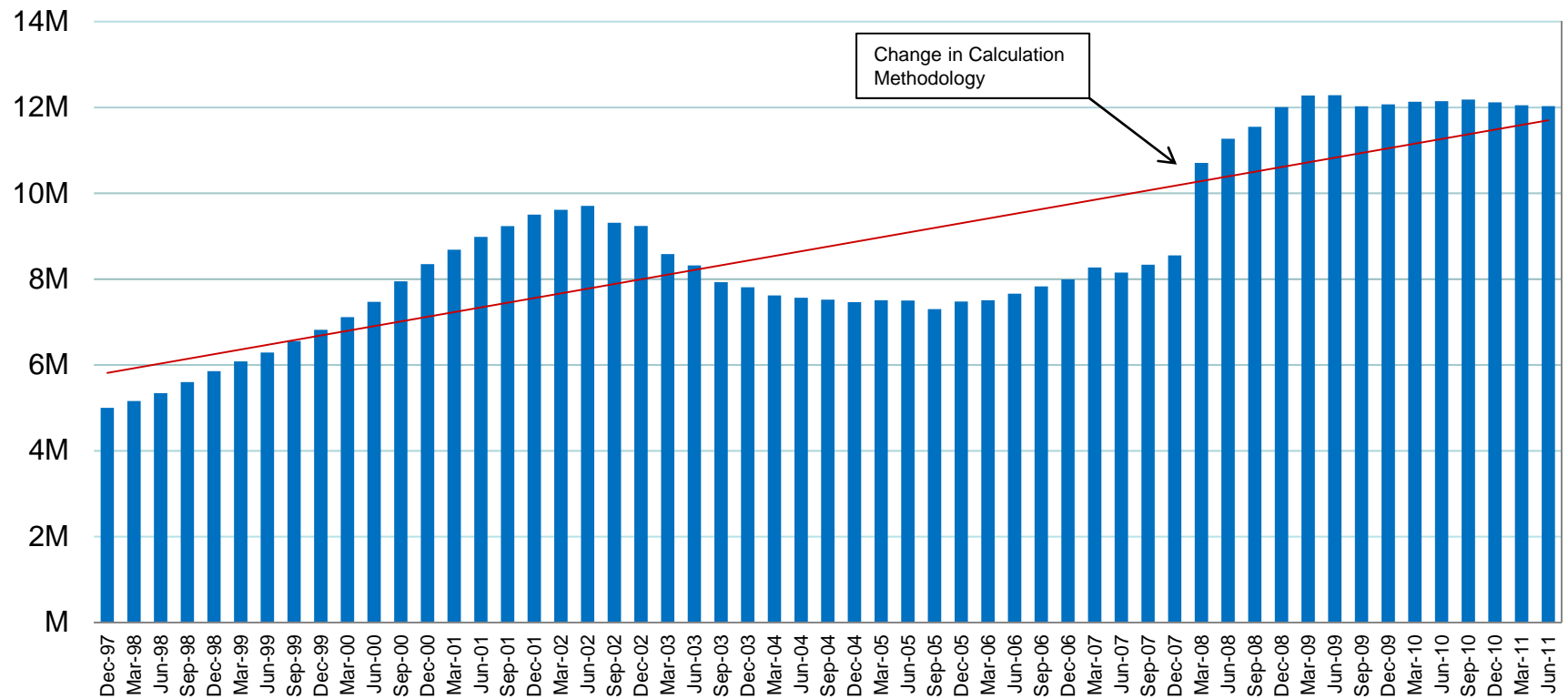
Strategy: Diversify geographic and non-US Dollar exposure

Asset Class	Percent	Market Value
Domestic	71%	\$674
Developed Int'l	17%	\$160
Emerging Markets	13%	\$121

Stable Distributions

Actual CEF Distribution (gross of reinvestment)

Actual Payout — Trendline



Investment Strategy Update

- Liquidity** - Allocate distributions to liquid asset classes and selectively sell illiquid assets in secondary market
- Asset Allocation** – Evaluate current policy asset allocation targets and adjust as necessary
- Hedge Funds** – Increase allocations to Long-Short and Absolute Return hedge funds to improve liquidity and reduce equity market volatility
- Non-US exposure** - Increase international diversification, especially in emerging markets, to improve return potential of the fund and limit correlation with US equity markets and monetary policy
- Inflation Hedging** - Increase allocation to Treasury securities and liquid real assets

TIP Review

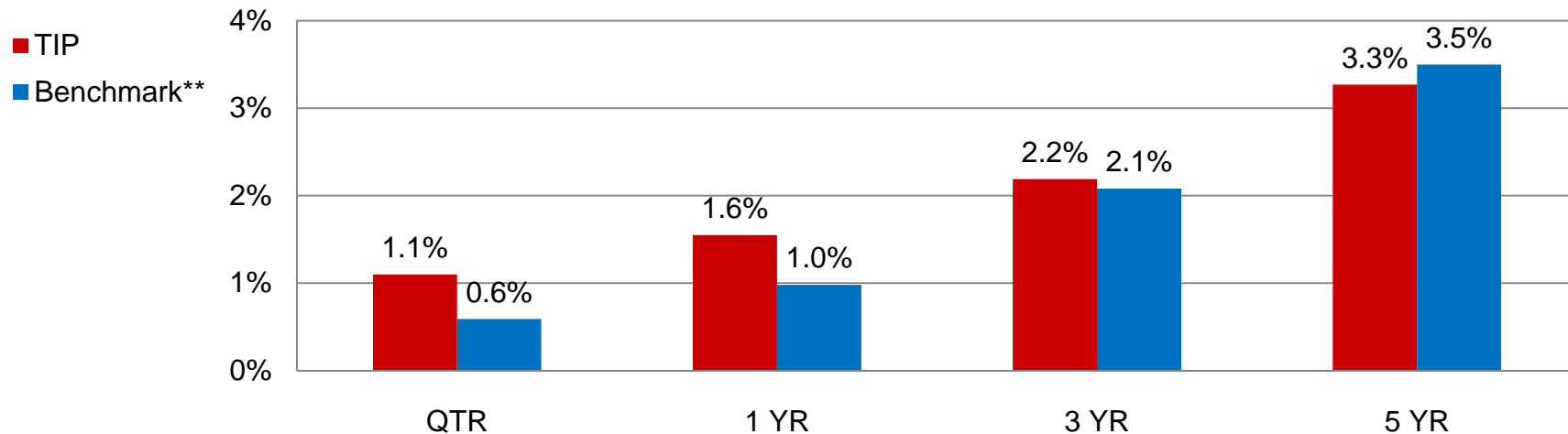
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TIP – Total Fund Performance*

Market Value: \$748M



- One year outperformance driven primarily by:
 - Spread tightening in the agency sector
 - Higher current yield relative to the benchmark
 - Outperformance in mortgage and corporate bonds (last corporate bond called in 2nd Quarter, 2011)

* Net of Manager Fees

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

*** Total TIP Market value excludes the \$108.7M investment in CEF

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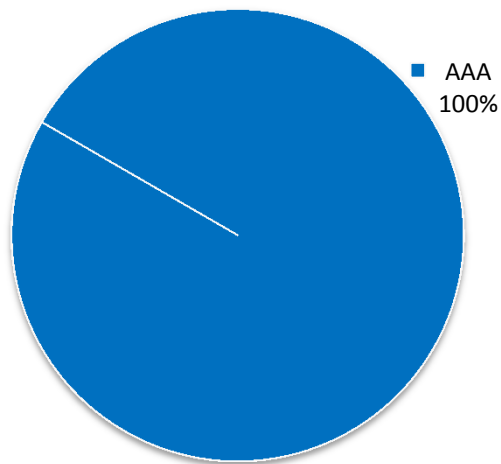


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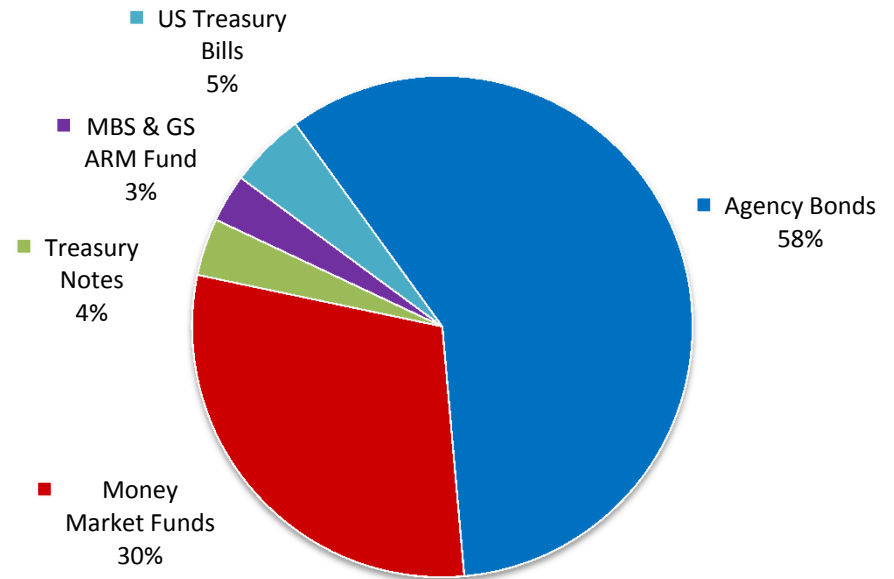
TIP – Asset Allocation

Market Value: \$748M

Credit Quality



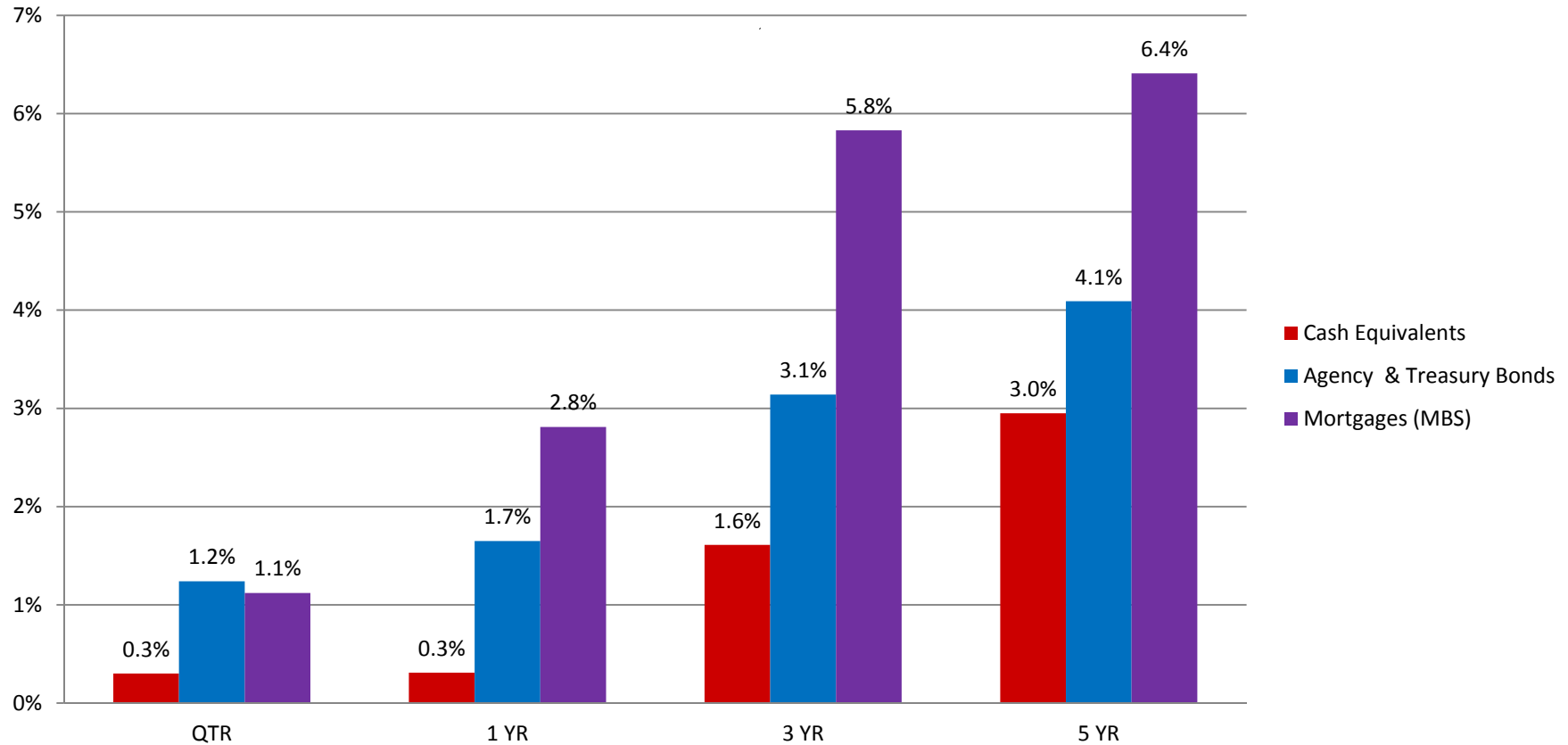
Sector Exposure



Statistic	Portfolio	Benchmark
Average Duration	1.29	1.35
Average Credit Rating	AAA	AAA
Current Yield	0.98%	0.35%

TIP – Performance* by Sector

Market Value: \$748M



* Net of Manager Fees

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GIP Review

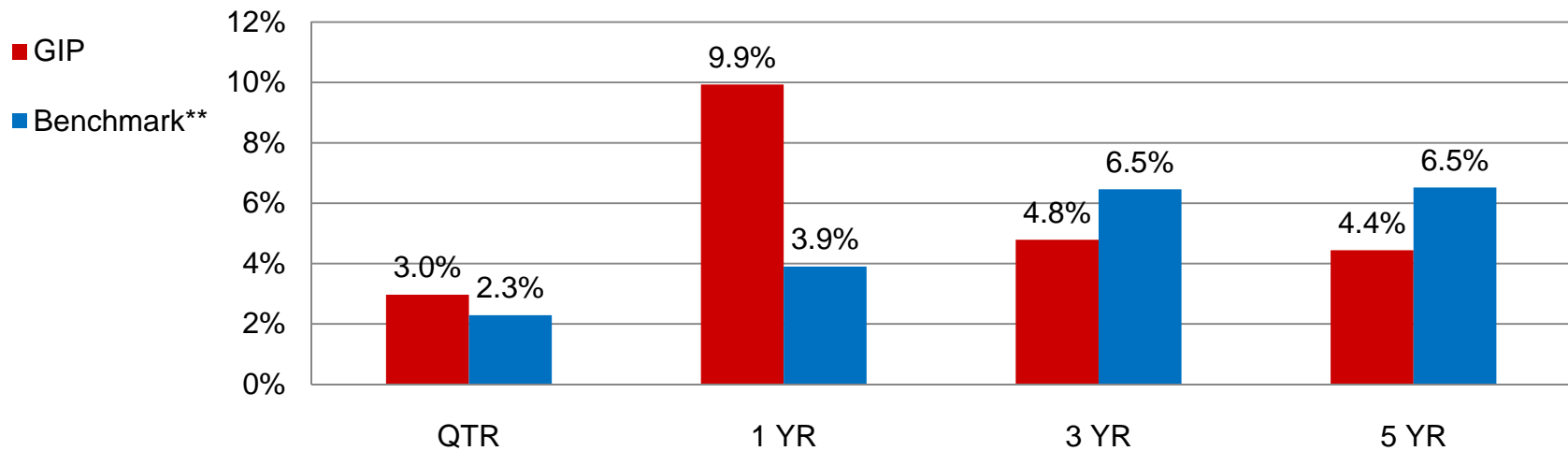
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GIP – Total Fund Performance*

Market Value***: \$55M



- One year outperformance driven primarily by:
 - Strong outperformance relative to benchmark in all sectors
 - Allocation to emerging markets debt
 - Contribution from investments in CEF

* Net of Manager Fees

** Benchmark: 100% Barclays Capital Aggregate

*** Total GIP market value and investment performance includes the \$10.4M investment in CEF

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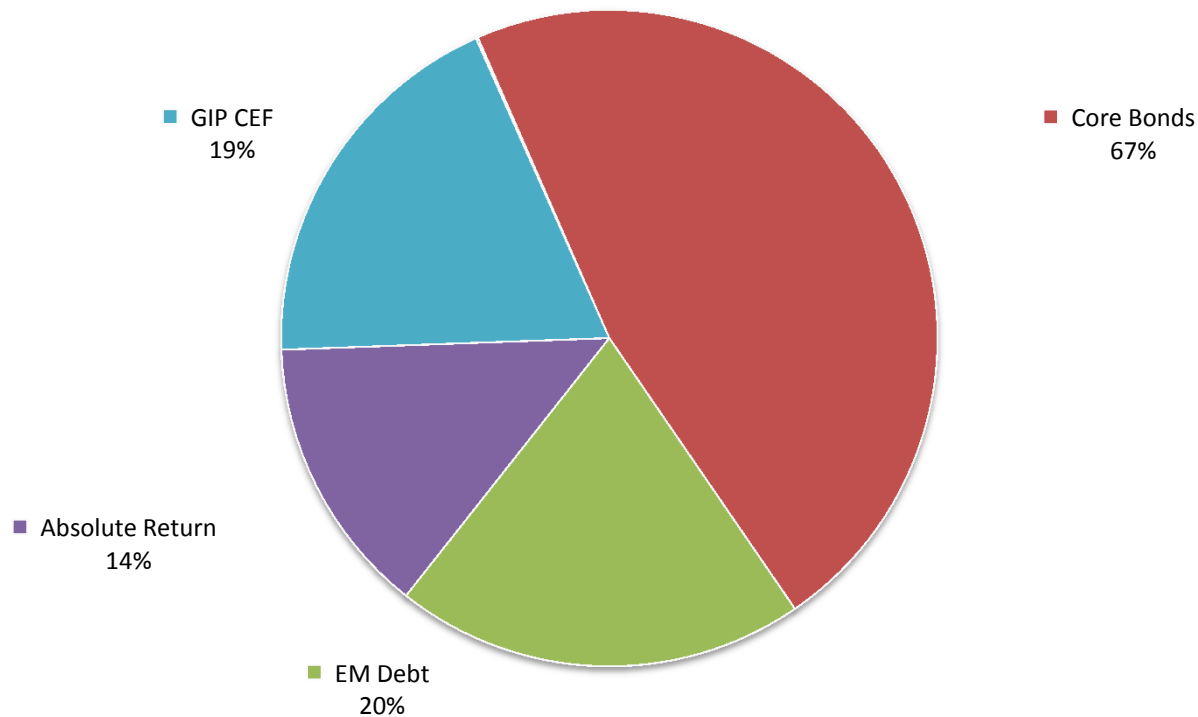


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GIP – Asset Allocation

Market Value: \$55M

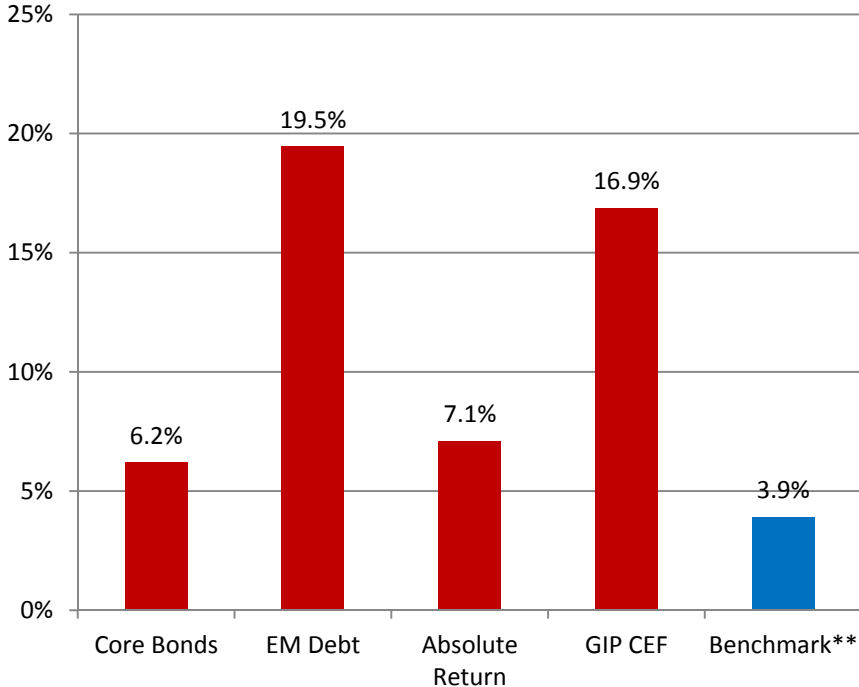
Portfolio Composition



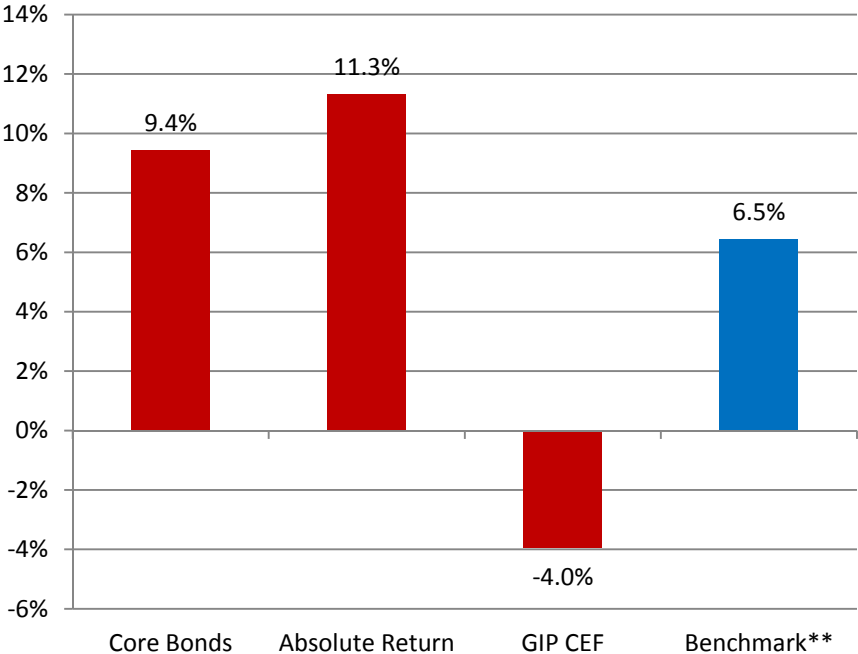
GIP – Performance* by Sector

Market Value: \$55M

1 Year



3 Year



* Net of Manager Fees
 ** Benchmark: 100% Barclays Capital Aggregate



RUMINCO Review

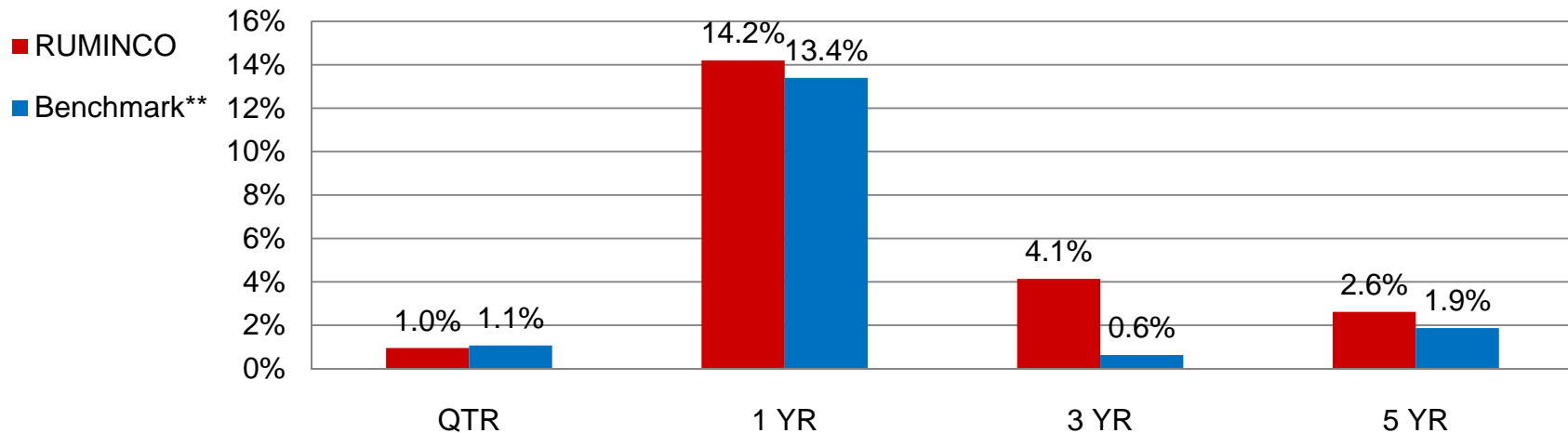
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RUMINCO – Total Fund Performance*

Market Value: \$32M



- One year outperformance primarily driven by:
 - Overweight to global equities
 - Lower portfolio duration
 - Overweight to MBS securities

* Net of Manager Fees

** Benchmark: 40% MSCI AC World Net, 30% Barclays Capital Aggregate, 30% BofAML U.S. Corp & Govt 1-3 Yr

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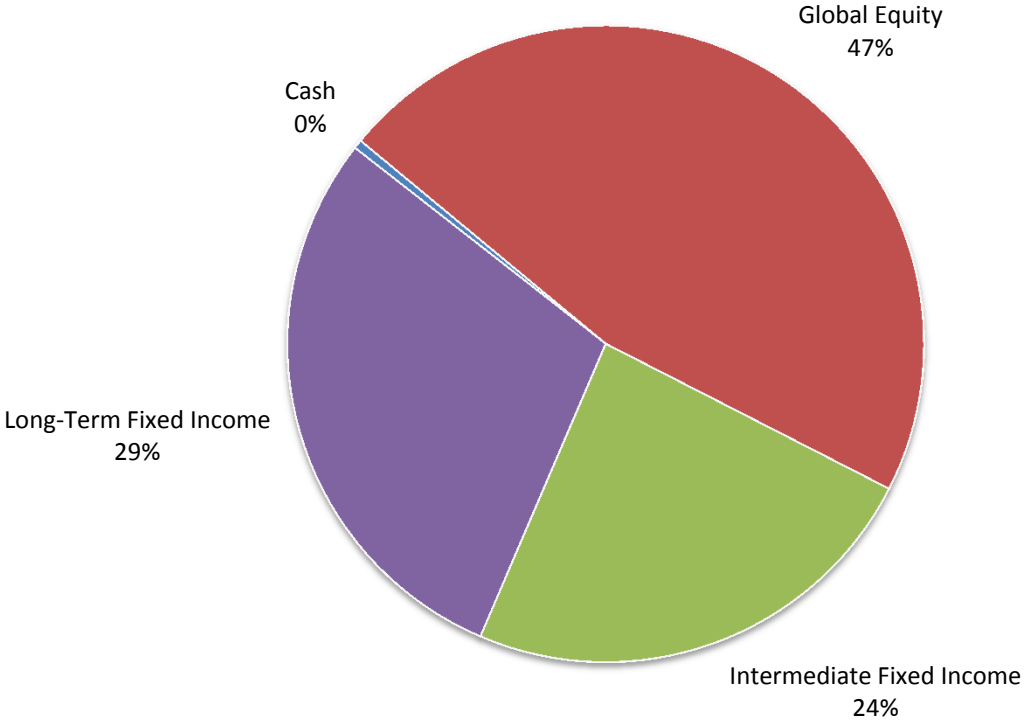


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RUMINCO – Asset Allocation

Market Value: \$32M

Portfolio Composition



* Benchmark: 40% MSCI AC World Net, 30% Barclays Capital Aggregate, 30% BofAML U.S. Corp & Govt 1-3 Yr



Investment Manager Changes

New:

- Mariner – Absolute Return Hedge Fund
- Bessemer – Venture Capital

Terminated:

- Wellington Spindrift – Hedge Fund

Significant Changes in Allocation:

- PIMCO BABZ bonds – tactical allocation
- TCW Total Return – tactical allocation
- TCW Emerging Markets – reconfigured portfolio

Additional Changes:

- Added new commitment to Qiming Venture Partners III
- Added new commitment to Index Growth Venture II

Emerging Investment Managers

The University and the Office of Investments & Banking (OIB) recognizes the opportunity of working with targeted investment managers which are defined as emerging investment managers (less than \$250 million under management) and minority / women owned investment firms.

The OIB has an open door policy when interviewing investment managers and makes every effort to consider targeted managers consistent with the financial and fiduciary responsibilities of the University.

Over the past two years, OIB has hired no new emerging investment managers. OIB has been actively working to reduce the number of manager relationships and, as a result, has had limited opportunity to add new managers.