UNIVERSITY OF MINNESOTA

BOARD OF REGENTS

Finance Committee

Thursday, February 7, 2013

9:15 - 11:15 a.m.
600 McNamara Alumni Center, West Committee Room

Board Members
John Frobenius, Chair
Venora Hung, Vice Chair
Clyde Allen
Richard Beeson
Laura Brod
Thomas Devine

Student Representatives
Meghan Mason
James Rook

A G E N D A

1. Annual Capital Finance & Debt Management Report - R. Pfutzenreuter (pp. 2-3)

2. Annual Insurance & Risk Management Report - M. Volna/S. Pardoe (pp. 4-25)

3. Annual Investment Performance: Peer Comparisons - R. Pfutzenreuter/S. Mason (pp. 26-40)

4. Financial Dashboard: Metrics for Board Oversight - R. Pfutzenreuter/M. Volna (p. 41)

5. Information Items - R. Pfutzenreuter (pp. 42-43)

UNIVERSITY OF MINNESOTA
BOARD OF REGENTS

Finance Committee **February 7, 2013**

Agenda Item: Annual Capital Finance & Debt Management Report

☐ **review** ☐ **review/action** ☐ **action** ☒ **discussion**

Presenters: Vice President/CFO Richard Pfutzenreuter

Purpose:

☒ **policy** ☐ **background/context** ☐ **oversight** ☐ **strategic positioning**

To provide an update of the debt profile of the University, in accordance with Board of Regents Policy: *Debt Transactions*.

Outline of Key Points/Policy Issues:

At June 30, 2012, the University's long-term debt outstanding was $1,226,388,000 with a total effective interest rate of 3.65%. Long-term debt consists of general obligation (GO) bonds, special purpose revenue bonds, commercial paper notes, auxiliary revenue bonds, infrastructure development bond obligations, and capital leases and other.

The balance outstanding at June 30, 2012, excluding the special purpose revenue bonds (State Supported Stadium Debt and State Supported Biomedical Science Research Facilities) is $913,451,000.

Significant FY 2012 debt transactions:

- In September 2011, the University extended the Line of Credit (LOC) with Wells Fargo for one year and reduced the amount from $65,000,000 to $50,000,000. The LOC supports the University's self-liquidity for its commercial paper outstanding.

- On October 13, 2011, the University issued the second tranche of the Biomedical Science Research Facilities Funding Program. The proceeds will be used to fund a portion of the Cancer/Cardiovascular Research Building construction costs.

- $52,485,000 Special Purpose Revenue Bonds, Series 2011B (State Supported Biomedical Science Research Facilities Funding Program). In 2008, State of Minnesota legislation provided for an annual appropriation to reimburse the University for the annual debt service on these bonds.

- $19,335,000 GO Taxable Bonds, Series 2011C (University Supported Biomedical Science Research Facilities Funding Program).

- On December 21, 2011, the University issued GO bonds, Series 2011D, in the par amount of $53,610,000 to fund various capital projects.

Subsequent to fiscal year-end:

- The LOC with Wells Fargo was extended for an additional year to October 1, 2013 with a reduction in the amount to $40,000,000.

- Amendments to the Board of Regents Policy: *Debt Transactions* were approved by the Board of Regents in December 2012. The majority of the changes were in format and clarification of the existing policy, rather than significant changes in the policy itself.

- The University is in the process of issuing GO bonds, Series 2013A, and GO Taxable bonds, Series 2013B, with pricing planned for February 6, 2013 through a competitive sale. Total proceeds to be used for various capital projects and to pay costs of issuance are expected to be approximately $97,000,000.

Background Information:

The University pursues the following goals when issuing debt:

- Maintain key financial metrics to ensure continued access to capital markets;

- Minimize University borrowing costs at acceptable levels of risk over the life of the debt; and

- Maintain a portfolio of variable and fixed-rate debt that is in the long-term best interest of the University.

Two committees are used for developing debt policy and seeking advice in new debt management practices:

- Debt Management Advisory Committee, chaired by Regent Beeson.

- Debt Oversight Group, which includes executive leadership across University functional areas.

A Debt Process Team exists for purposes of post-issuance compliance, including the investment of and the spending of bond proceeds, accounting and tax compliance processes, and discussion and documentation of the University's external debt management guidelines.

The Annual Capital Financing and Debt Management Report was last presented to the Finance & Operations Committee in February 2012.

UNIVERSITY OF MINNESOTA
BOARD OF REGENTS

Finance Committee **February 7, 2013**

Agenda Item: Annual Insurance & Risk Management Report

☐ **review** ☐ **review/action** ☐ **action** ☒ **discussion**

Presenters: Associate Vice President Michael Volna
Steven Pardoe, Director of Risk Management and Insurance

Purpose:

☐ **policy** ☐ **background/context** ☒ **oversight** ☐ **strategic positioning**

To provide a report on FY 2012 University risk management and insurance programs.

Outline of Key Points/Policy Issues:

For FY 2012, the University's total cost of risk (which is the sum of captive costs, self-insurance costs, and the cost of commercially-purchased insurance) was $13.8 million, compared with $13.6 million for the prior year, an increase of 1.3%.

During FY 2012, Risk Management standardized language related to insurance in all contract templates used by the University; amended administrative policies related to insurance programs; and increased spending for safety improvements out of the Risk Safety Fund.

Goals for FY 2013 include finalizing coverage for medical clinical trials liability occurring outside of Minnesota; completing updates to administrative policies and procedures covering alcoholic beverages on campus; and working with human resources to address recommendations made in a recent audit report on the workers' compensation program.

Background Information:

This report is prepared and presented to the Board of Regents Finance Committee annually.

UNIVERSITY OF MINNESOTA

Annual Report

of the

Office of Risk Management and Insurance

as of

Fiscal Year Ended

30 June 2012

Table of Contents

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.

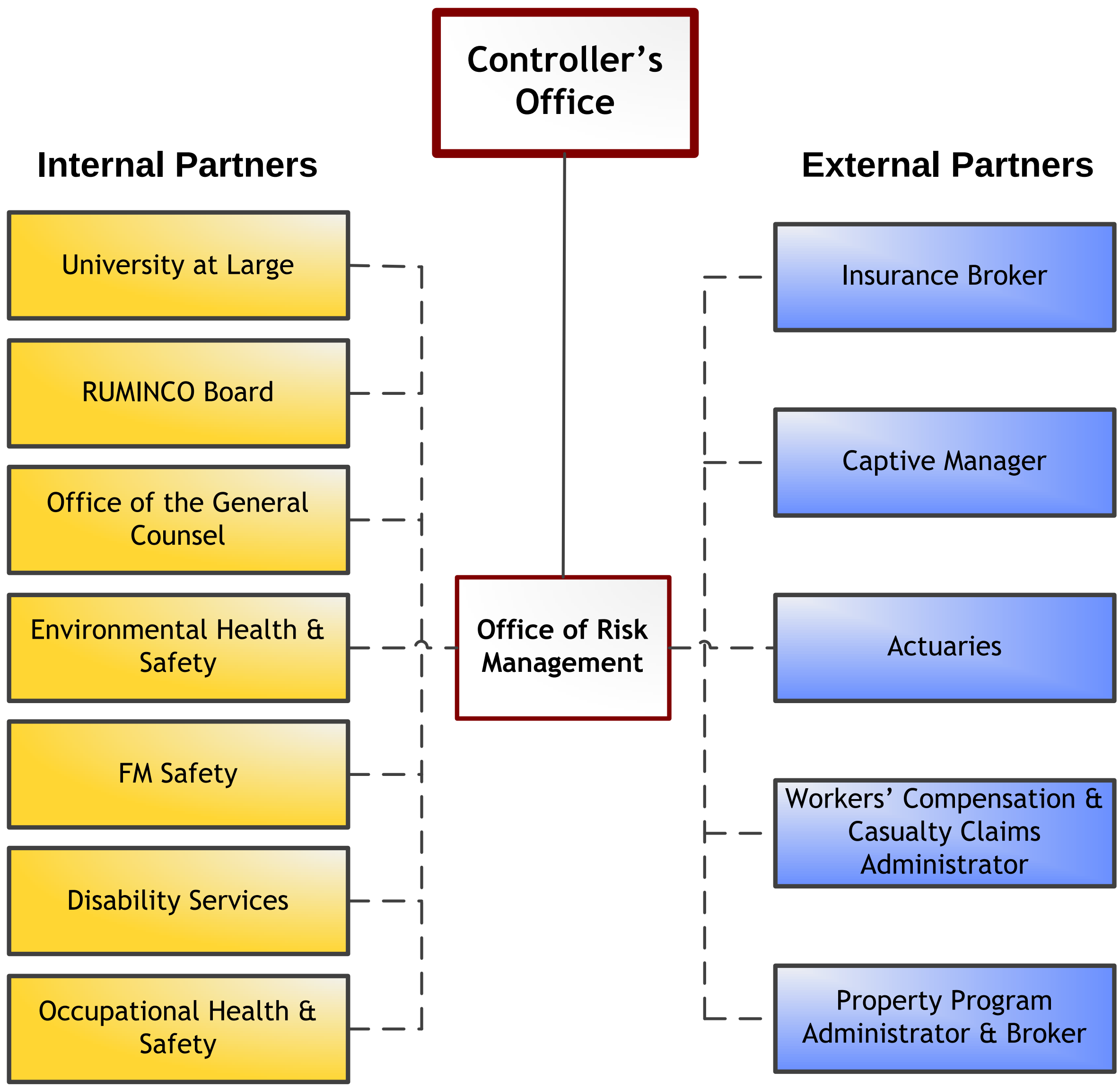
Risk Management uses commercial insurance, captive insurance, and self-insurance to transfer, or budget for, monetary loss arising from risk. It is responsible for the design, procurement, implementation and maintenance of these programs. Risk Management routinely consults with the Office of General 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, 2012.

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.



FY12 Milestones and Accomplishments

Extra-Minnesota Medical Clinical Trials Liability

Within Minnesota jurisdiction, the University is afforded protection from high-dollar lawsuits by statute. We cannot count on similar protections in foreign jurisdictions. In FY12, Risk Management studied university Medical Clinical Trials activity, prepared application submissions accurately reflecting our exposure, and received alternative proposals for addressing them. We will secure coverage as part of our FY13 insurance program.

Standardized Contract Insurance Clauses

Risk Management reviewed the insurance sections of the standard contracts the University uses. Goals included ensuring the protection of the university, the practical ability of contract partners to comply with requirements, appropriateness of standards to the tasks normally covered by the contracts, and standardization.

Policy on Insurance

We reviewed and amended University administrative policy addressing property and casualty insurance. Our focus was on streamlining the policy, making sure the information is directly relevant to end users and that key points are immediately recognizable and easy to understand.

Physical Safety Improvements

Risk Management administers the Safety Fund, an annually replenished pool of funds used for purchase of durable equipment that improves the workplace safety for university Employees. Because this fund can be particularly helpful in tight fiscal environment, Risk Management encouraged use of it throughout FY12. Recipient campuses and entities included Crookston, St Paul, Crookston, Duluth, the Large Lakes Observatory, Twin Cities and Duluth Facilities Management and the Department of Environmental Health and Safety. The Safety Fund disbursed a total of $101,123 in FY12.

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

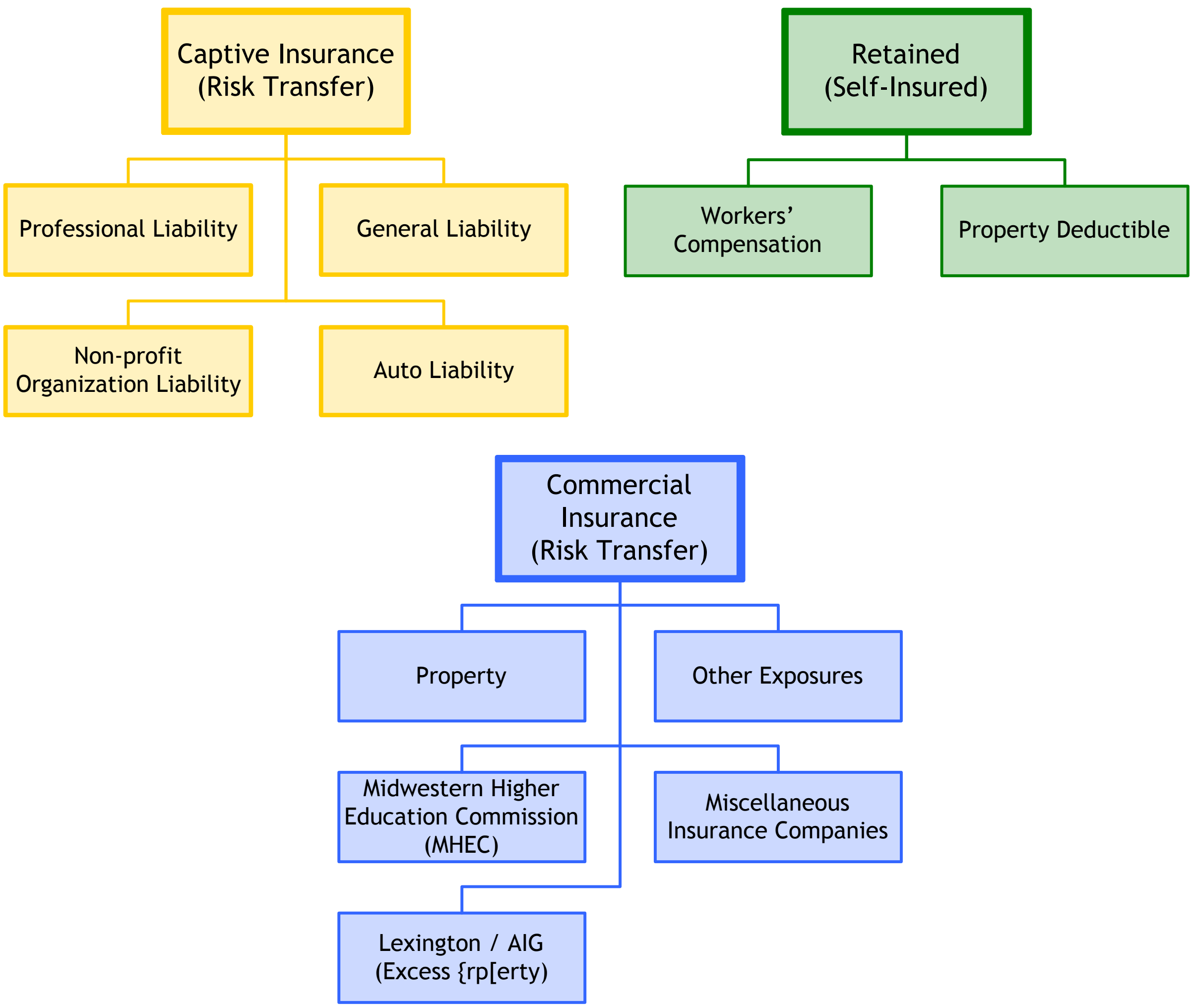
There are specific rationales behind the decision to transfer or retain a specific risk. Because retaining one‟s own risk (within limits) tends to be more economical in the long run than paying a third party to assume it, the guiding principle has been for the University to retain risk, to the extent 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 approximately $11B in property values, and carries a $1B property insurance limit. Because there is no good way to fund $1B internally, the University purchases an insurance policy 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.

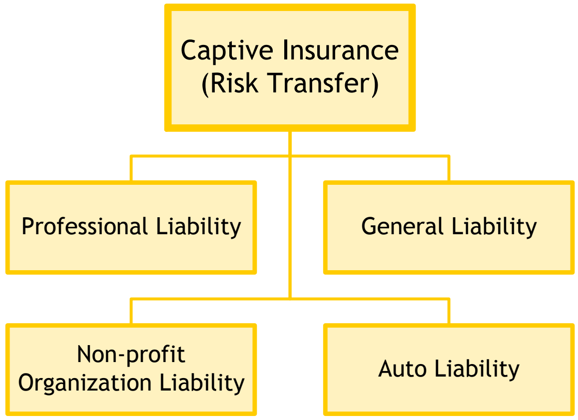
The University finances its Property and Casualty risk using three general strategies:



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. (*R*egents of the *U*niversity of *M*innesota *IN*surance *CO*mpany) 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. <u>General Liability</u> 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: Concentrations of people in facilities such as dormitories, stadiums and arenas exposed to fire, collapse, explosion, etc.

B. <u>Professional Liability</u> 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
- Performing postmortem examinations
- 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. <u>Auto Liability</u> 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. <u>Non-Profit Organization Liability</u> covers liability claims not triggered by Bodily Injury or Property Damage, including:

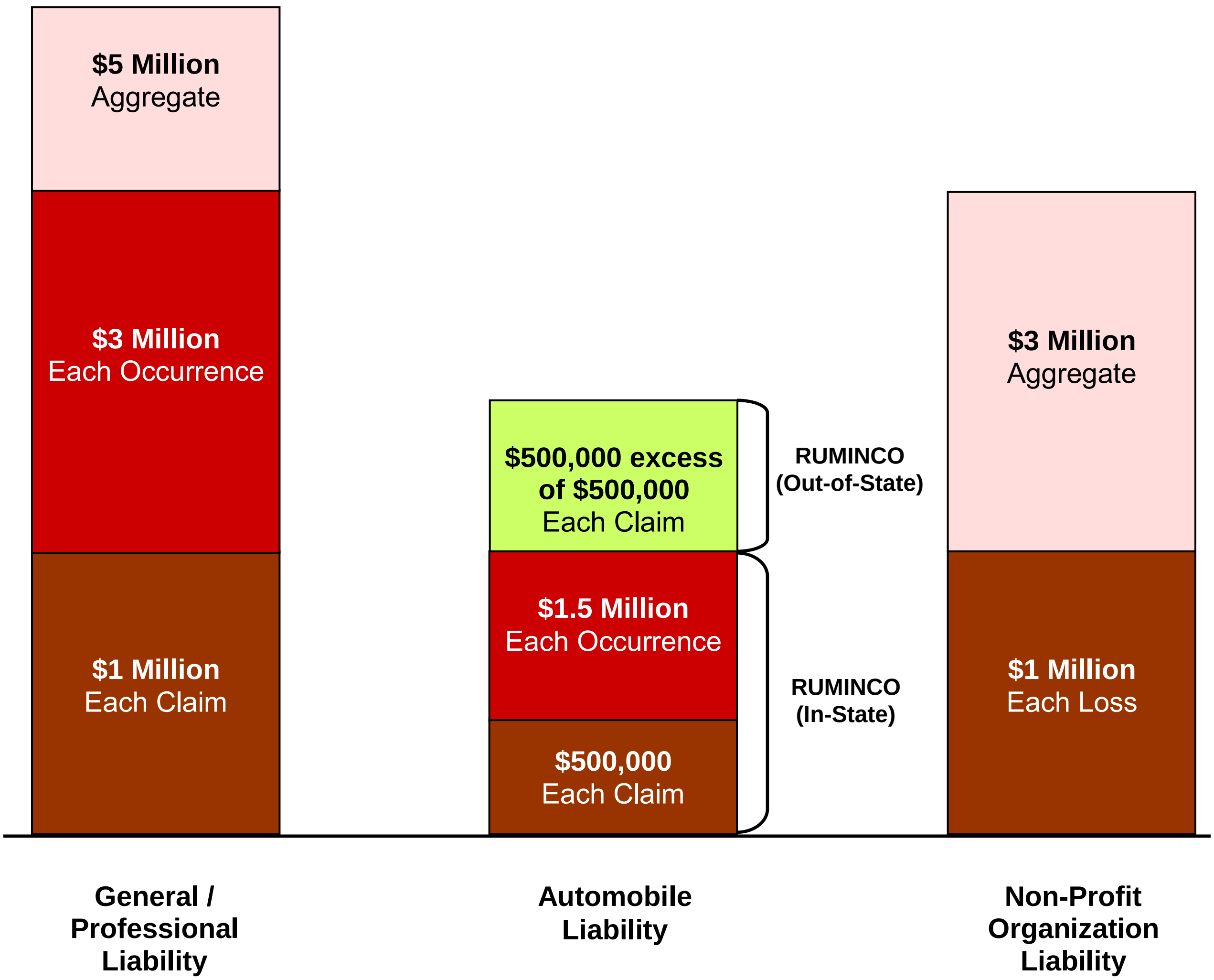
- Directors‟ and Officers‟ Liability
- Employment Practices Liability
- Personal Injury e.g., libel, slander, defamation, emotional distress

Principal Exposure:

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

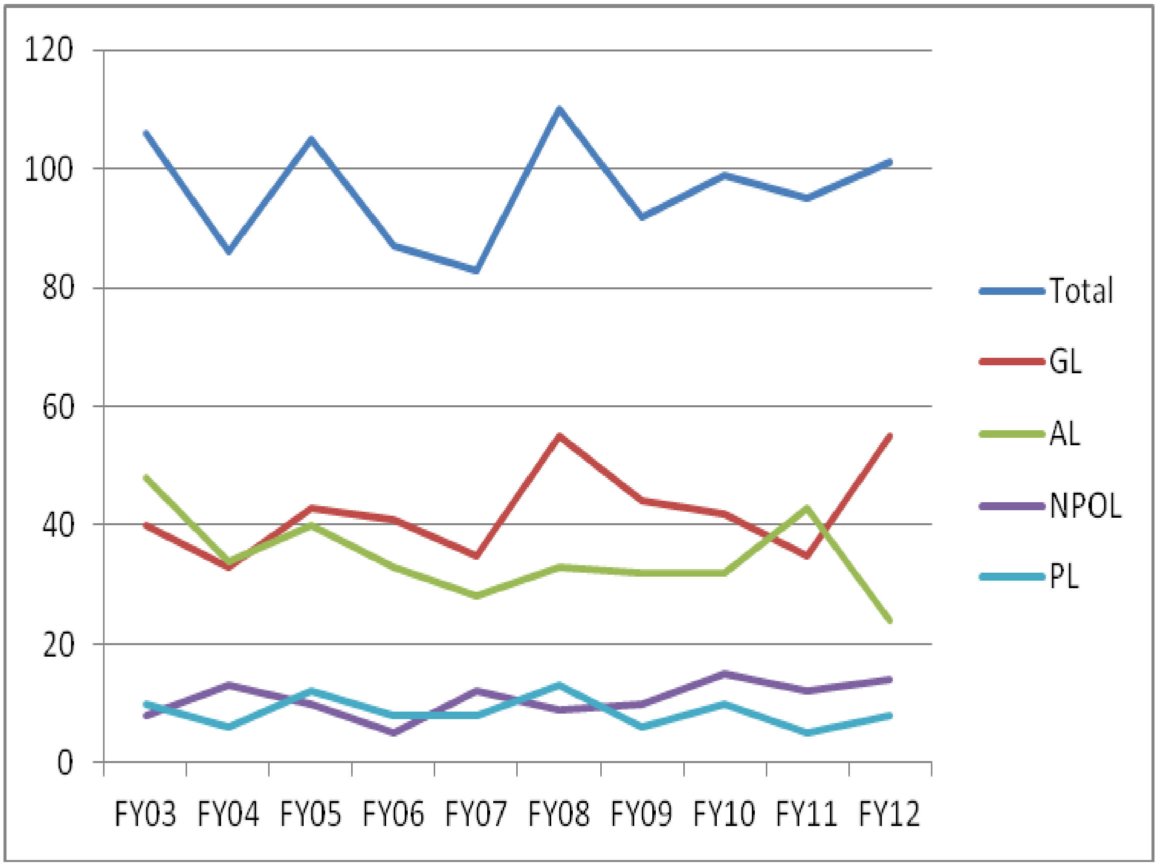
Summary of RUMINCO Ltd. Limits

Because RUMINCO limits are in the same range as the maximum payout prescribed by the Minnesota Tort Cap statutes; buying more limit effectively waives the Statute"s protection.



RUMINCO Ltd. Claims Experience

Claim Count by Fiscal Year



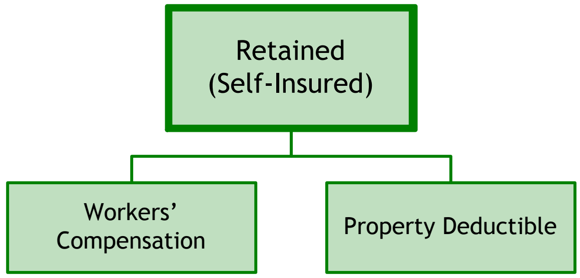
Claim frequency for the four RUMINCO lines of liability coverage over the past ten years.

RUMINCO‟s total claim count has averaged 93 claims per year.

No FY12 claim counts lie farther than two Standard Deviations from the mean,

Statistically, this suggests fairly „typical‟ claim counts.

RETAINED (SELF-INSURED)

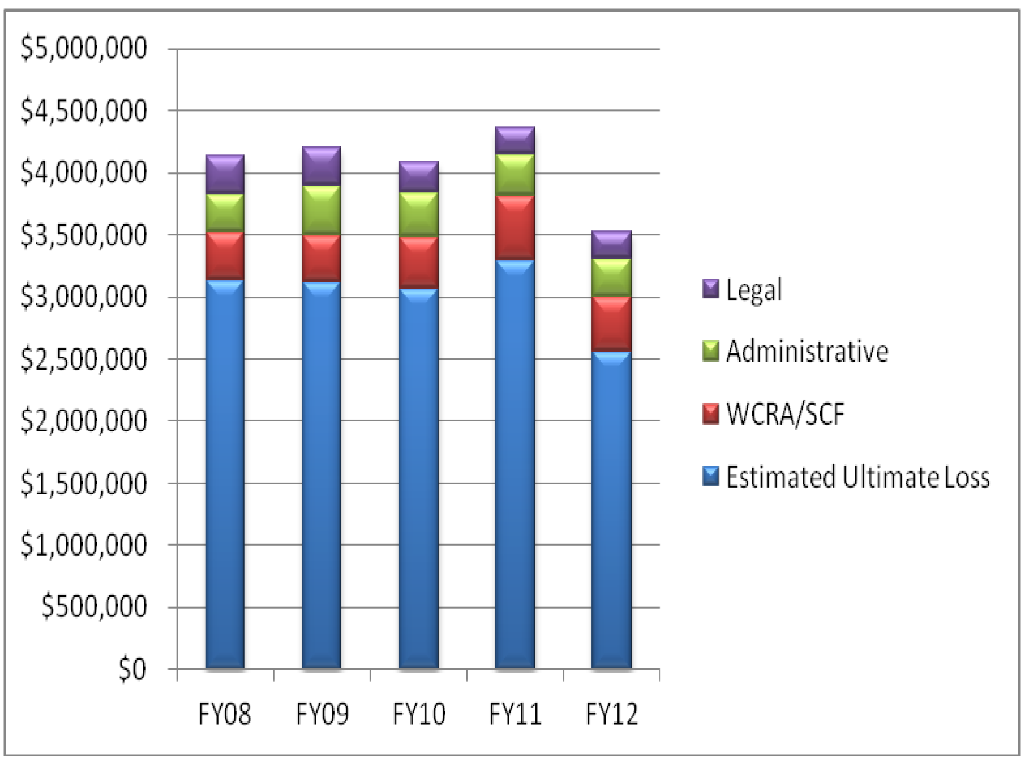


Workers' Compensation Overview

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 $1,840,000 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

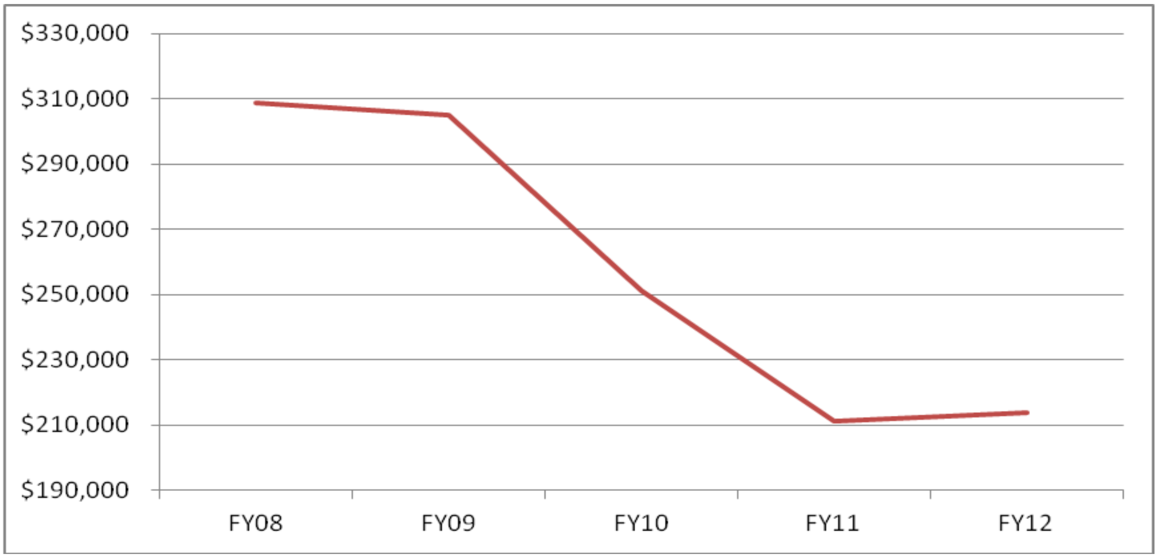


Medical costs continue to rise, but the total cost of Workers' Compensation statute compliance is down 15% when compared to Fiscal Year 2008. Total Cost and Estimated Ultimate Loss are at five-year lows.

Workers' Compensation

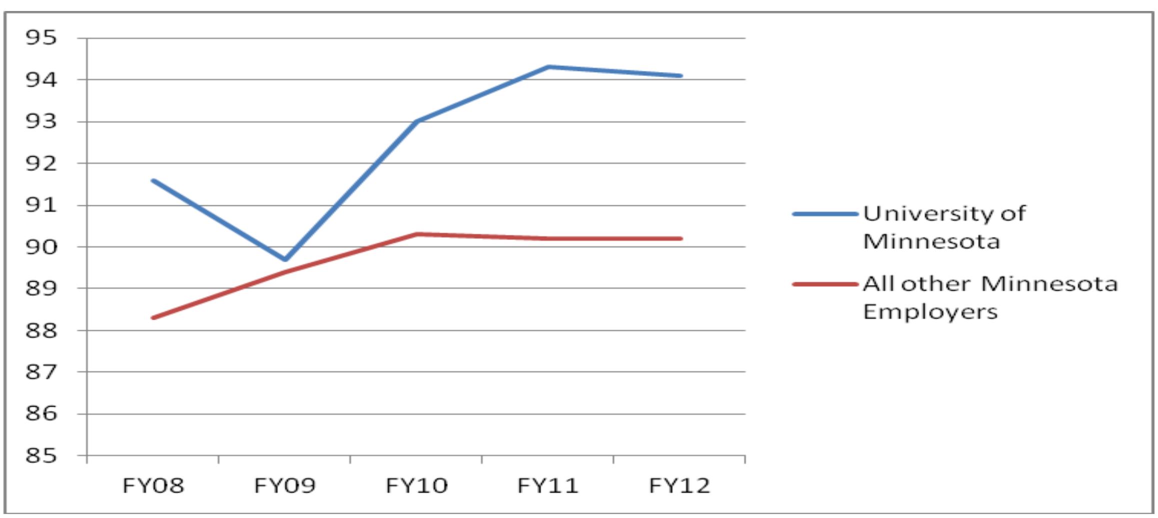
Beginning in FY09, Risk Management began a continuing initiative to make the statutory Workers‟ Compensation benefit system more transparent, accessible and easy to use for all parties. That initiative formed the basis for positive trends.

Workers' Compensation Legal Expenses



Workers' Compensation litigation cost has decreased by 31% since FY08.

On-time Reporting to Department of Labor and Industry



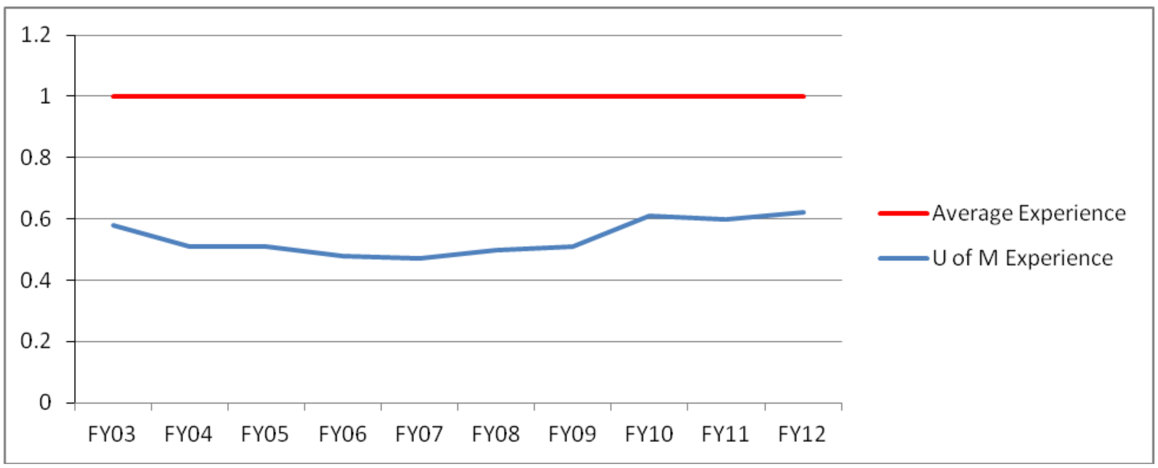
Despite our highly decentralized structure, the university's timely reporting of DOLI claims consistently exceeds the Minnesota average.

Workers' Compensation

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

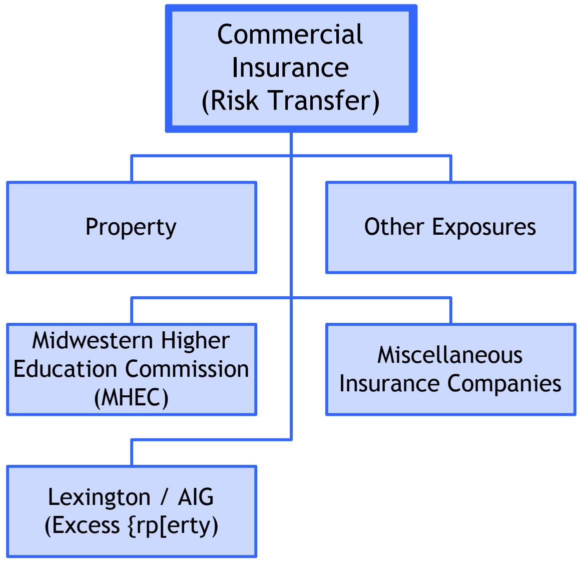
An "Experience Modification Factor" is a standard measure of Workers‟ Compensation results. It derives from specific employers‟ rolling three-year loss experience. An Experience Mod of "1.0" designates industry average performance, with levels below and above signifying better and worse than average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

Minnesota Workers' Compensation Reinsurance Association
Experience Modification Factor



Over the past 10 years, the University's Workers' Compensation experience has been 40 to 50 points better than the predicted average.

COMMERCIAL INSURANCE

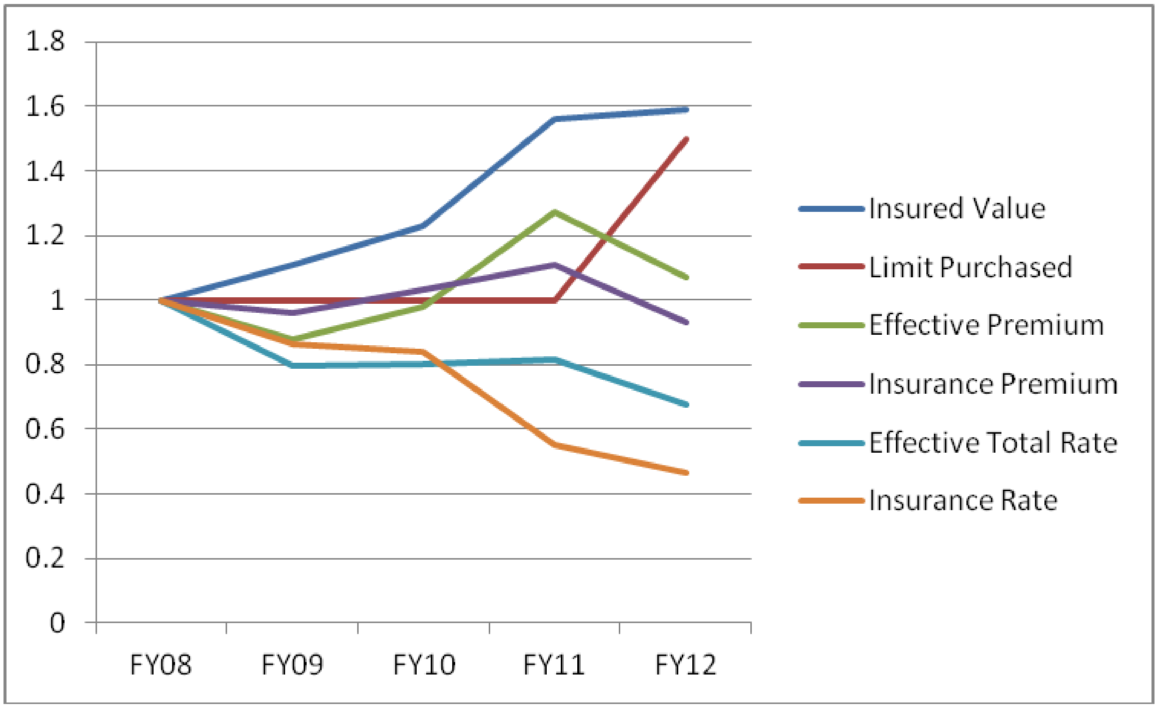


Property Insurance

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 vis the Midwest Higher Education Compact (MHEC) Master Property Program. Default limit under the program is $500MM. The University purchases another $1B excess of standard limits, for a $1.5B per-occurrence total.

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.

Trends in Values, Premium and Rates: FY08 = 1



Using 2008 as the baseline (2008 = 1) this chart shows insurance Rate decreases offsetting. Insured Value and Insurance Limit increases, moderating Effective Premium relatively stable.

Since FY08:

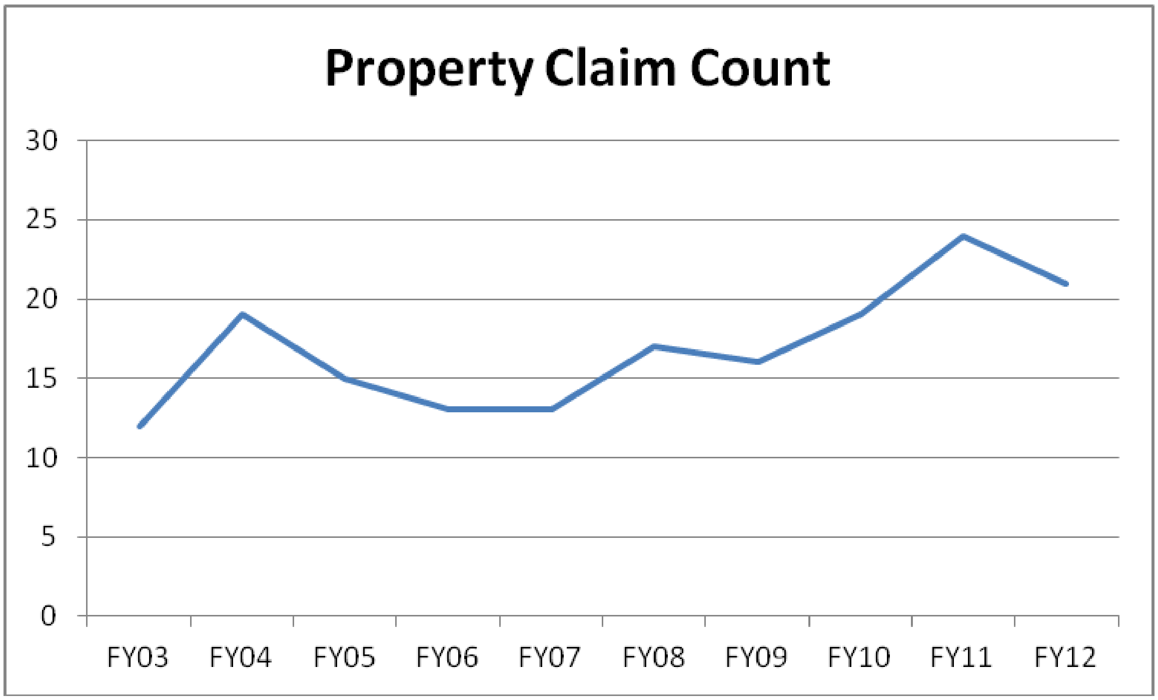
- Cost drivers are up (insurable values 59%; Limit of insurance 50%); and
- Insurance Rate on insured values is down 46%.

The most complete measure of performance is Effective Premium, which reflects deductible cost: *Effective Premium = (Premium + Amount Retained)/Total Insured Values*.

- Despite the main Cost Driver (Insured Value) increasing 59%, Effective Premium is only up 7%.

Property Insurance

Property Claim Count by Fiscal Year



Property claim count for FY12 was 21 events, near the ten year high of 24 of FY11.

Like FY11, FY12 losses were again notable for their frequency, severity and unusual nature:

- Five losses exceeded $200,000, a consecutive ten-year record (1-2 formerly typical)
    - July 17, 2011 Rain Damage (Commonwealth Terrace/Robbie Stadium),
    - September 6, 2011 Mayo pipe burst
    - March 14, 2012 VFW valve failure
    - May 4 2012 Vet Science Pipe Leak
    - June 19, 2012 Glensheen water damage from heavy rain
- Other notable events
    - August 2, 2011 Cedar Creek ROC wind damage
    - May 19, 2012 St Paul Shelter wind damage

These events accounted for:

- 33% of the 23 loss claim count; and
- 90% of the University-incurred deductible expenses.

Property Insurance

Because we reduced the rate and increased the deductible following in FY11, it is useful to consider whether those changes are benefitting the university.

The university saved $667,192 in FY12 when compared to pro forma results based on applying pre-RFP FY10 rate and deductible to FY12 values and loss history. Even in the context of a challenging claim year, the net result of the deductible and rate changes was financially positive for the University.

Including similarly-calculated FY11 savings, the university has so far saved over $1MM by restructuring the program.

Miscellaneous Commercial Insurance Coverage

The aggregate cost of all commercial insurance programs (excluding the MHEC Property Program) and associated brokerage and consulting was $367,202, a decrease of 5% from FY11 levels (which were down 7% over FY10). Here is a brief overview of the purchased policies with premiums exceeding $10,000:

EXCESS LIABILITY – EXTRA MN: $40MM in coverage excess a $1MM Self-insured Retention (Deductible) for General and Automobile 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 $1M of primary plus $14M of excess liability arising out of the use of the 86-foot *Blue Heron* research vessel.

FIDELITY & CRIME: Coverage for loss of money or securities due to employee theft and dishonesty, computer fraud, and related perils.

FINE ARTS: Insurance specific to artwork, books, manuscripts, antiques, etc.

NON-OWNED AIRCRAFT LIABILITY: Covers the university‟s liability arising out of use of non-owned aircraft rented or chartered by the University. The limit is $25MM per occurrence, and is intended to be excess of any policies purchased by the owner of the aircraft.

III. Total Cost of Risk

Total Cost of Risk Summary

University of Minnesota Total Cost of Risk: Fiscal Years 2008 – 2012

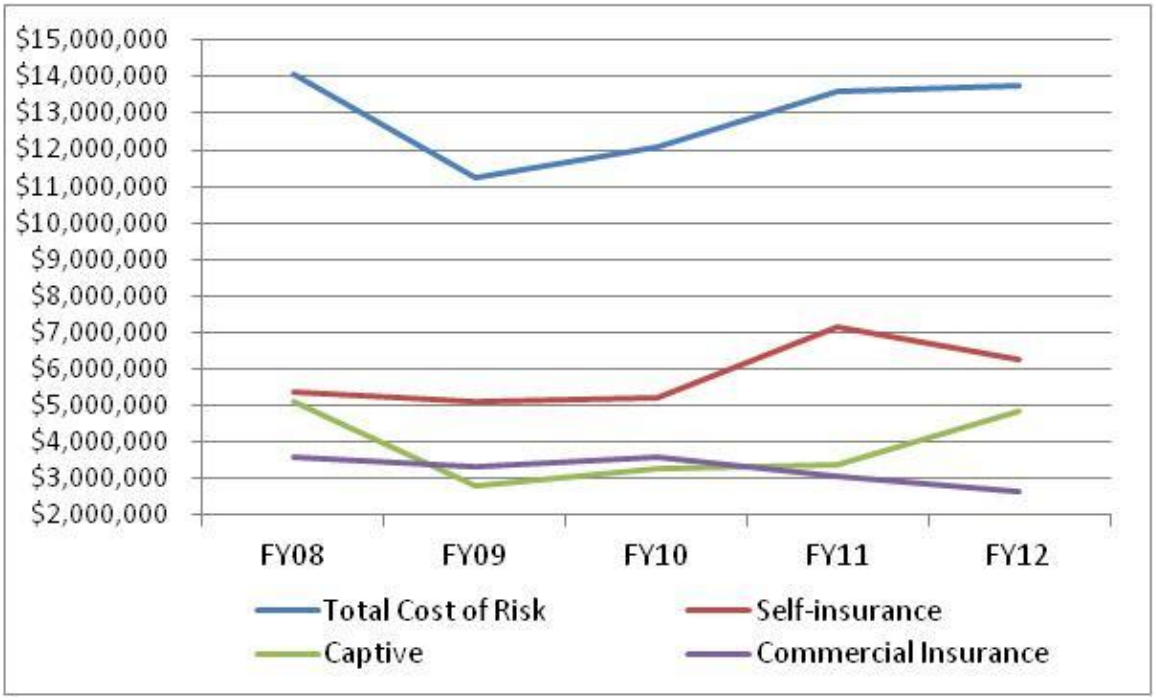
COST ITEM	FY08	FY09	FY10	FY11	FY12
Captive					
Paid Losses	$2,819,257	$1,504,261	$1,638,574	$875,302	$678,757
Case Reserves	1,035,378	3,239	119,651	384,650	1,382,524
Incurred, But Not Reported (EST.)	1,350	7,000	70,000	326,000	1,109,000
Liability Claims Administrator	54,624	50,724	74,075	69,717	63,566
Captive Administrative Expenses	131,177	148,305	140,793	117,876	120,930
Litigation Cost	1,083,375	1,103,282	1,245,967	1,617,689	1,469,704
Total Captive	**$5,125,161**	**$2,816,811**	**$3,289,060**	**$3,391,234**	**$4,824,481**
Self-Insurance					
Workers' Compensation Ultimate Loss (EST.)	3,132,865	3,122,911	3,064,459	3,290,657	2,565,043
WC Reinsurance Association	109,815	130,873	158,827	160,246	142,096
Special Compensation Fund	273,999	244,764	261,894	356,973	291,348
WC Claims Administrator	245,326	317,428	298,348	291,712	267,826
Litigation Cost	308,934	305,033	251,371	211,198	214,019
Bill Review Service	27,985	35,191	33,641	36,751	28,640
WC Actuarial	12,000	12,000	7,144	9,892	9,288
WC Broker Consultation	28,350	33,210	11,550	--	--
WC Total	**4,139,274**	**4,201,410**	**4,087,234**	**4,357,429**	**3,518,260**
Retained Property Losses [1]	1,059,750	709,190	901,752	2,616,631	2,573,326
Electronic Data Processing [2]	55,499	22,184	31,568	36,095	29,707
Automobile Physical Damage	125,338	154,891	173,682	127,295	156,843
Total Self-insurance	**$5,379,861**	**$5,087,675**	**$5,194,236**	**$7,137,450**	**$6,278,136**
Commercial Insurance					
All Risk Property	$3,061,018	$2,987,422	$3,115,827	$2,618,781	$2,240,136
Property Experience Dividend	(32,453)	(85,691)	na	na	na
Total Property Insurance	3,028,565	2,901,731	3,115,827	2,618,781	2,240,136
Excess Liability - Extra MN	--	--	205,511	233,400	234,745
Intercollegiate Athletics	76,000	39,000	34,195	53,000	31,500
Hull, Liability, Pollution (Blue Heron Watercraft)	26,124	26,124	28,977	30,613	30,613
Fidelity & Crime	43,232	19,967	19,967	19,967	20,210
Fine Arts	43,750	18,495	17,549	17,549	18,280
Nonowned Aircraft Liability	17,649	19,187	18,229	18,000	18,000
Showboat	7,648	7,648	6,925	6,925	6,925
Broadcaster's Liability	5,365	5,365	5,365	5,365	5,365
Child Care Center ADD	1,275	931	1,173	1,173	1,188
Upward Bound AD&D	310	376	376	376	376
RSO Liability	7,725	8,047	8,067	--	--
Excess Liability for Metrodome [3]	119,164	101,894	--	--	--
Automobile Liability (out of state) [3]	51,881	53,610	--	--	--
Study Abroad (France)	6,500	7,203	--	--	--
Consultation	19,737	--	--	--	--
Brokerage	128,750	128,750	128,750	54,000	54,000
Total Commercial Insurance	**$3,583,675**	**$3,338,328**	**$3,590,911**	**$3,059,149**	**$2,661,338**
GRAND TOTAL COST OF RISK	**$14,088,697**	**$11,242,814**	**$12,074,207**	**$13,587,834**	**$13,763,955**

[1] Amount of Insurable property losses between $10,000 and deductible.
[2] EDP coverage is self-insured; figure shows losses excess $500/claim.
[3] Replaced by "Excess Liability – Extra MN"

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 has averaged $13MM over the past five years, ranging from $11.2MM (FY09) to $14.1MM (FY08).

IV. Workplan

Goals for FY12

Extra-Minnesota Medical Clinical Trials Liability

We will finalize and bind coverage.

Alcoholic Beverage Sales and Service and Venue Liquor Licensing Policy

We will work with Contract Administration to complete this administrative policy.

Workers Compensation

Risk Management will continue to improve communication between university Human Resources and Third Party Administrator Sedgwick to minimize claimant payment errors.

UNIVERSITY OF MINNESOTA
BOARD OF REGENTS

Finance Committee **February 7, 2013**

Agenda Item: Annual Investment Performance: Peer Comparisons

☐ **review** ☐ **review/action** ☐ **action** ☒ **discussion**

Presenters: Vice President/CFO Richard Pfutzenreuter
Associate Vice President Stuart Mason

Purpose:

☐ **policy** ☐ **background/context** ☒ **oversight** ☐ **strategic positioning**

To provide the Board of Regents with a summary of investment performance and other data related to peer institutions for the fiscal year ending June 30, 2012.

Outline of Key Points/Policy Issues:

Annual Peer Benchmarking Report

- Consolidated Endowment Fund investment performance of 4.9% ranked in the upper decile of peer institutions and highest among Big Ten schools.
- Drivers of performance included energy and venture capital, which produced greater than 20% returns, and private real estate, which produced 6.6% and was positive for the first time in several years.
- Other factors contributing to outperformance include an underweight in international and EM equity, and an underweight in hedge fund allocations. Those sectors significantly underperformed longer term trends.
- Increased liquidity and a new asset allocation framework position CEF to continue to perform well in coming years.

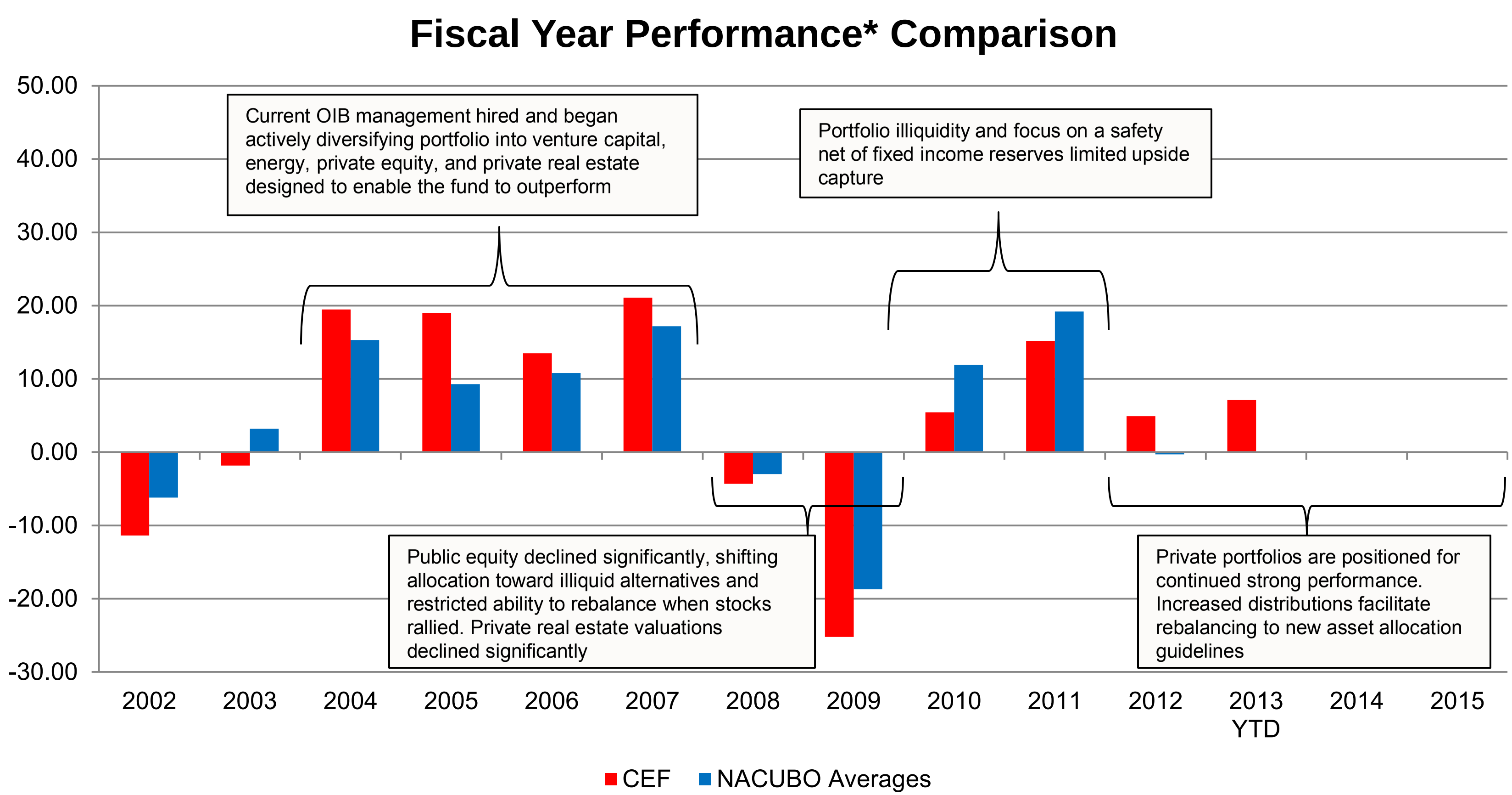
Annual Peer Benchmarking Report

February 7, 2013

NACUBO/Commonfund Study of Endowments

- Conducted jointly by National Association of College and University Business Officers (NACUBO) and Commonfund Institute
- 2012 study had 803 participating institutions ranging in size from $100 million to over $20 billion
- All data is as of June 30, 2012

Annual Investment Rates of Return



* Net of Manager Fees

Elements Contributing to CEF FY ‘12 Performance

Contributors to outperformance:

- Overweight to venture capital was a significant performance driver
- Rebound in private real estate performance
- Private energy was the strongest performing asset class in CEF
- Underweight to HF, which produced disappointing returns
- Underweight to International and EM Equity, which declined significantly

Detractors from performance:

- Buyout funds, private debt, and absolute return funds underperformed the portfolio benchmarks

Rolling Period Return Comparison by Endowment Size

Size of Endowment	1-year	3-year	5-year	10-year
	%	%	%	%
CEF	**4.9**	**8.4**	**-1.8**	**5.8**
Over $1 Billion	1.1	10.6	1.7	7.6
$501 Million to $1 Billion	**0.4**	**10.3**	**1.3**	**6.7**
$101 Million to $500 Million	-0.8	10.2	0.7	6.1
Average (All Institutions)	-0.3	10.2	1.1	6.2
Median (All Institutions)	-0.5	10.2	1.1	6.2

*Net of management fees and expenses.

Rolling Period Return Comparison by Institution Type

Type of Institution	1-year	3-year	5-year	10-year
	%	%	%	%
CEF	**4.9**	**8.4**	**-1.8**	**5.8**
All Public Institutions	**-0.1**	**10.1**	**1.1**	**6.2**
All Private Colleges and Universities	-0.4	10.2	1.1	6.3
Average (All Institutions)	-0.3	10.2	1.1	6.2
Median (All Institutions)	-0.5	10.2	1.1	6.2

*Net of management fees and expenses.

Asset Allocation Comparison by Endowment Size

Size of Endowment	Domestic Equities %	International Equities %	Fixed Income %	Alternative Strategies* %	Short-term Securities/ Cash/ Other %
CEF	**13**	**9**	**11**	**67**	**0**
Over $1 Billion	12	15	9	61	3
$501 Million to $1 Billion	**18**	**18**	**11**	**46**	**6**
$101 Million to $500 Million	26	18	16	36	5
Dollar-weighted Average	16	16	11	54	4
Equal-weighted Average	31	17	19	27	6

*Alternative strategies are categorized in the NCSE as follows: Private equity; Marketable alternative strategies (hedge funds); Venture capital; Private real estate; Energy and natural resources; and Distressed debt.

Asset Allocation Comparison by Type of Institution

Type of Institution	Domestic Equities %	International Equities %	Fixed Income %	Alternative Strategies* %	Short-term Securities/ Cash/ Other %
CEF	**13**	**9**	**11**	**67**	**0**
All Public Institutions	**18**	**17**	**13**	**47**	**4**
All Private Colleges and Universities	14	15	10	57	4
Dollar-weighted Average	16	16	11	54	4
Equal-weighted Average	31	17	19	27	6

*Alternative strategies are categorized in the NCSE as follows: Private equity; Marketable alternative strategies (hedge funds); Venture capital; Private real estate; Energy and natural resources; and Distressed debt.

Effective Spending Rates* Comparison by Endowment Size

Size of Endowment	2012 %	2011 %	2010 %	2009 %	2008 %
CEF	**4.9**	**5.7**	**5.9**	**5.9**	**4.2**
Over $1 Billion	4.7	5.2	5.6	4.6	4.2
$501 Million to $1 Billion	**4.7**	**5.2**	**5.7**	**4.9**	**4.5**
$101 Million to $500 Million	4.3	5.0	4.9	4.4	4.2
Average (All Institutions)	4.2	4.6	4.5	4.4	4.3

*Actual Gross Spending / Beginning Market Value

Effective Spending Rates* Comparison by Institution Type

Type of Institution	2012 %	2011 %	2010 %	2009 %	2008 %
CEF	**4.9**	**5.7**	**5.9**	**5.9**	**4.2**
All Public Institutions	**4.0**	**4.5**	**4.1**	**4.2**	**N/A**
All Private Colleges and Universities	4.3	4.6	4.8	4.5	4.4
Average (All Institutions)	4.2	4.6	4.5	4.4	4.3

*Actual Gross Spending / Beginning Market Value

Big Ten Endowment Peer Comparison

Investment Performance

Institution	Pooled Endowment Market Value (mm)	Total Returns (%) 1 Year	3 Years	5 Years	10 Years
University of Minnesota	**977.6**	**4.9**	**8.4**	**-1.8**	**5.8**
Penn State University	1,765.0	3.5	13.4	2.6	7.5
University of Illinois	346.8	3.2	15.2	2.7	6.5
University of Minnesota Foundation	1,479.0	1.6	10.0	1.4	7.3
Northwestern University	7,111.6	1.5	12.1	2.2	8.8
University of Iowa	302.1	1.0	10.7	0.4	5.1
University of Illinois Foundation	1,095.1	0.5	11.2	0.4	5.9
Ohio State University	2,366.0	-0.1	10.5	-1.1	4.9
Michigan State University Foundation	313.6	-0.2	8.0	1.4	6.3
University of Michigan	7,865.2	-0.5	11.5	2.5	9.6
University of Wisconsin Foundation	1,812.1	-0.5	9.6	0.5	5.9
University of Wisconsin	327.0	-0.8	10.4	2.2	7.3
Indiana University Foundation	1,485.1	-1.3	11.5	-0.2	6.4
Purdue University	1,917.0	-2.5	11.4	1.3	6.5
Michigan State University	1,500.3	-2.8	9.5	2.0	8.0
University of Iowa Foundation	678.7	-2.9	13.5	1.3	5.7
University of Minnesota Medical Foundation	222.4	-4.1	9.2	-1.0	4.8
Median	1,479.0	-0.2	10.7	1.3	6.4

Asset Allocation - Traditional Assets

Institution	US Equities	Dev. Markets	EM	Total Public	US Core	US HY	Non-US Bonds	Total Public FI
	(%)							
University of Minnesota	**13.1**	**7.0**	**2.2**	**22.3**	**7.1**	**1.6**	**1.9**	**10.6**
Penn State University	37.4	5.8	3.8	47.0	17.3	0.0	1.3	18.6
University of Illinois	46.7	10.7	1.9	59.3	19.1	1.4	1.0	21.5
University of Minnesota Foundation	10.4	9.9	0.0	20.3	19.0	4.0	0.0	23.0
Northwestern University	10.9	13.4	0.0	24.3	12.6	0.0	0.0	12.6
University of Iowa	29.8	21.8	4.1	55.7	28.6	5.4	0.0	34.0
University of Illinois Foundation	26.7	12.8	0.0	39.5	15.0	0.0	0.0	15.0
Ohio State University	12.3	3.2	4.5	20.0	8.3	0.0	2.8	11.1
Michigan State University Foundation	14.3	15.3	0.0	29.6	16.4	0.0	0.0	16.4
University of Michigan	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
University of Wisconsin Foundation	27.1	12.9	5.0	45.0	15.3	0.0	0.0	15.3
University of Wisconsin	25.8	20.3	10.2	56.3	15.6	6.0	0.0	21.6
Indiana University Foundation	17.3	11.8	6.9	36.0	6.8	2.1	1.4	10.3
Purdue University	22.7	12.2	6.5	41.4	15.5	0.0	0.0	15.5
Michigan State University	17.5	9.3	6.7	33.5	12.6	0.4	2.7	15.7
University of Iowa Foundation	31.0	8.5	9.6	49.1	5.1	8.6	0.0	13.7
University of Minnesota Medical Foundation	27.7	7.6	10.5	45.8	16.2	0.0	4.4	20.6
Median	24.3	11.3	4.3	40.5	15.4	0.2	0.0	15.6

Asset Allocation - Alternatives

Institution	Hedge Funds (%)	Venture Capital (%)	Buyout (%)	Private Real (%)	Dist/Mezz (%)	Nat. Res. (%)	Other (%)	Total Alt. Assets (%)
University of Minnesota	**2.8**	**11.9**	**15.0**	**14.9**	**9.1**	**8.3**	**5.1**	**67.1**
Penn State University	8.7	5.9	8.7	4.3	0.6	3.7	2.5	34.4
University of Illinois	0.0	0.4	0.0	0.0	0.0	0.0	18.8	19.2
University of Minnesota Foundation	20.3	11.4	9.5	5.1	4.2	6.2	0.0	56.7
Northwestern University	20.6	8.2	15.5	7.8	0.0	9.5	1.5	63.1
University of Iowa	0.0	0.8	1.7	5.6	0.0	0.9	1.3	10.3
University of Illinois Foundation	11.4	2.5	0.0	6.8	0.0	0.0	24.8	45.5
Ohio State University	35.5	0.8	5.6	5.2	9.5	6.5	5.8	68.9
Michigan State University Foundation	29.4	5.4	6.1	7.0	1.9	4.2	0.0	54.0
University of Michigan	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
University of Wisconsin Foundation	12.2	2.0	5.8	3.7	11.0	5.0	0.0	39.7
University of Wisconsin	7.7	13.3	0.0	0.0	0.0	1.1	0.0	22.1
Indiana University Foundation	20.2	6.2	7.8	5.5	3.8	5.2	5.0	53.7
Purdue University	23.0	3.7	7.0	3.2	0.0	6.2	0.0	43.1
Michigan State University	25.2	3.2	8.0	0.0	3.1	6.0	5.3	50.8
University of Iowa Foundation	29.5	0.0	2.7	0.3	3.5	1.2	0.0	37.2
University of Minnesota Medical Foundation	24.7	4.5	0.0	1.7	2.3	0.4	0.0	33.6
Median	20.3	4.1	6.0	4.7	2.1	4.6	1.4	44.3

UNIVERSITY OF MINNESOTA
BOARD OF REGENTS

Finance Committee **February 7, 2013**

Agenda Item: Financial Dashboard: Metrics for Board Oversight

☐ **review** ☐ **review/action** ☐ **action** ☒ **discussion**

Presenters: Vice President/CFO Richard Pfutzenreuter
Associate Vice President Michael Volna

Purpose:

☐ **policy** ☐ **background/context** ☒ **oversight** ☐ **strategic positioning**

To provide a set of financial metrics to ensure that the Board of Regents is adequately informed of the financial health and direction of the institution.

Outline of Key Points/Policy Issues:

The administration will present information designed to provide a simple visual overview of the financial health and direction of the institution. The financial dashboard provides an easy-to-read, graphical presentation of the current status (snapshot) and historical trends regarding the University's financial performance. The development of a financial dashboard will provide the Board with at-a-glance views of relevant financial information.

Background Information:

The Board of Regents receives a variety of annual financial reports throughout the fiscal year. The majority of these reports are focused on year-end reporting.

UNIVERSITY OF MINNESOTA
BOARD OF REGENTS

Finance Committee **February 7, 2013**

Agenda Item: Information Items

☐ **review** ☐ **review/action** ☐ **action** ☒ **discussion**

Presenters: Vice President/CFO Richard Pfutzenreuter

Purpose:

☐ **policy** ☐ **background/context** ☒ **oversight** ☐ **strategic positioning**

To report on the status of the University's Central Reserves.

Outline of Key Points/Policy Issues:

Annual Report on Central Reserves

The Central Reserves fund refers to resources that are not allocated to any specific unit of the University, but are held in a central account within the University's financial system. The primary revenue sources for the Central Reserves fund include investment earnings and realized and unrealized gains or losses in market value from the Temporary Investment Pool (TIP), funds invested in the Consolidated Endowment Fund from TIP, 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: *Central Reserves Fund* holds that the Central Reserves fund should not fall below 4% of state appropriations, or $25,000,000, whichever is greater.

The central reserves year-end balance on June 30, 2012, was $1,293,780 higher than what was anticipated in the original FY 2012 approved budget. This gain can be attributed to a higher than anticipated average balance in TIP, a slightly greater realization of capital gains on investments, and slightly lower than estimated payments out of the fund to units participating in investment earnings. The beginning balance for FY 2012 was $12,047,796; actual net revenues for the year were $13,130,723; and transfers and payments out of the fund totaled $10,591,107, resulting in a final ending balance of $14,587,412.

The approved budget plan for FY1 2013, set before the FY 2012 results were final, included a planned beginning balance of $13,828,263; net revenues totaling $12,257,625, mostly in investment income, and transfers/payments out of $10,672,000. At this point in the year, those estimates have been updated as follows:

- The beginning balance for the year has been updated to the actual amount of $14,587,412 per the paragraph above, $759,149 higher than in the approved budget.

- Net revenues for the year are currently projected to be $13,379,525, which is $1,121,900 more than the approved budget, due to a higher than anticipated average balance in TIP.

- The expected transfers/payments out remain at approved budget level of $10,672,000.

The combined impact of these updated estimates leaves the projected balance in the central reserves fund for June 30, 2013, at $17,294,937: $1,881,049 more than in the approved budget, and $7,705,063 less than the policy goal of $25,000,000 ($5,495,103 less than the other policy parameter of 4% of state appropriations).