

Annual Asset Management Report

June 30, 2013

UNIVERSITY OF MINNESOTA

Office of Investments & Banking

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Overview – All Funds

OIB Managed Funds (\$ millions)	June-13	June-12	June-11
Consolidated Endowment Fund (CEF) *	\$ 1,079.7	\$ 977.6	\$ 956.8
Long-Term Reserves (GIP)**	46.4	44.7	44.3
Short-Term Reserves (TIP)	1,031.4	972.2	824.9
RUMINCO Ltd.	35.8	32.6	32.3
Invested Assets Related to Indebtedness	<u>87.0</u>	<u>189.7</u>	<u>181.9</u>
Total	2,280.3	2,216.8	1,963.5

Other Funds Not Managed by OIB

U of M Foundation Fund	\$ 1,845.1	\$ 1,560.1	\$ 1,564.4
Faculty Retirement Plans	\$ 3,087.8	\$ 3,107.8	\$ 3,012.2

* Includes TIP, GIP and PUF investments, which as of 6/30/13 were \$123.6, \$12.2, and \$447.7 respectively

** GIP market value excludes the \$12.2 invested in CEF. Elsewhere in the presentation this value is included for purposes of calculating total fund performance

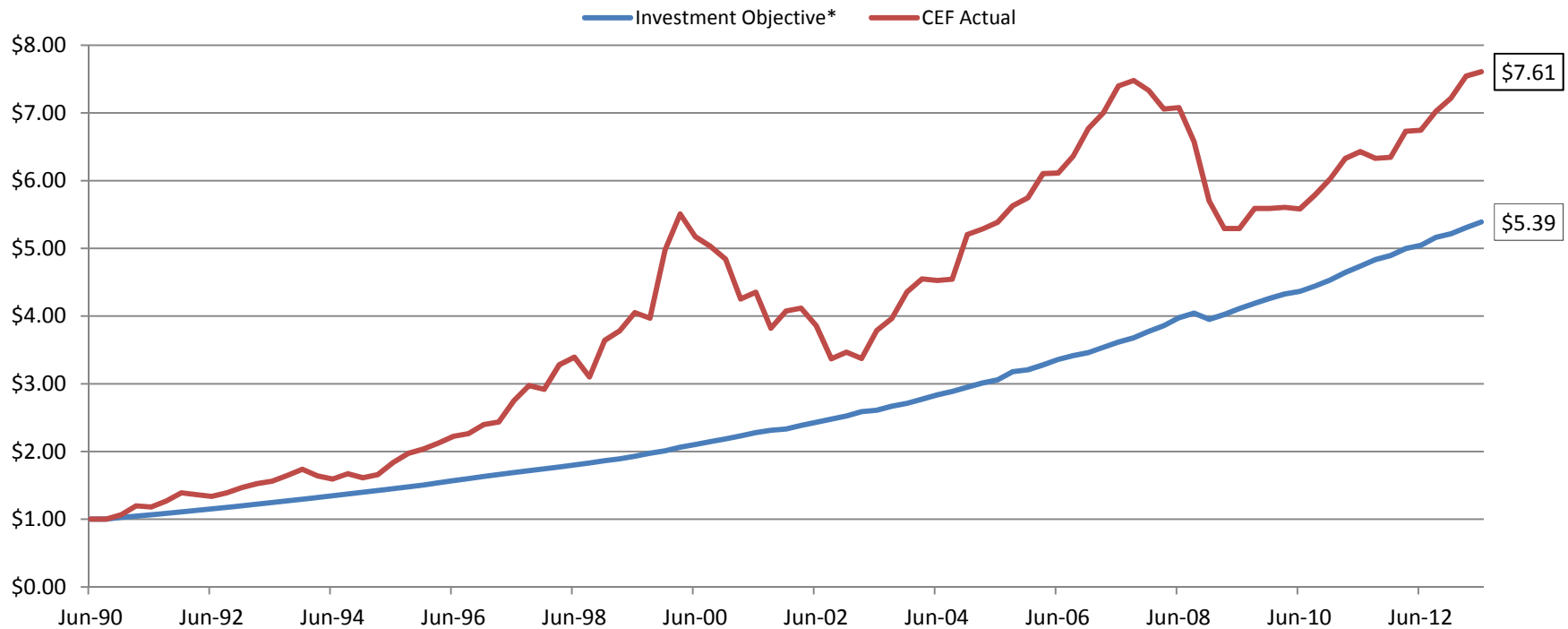
CEF Review

Investment Policy Objectives:

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

Maintain Inflation-Adj. Endowment Value

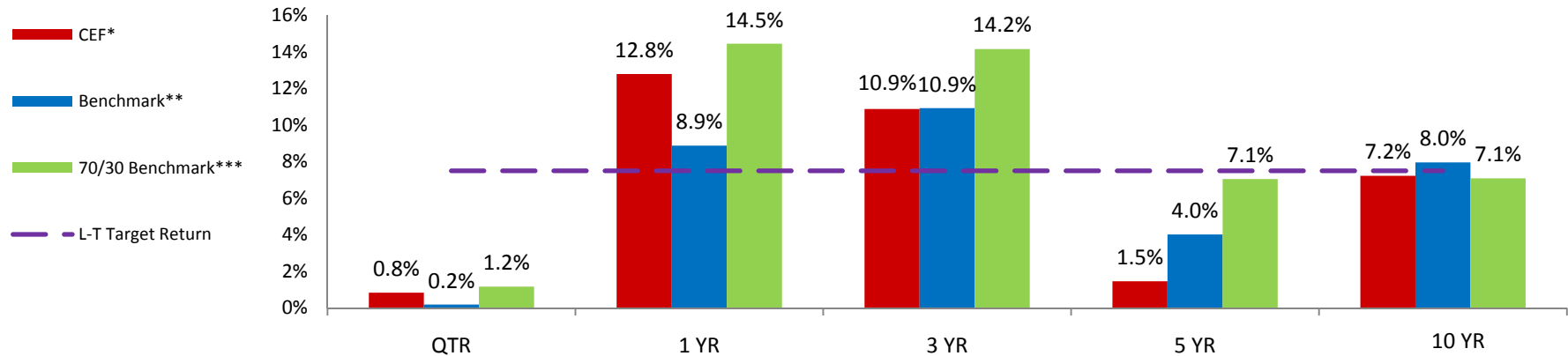
CEF Endowment Performance Growth of \$1 since June 30, 1990



*CPI plus payout plus actual expenses (calculated quarterly)

Maintain Inflation-Adj. Endowment Value

CEF Performance vs. Benchmarks



- One year outperformance driven primarily by the following:
 - Strategic overweight and significant outperformance by private capital managers, especially in venture and distressed debt
 - Tactical overweight to MBS and other non- US Treasury securities in risk mitigating fixed income
 - Outperformance (112 bps) by public equity managers
 - Outperformance (516 bps) by return generating fixed income managers
 - Fund Value \$1,080MM****

* Net of Manager Fees

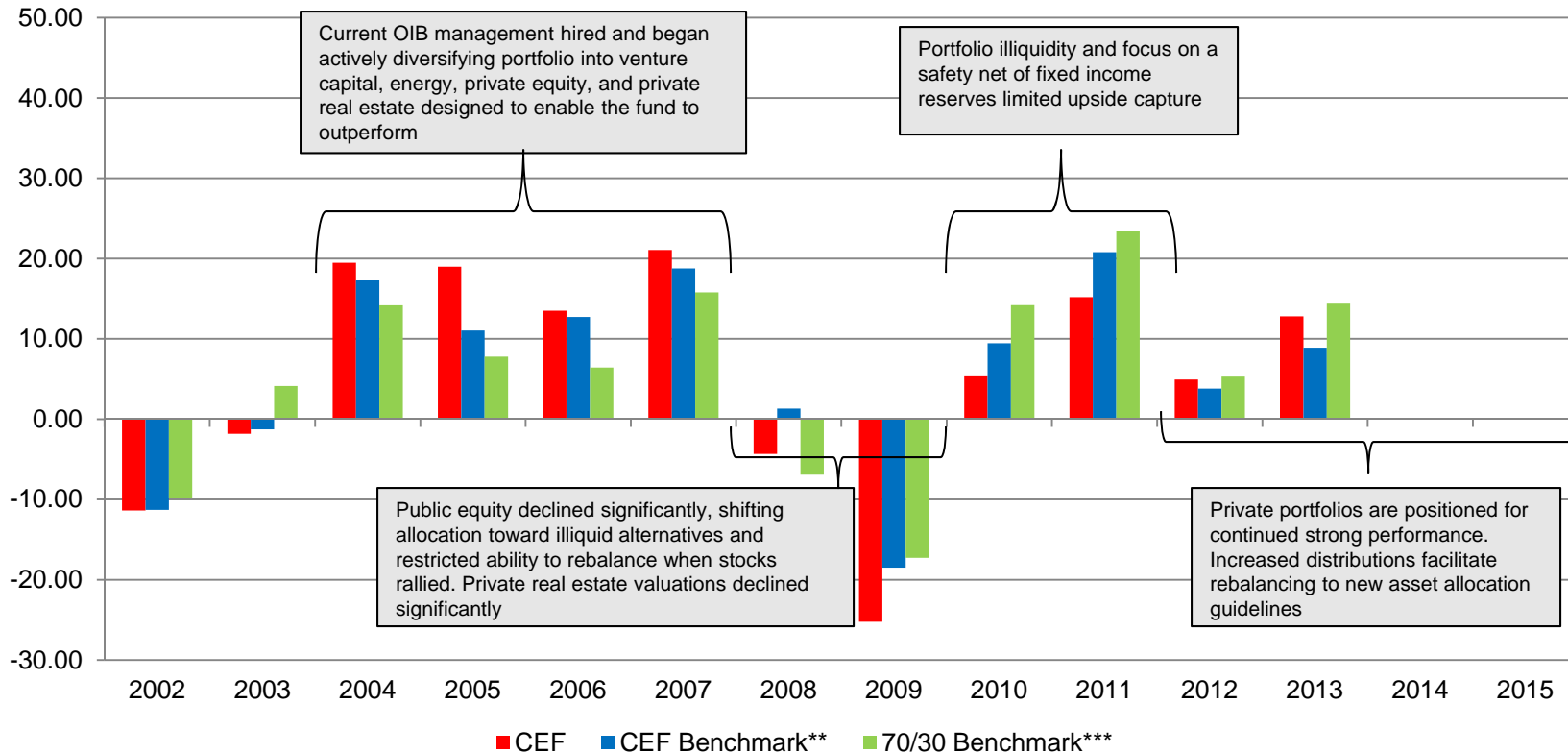
** Benchmark: CEF Custom Index

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

**** Total CEF Market Value includes \$123.6 of TIP and \$12.2 of GIP investments

Maintain Inflation-Adj. Endowment Value

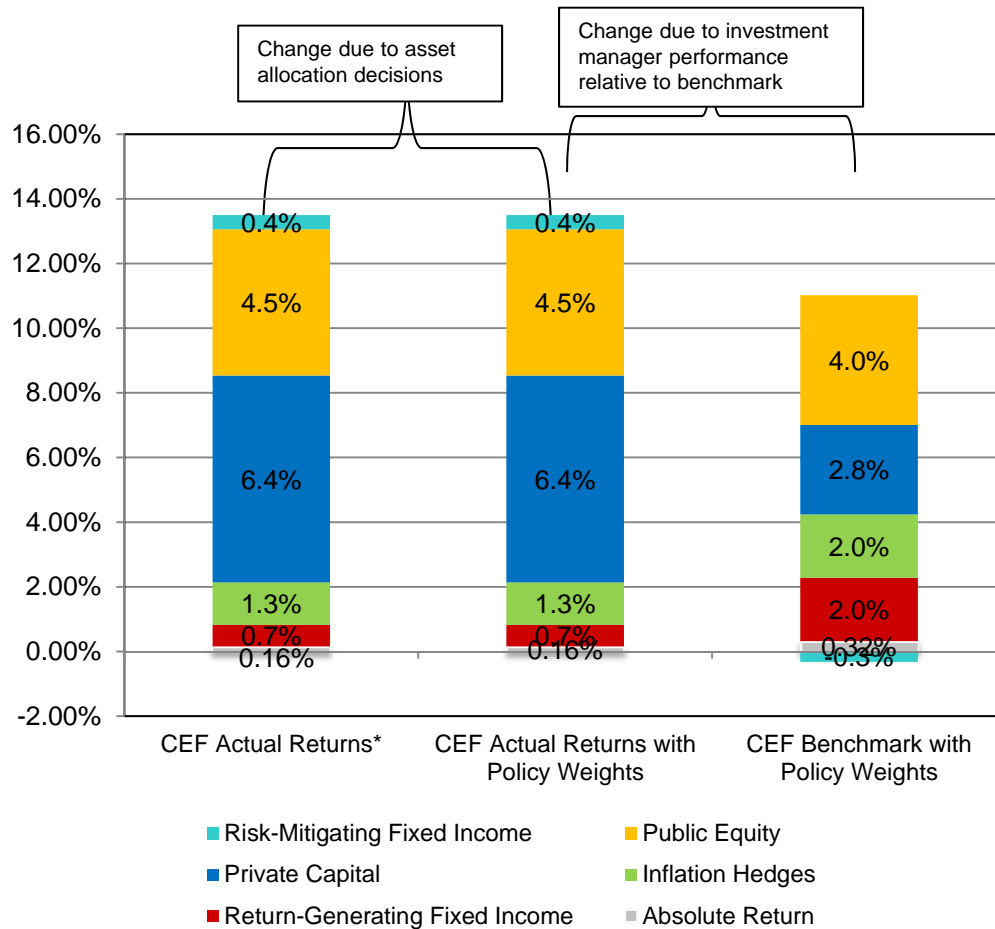
Fiscal Year Performance* Comparison



* Net of Manager Fees
 ** Benchmark: CEF Custom Index
 *** Benchmark: 70% Russell 3000, 30% Barclays Capital Aggregate

1 Year Contribution to Return by Asset Class

Fiscal Year 2013

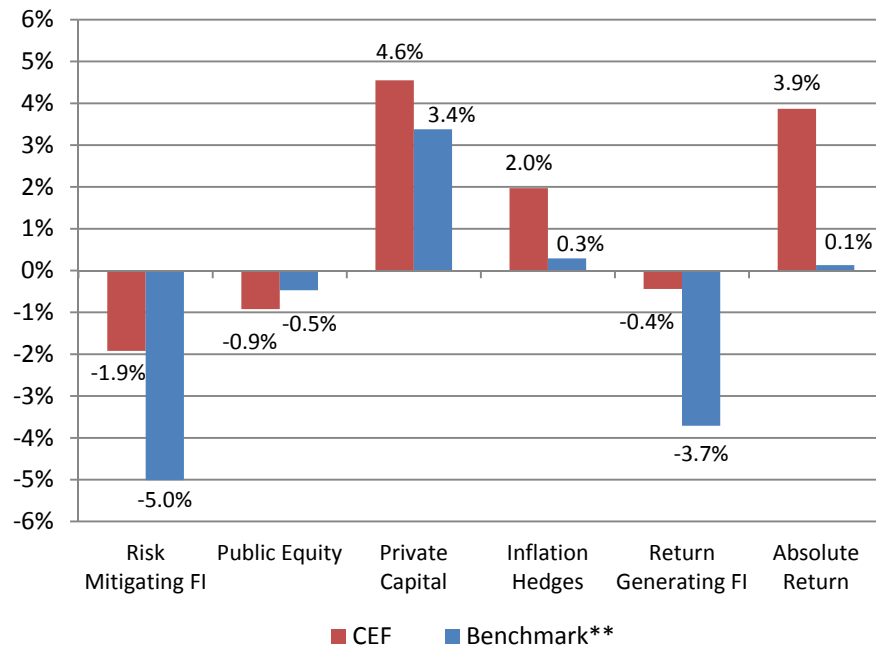


Asset Allocation Decisions	Effect (%)
As we have been transitioning to the recently approved asset allocation guidelines, we have used a dynamically weighted benchmark which removes the effect of allocation decisions	N/A
Individual Manager Performance	Effect (%)
Outperformance by risk-mitigating fixed income managers	0.8
Outperformance by return-generating fixed income managers	0.3
Outperformance by public equity managers	0.5
Outperformance by private capital managers	3.6
Underperformance by inflation hedge managers	(0.6)
Outperformance by absolute return managers	0.0
Other	(0.7)
Total	3.9

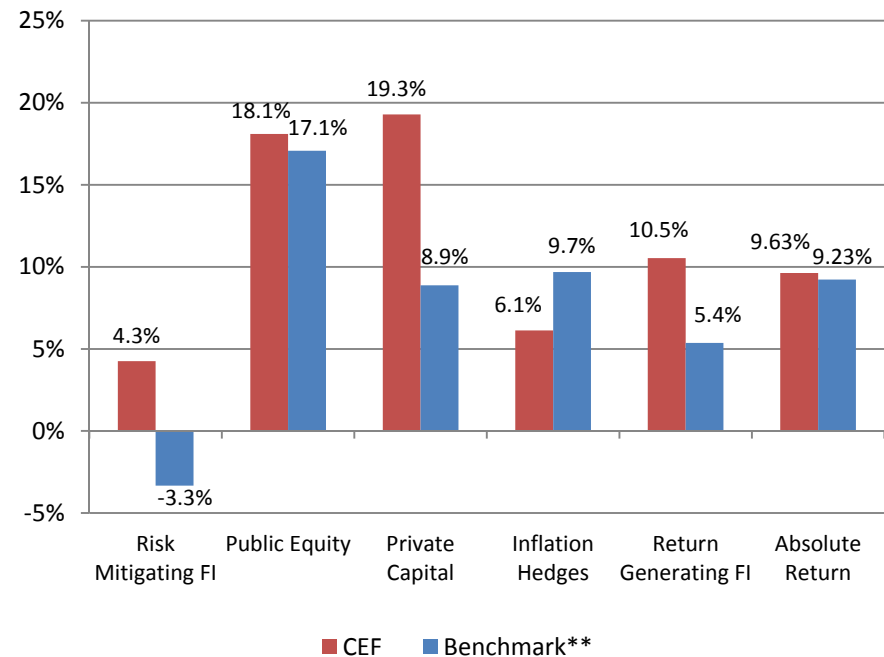
Maintain Inflation-Adj. Endowment Value

Sector vs. Benchmark Returns

1 Quarter



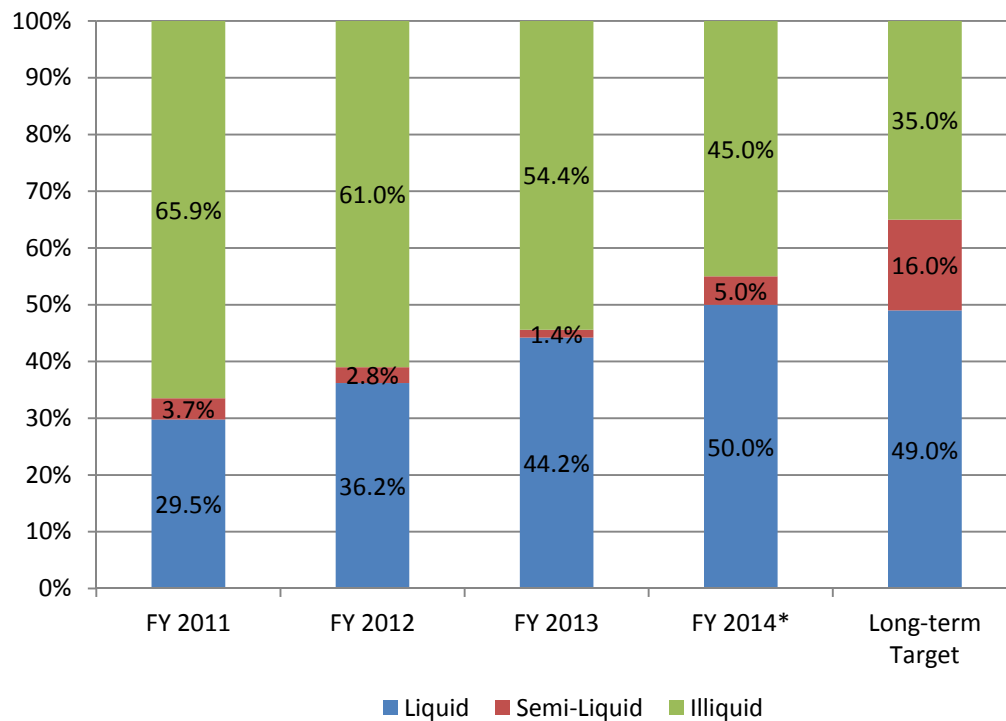
1 Year



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

Acceptable Risk Parameters

Liquidity Transition Plan



* Forecast

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%

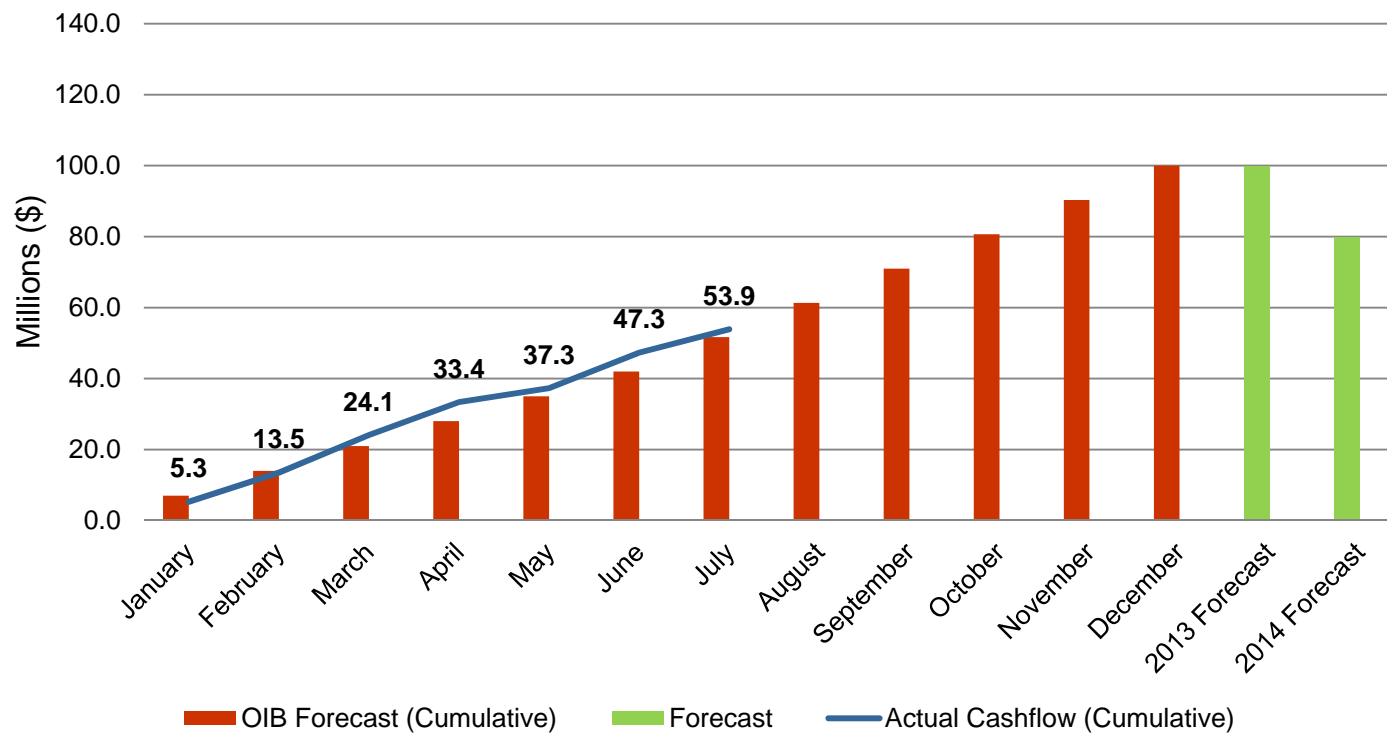
Strategy: Reduce illiquid investments to 35-40% of the overall portfolio over the next 2 years

Portfolio Exposures vs. Policy

Exposure	2012 Portfolio	2013 Portfolio	Long-Term Policy	Ranges
Risk Mitigating Fixed Income	7.1	9.2	12.0	8 - 15
Public Equity	23.4	30.3	30.0	25 - 35
Private Capital	36.0	31.1	20.0	15 - 25
Inflation Hedges	23.2	20.0	15.0	10 - 20
Return Generating Fixed Income	7.5	8.6	12.0	10 - 15
Absolute Return	2.8	0.8	11.0	8 - 15
Total	100.0	100.0	100.0	

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*	182.9	16.9
TCW	86.0	8.0
Goldman Sachs	51.9	4.8
Acadian	40.0	3.7
PineBridge	36.3	3.5
Vontobel	27.2	2.5
Pembroke	27.2	2.5
Insight	26.8	2.5
MHR	26.7	2.4
Oaktree	26.6	2.4

Definition: Maintain concentration in managers and funds at appropriate levels

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

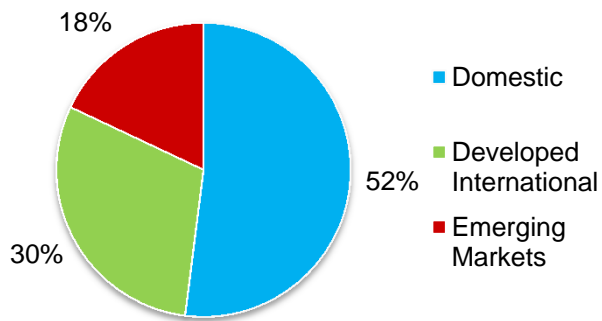
Strategy: Closely monitor large core positions and adjust holding size to maintain compliance with targets

* Blackrock investment consists of three funds, the largest of which is a Russell 1000 index fund at 9.9% of the endowment

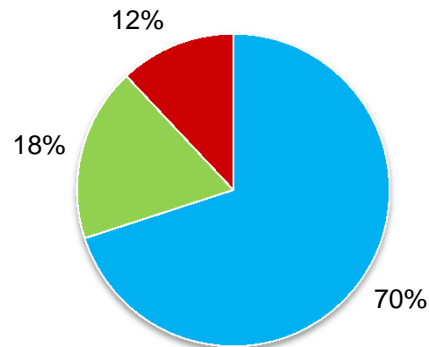
Acceptable Risk Parameters

Geographic Diversification

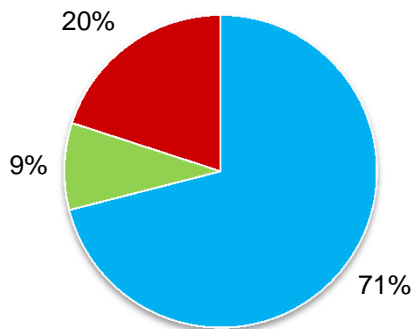
Public Equity



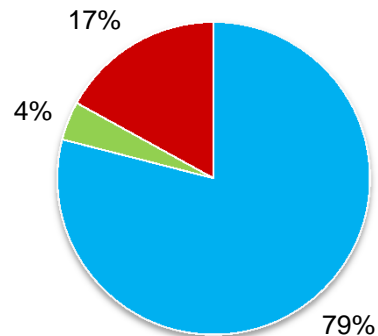
Private Capital



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

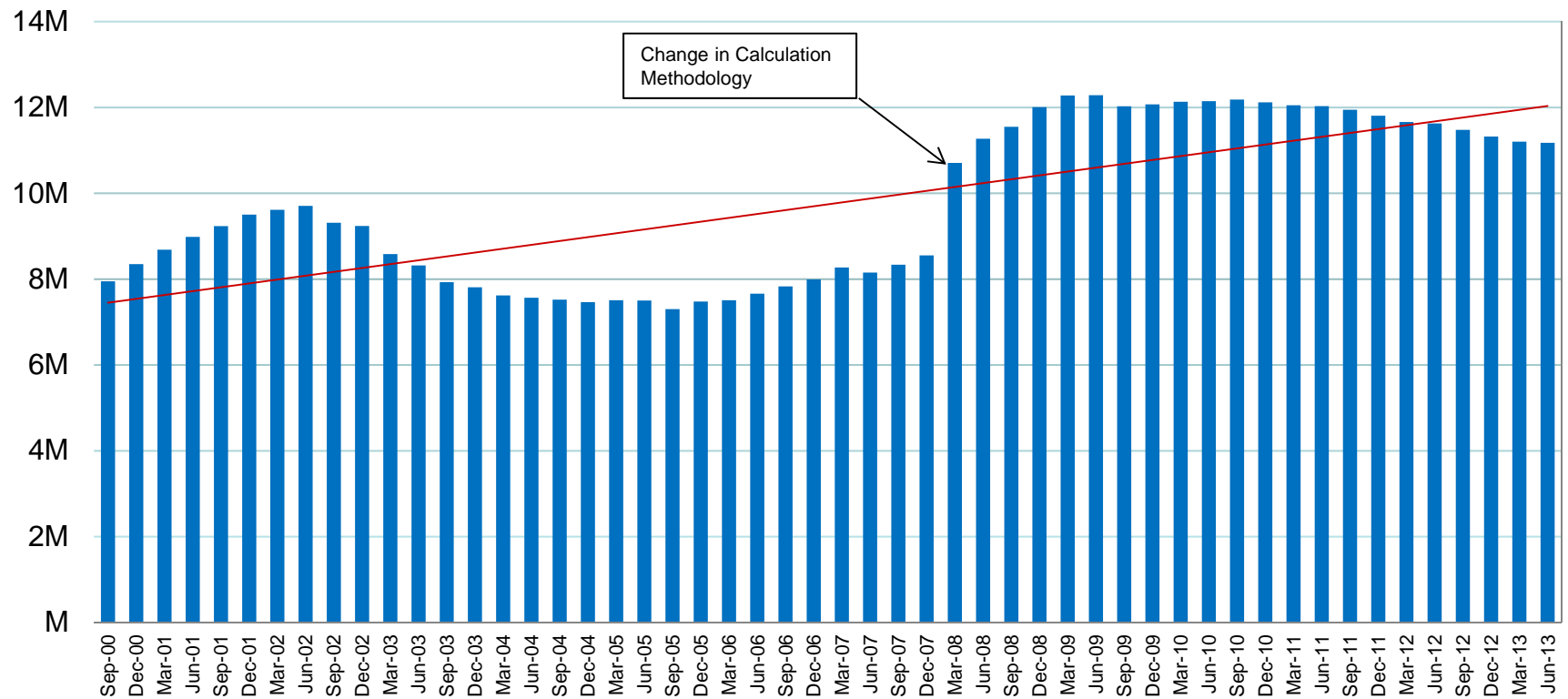
Strategy: Diversify geographic and non-US Dollar exposure

Region	Percent	Market Value
Domestic	67%	\$717
Developed Int'l	17%	\$186
Emerging Markets	16%	\$177

Stable Distributions

Actual CEF Distribution (gross of reinvestment)

Actual Payout — Trendline



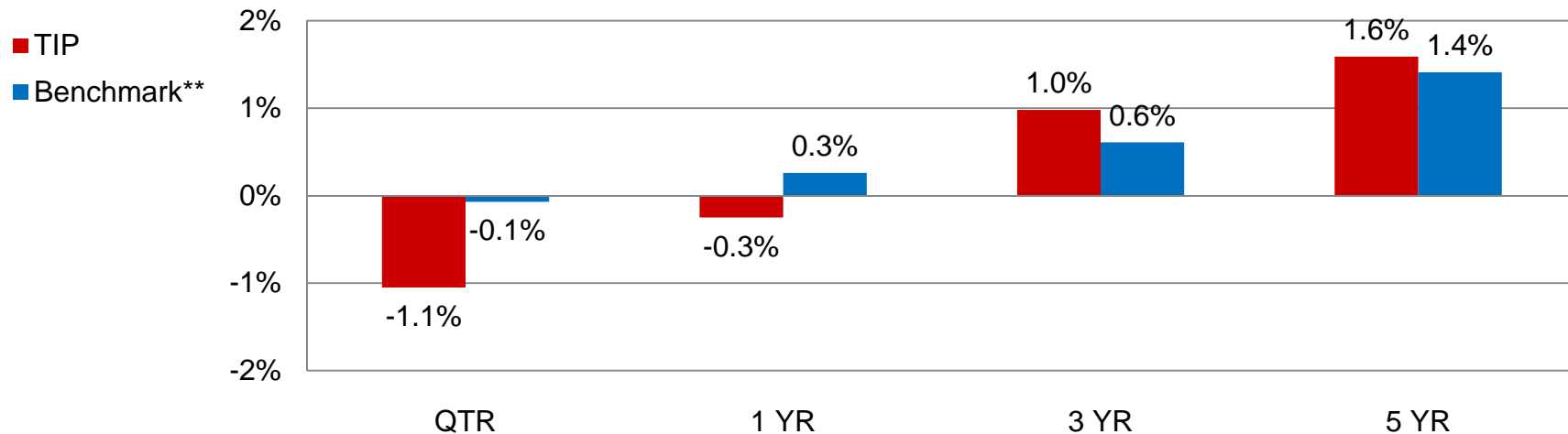
FY 2013 Investment Strategy Update

- Liquidity -** Allocated private partnership distributions to public equity and return generating fixed income portfolios
- Asset Allocation -** Executed rebalancing plan towards new asset allocation target ranges in effect July 1, 2012
- Risk Mitigating FI-** Identified new managers and funded dedicated allocations to short-duration treasuries and US TIPS as part of new asset allocation guidelines
- Public Equities-** Identified new managers and funded dedicated allocations to US small cap and emerging markets equity portfolios

TIP Review

TIP – Total Fund Performance*

Market Value: \$1,031M



- One year underperformance driven primarily by:
 - Spread widening in US agency and mortgage sectors
 - Longer portfolio duration relative to benchmark

* Performance is net of manager fees and excludes balances at Wells Fargo and US Bank used to offset banking fees

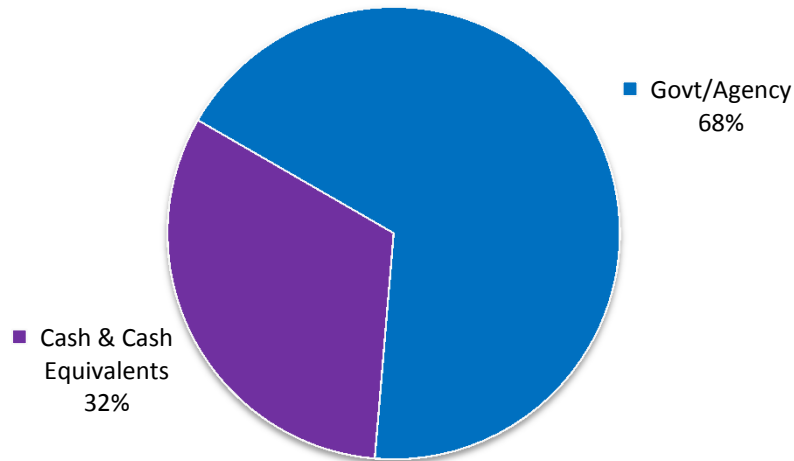
** Benchmark: 70% BofAML U.S. Treasuries 1-3 Yr / 30% 91 Day T-Bill

*** Total TIP Market value excludes the \$123.6 investment in CEF

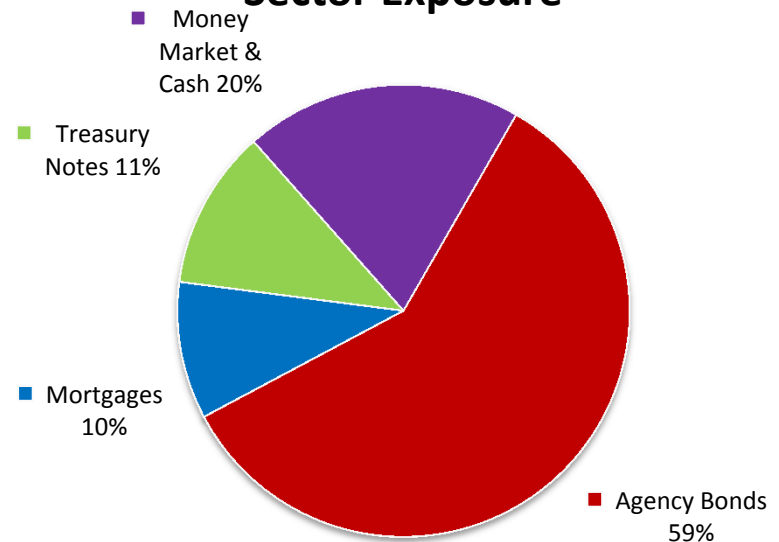
TIP – Asset Allocation

Market Value: \$1,031M

Credit Quality



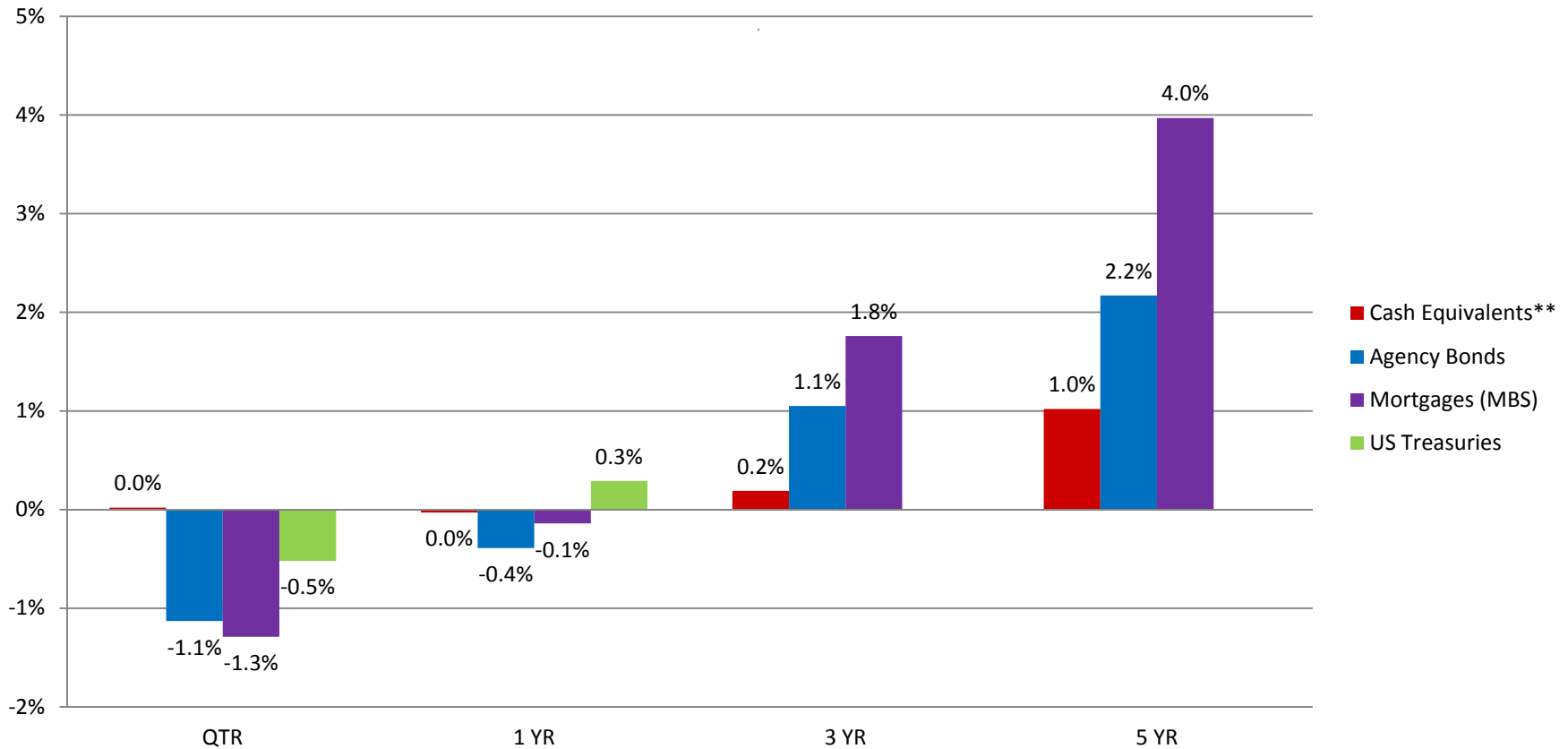
Sector Exposure



Statistic	Portfolio	Benchmark
Average Duration	2.41	1.40
Average Credit Rating	Govt/Agency	Govt/Agency
Current Yield	0.90%	0.27%

TIP – Performance* by Sector

Market Value: \$1,031M



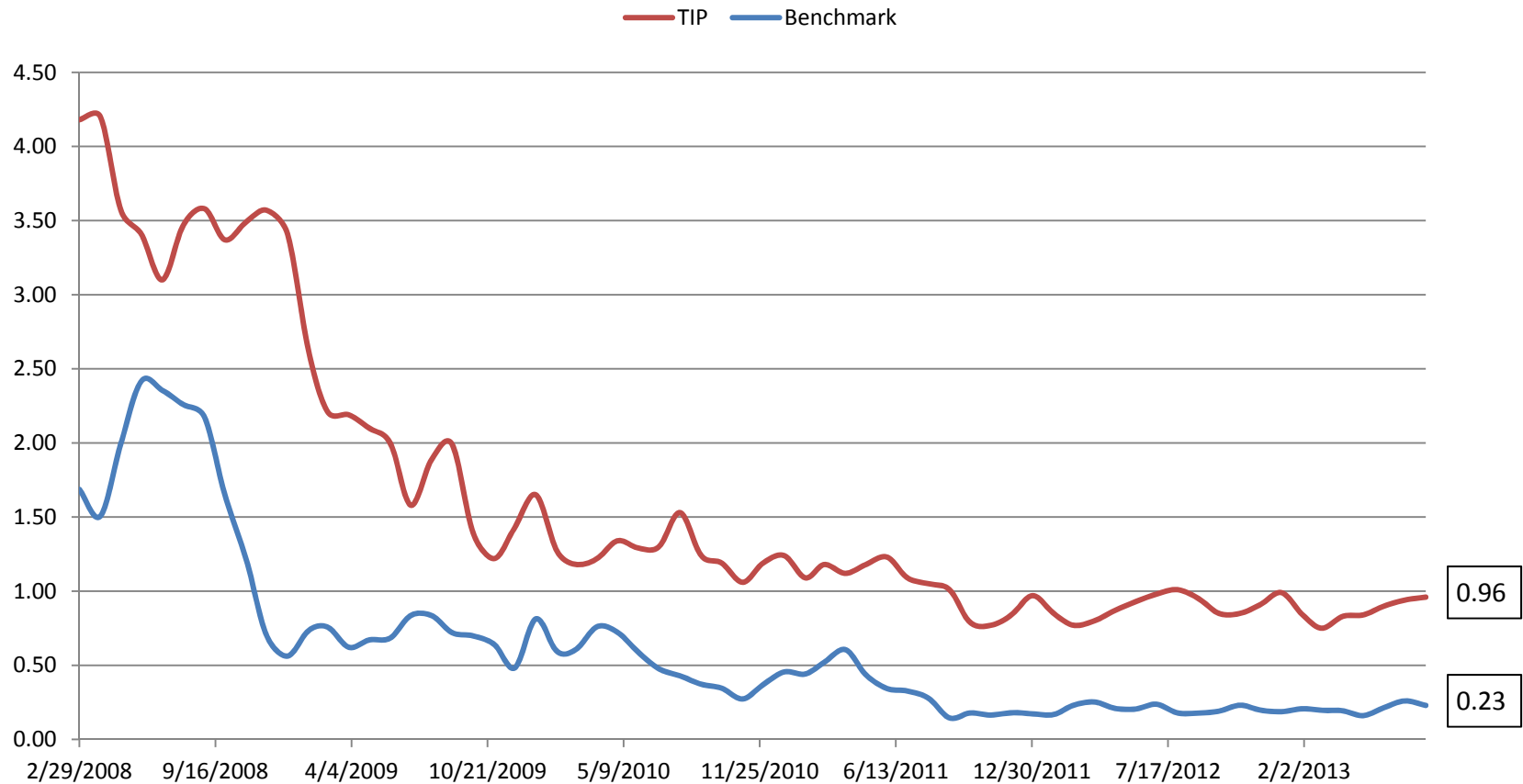
*Performance is net of manager fees

** Performance excludes balances at Wells Fargo and US Bank used to offset banking fees

TIP – Yield History

Market Value: \$1,031M

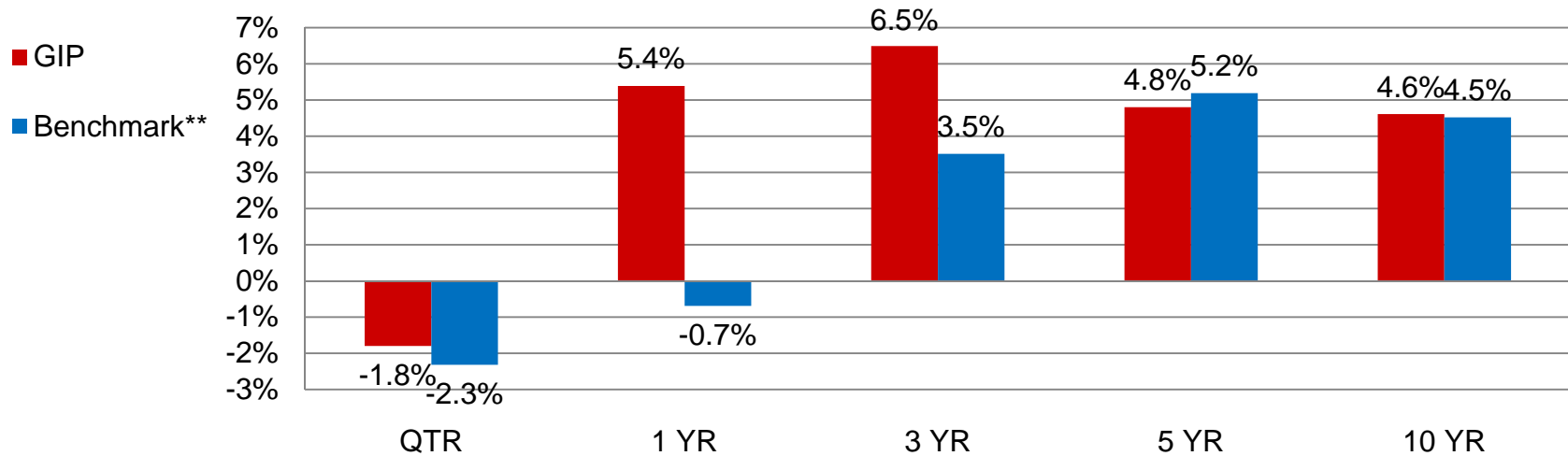
Yield History Relative to Benchmark



GIP Review

GIP – Total Fund Performance*

Market Value***: \$58M



- One year outperformance driven primarily by:
 - Investment in CEF (21% allocation) outperformed the GIP benchmark by 1535 bps
 - Underweight to US Treasuries relative to the benchmark
 - EM debt outperformed the GIP benchmark by 756 bps
 - TCW and PIMCO Total Return Funds outperformed the GIP benchmark by 736 and 189 bps, respectively

* Net of Manager Fees

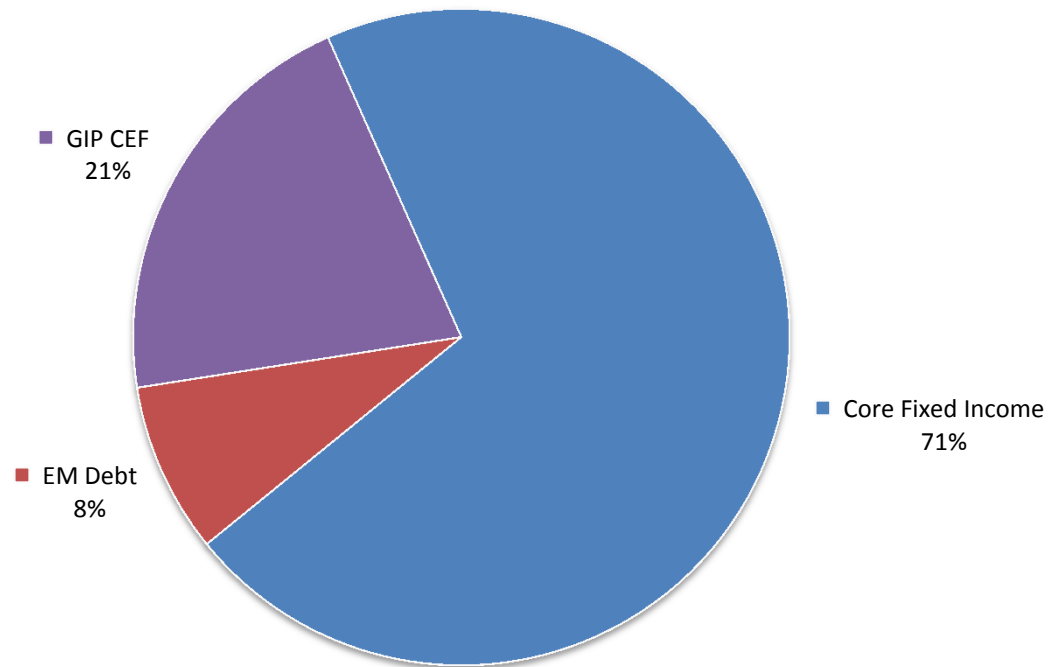
** Benchmark: 100% Barclays Capital Aggregate

*** Total GIP market value and investment performance includes the \$12.2 investment in CEF

GIP – Asset Allocation

Market Value: \$58M

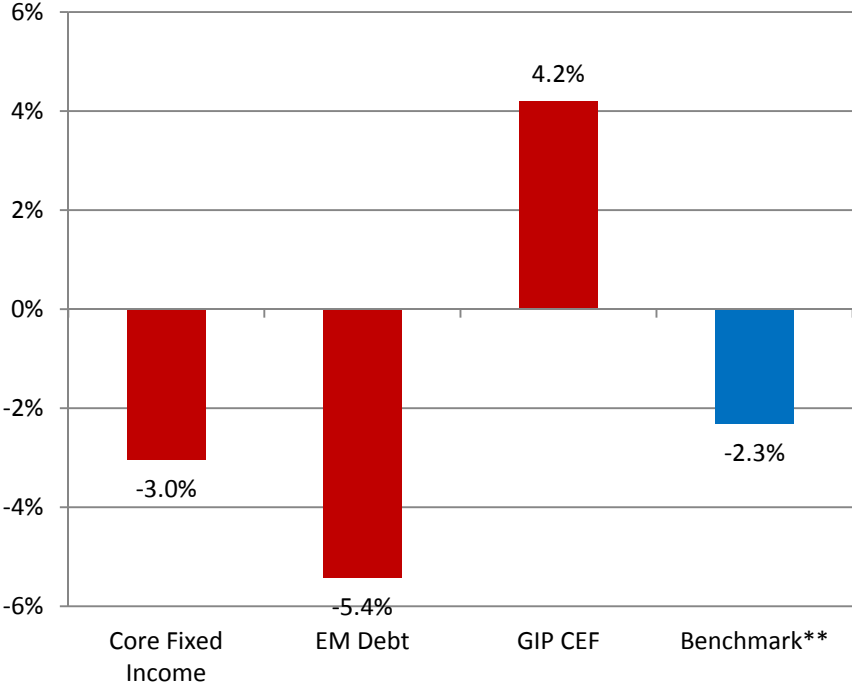
Portfolio Composition



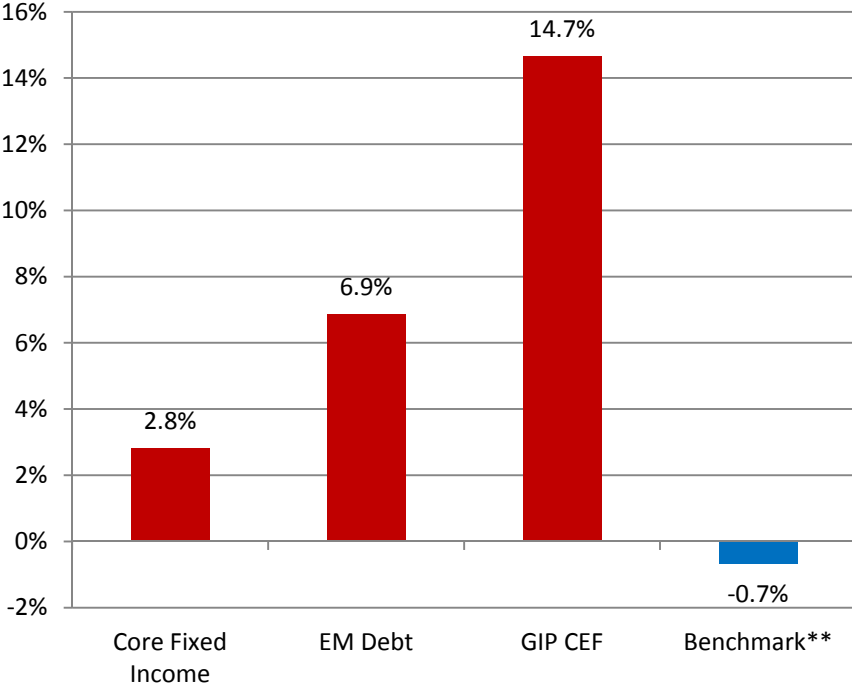
GIP – Performance* by Sector

Market Value: \$58M

1 Quarter



1 Year

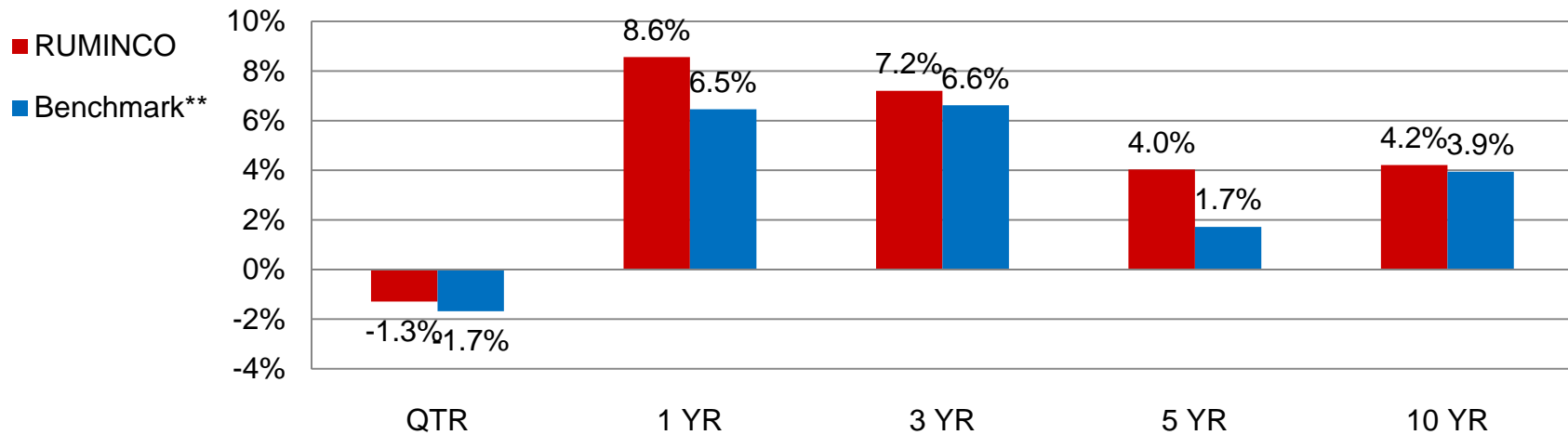


* Net of Manager Fees
 ** Benchmark: 100% Barclays Capital Aggregate

RUMINCO Review

RUMINCO – Total Fund Performance*

Market Value: \$36M



- One year outperformance primarily driven by:
 - Outperformance of short-duration fixed income relative to the benchmark
 - Slight overweight to Global Equities
 - Significant overweight to MBS in the TCW Total Return portfolio

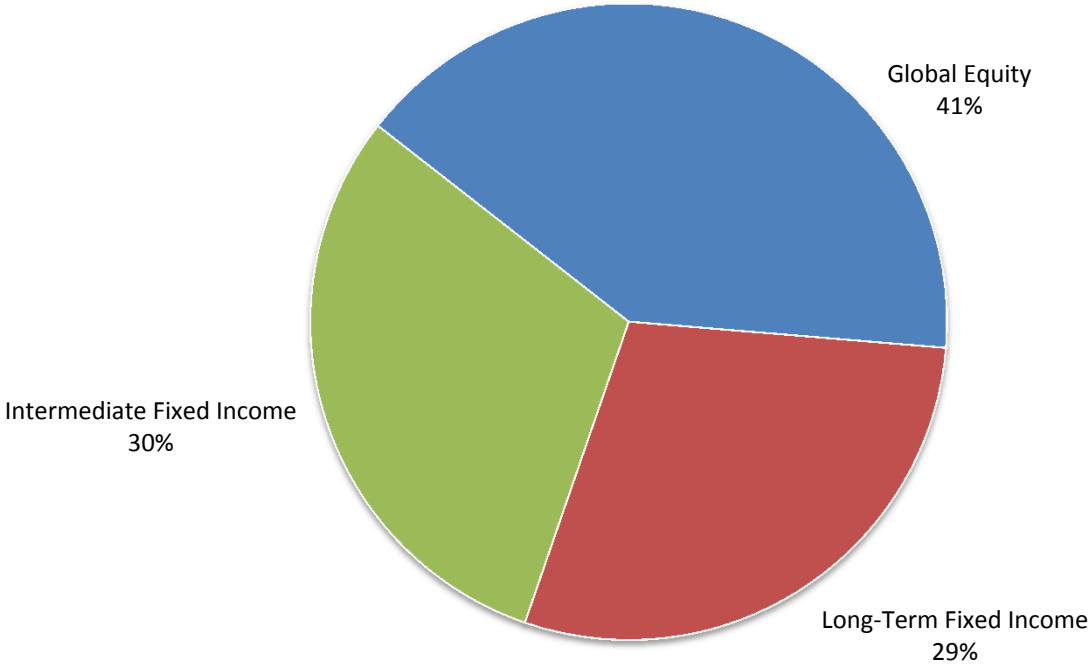
* Net of Manager Fees

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

RUMINCO – Asset Allocation

Market Value: \$36M

Portfolio Composition



FY 2013 Investment Manager Changes

New:

- Lazard Emerging Markets Distressed Asset Strategy (CEF)
- Vontobel Global Emerging Markets (CEF)
- Pembroke LTD (CEF)
- Westwood Global Investments (CEF)

Terminated:

- None

Targeted 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.

In the last year, OIB hired two targeted investment managers: Sit Investment Associates, and Icon Ventures. OIB held initial meetings or preliminary due diligence sessions with 14 targeted managers.