UNIVERSITY OF MINNESOTA

BOARD OF REGENTS

Finance Committee

Thursday, February 13, 2014

10:00 - 12:00 p.m.

600 McNamara Alumni Center, West Committee Room

Board Members
David McMillan, Chair
John Frobenius, Vice Chair
Clyde Allen
Richard Beeson
Laura Brod
Dean Johnson

Student Representatives
Drew Underdahl
John Reichl

AGENDA

1. Resolution Related to Issuance of Debt: Ambulatory Care Center - Review/Action - R. Pfutzenreuter/C. Fleck (pp. 2-6)

2. Board of Regents Policy: *Endowment Fund* - Review - R. Pfutzenreuter/S. Mason (pp. 7-10)

3. Annual Capital Financing & Debt Management Report - R. Pfutzenreuter/C. Fleck (pp. 11-12)

4. Annual Investment Performance: Peer Comparisons - S. Mason (pp. 13-20)

5. Annual Insurance & Risk Management Report - M. Volna/S. Pardoe (pp. 21-43)

6. Consent Report - Review/Action - R. Pfutzenreuter (pp. 44-46)

7. Information Items - R. Pfutzenreuter (pp. 47-79)

UNIVERSITY OF MINNESOTA
BOARD OF REGENTS

Finance Committee **February 13, 2014**

Agenda Item: Resolution Related to Issuance of Debt: Ambulatory Care Center

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

Presenters: Vice President/CFO Richard Pfutzenreuter
Carole Fleck, Director, Debt Management

Purpose:

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

In accordance with Board of Regents Policy: *Debt Transactions,* the Resolution Related to Issuance of Debt is being presented for action.

Outline of Key Points/Policy Issues:

The University of Minnesota Physicians (UMP), the University of Minnesota Medical Center – Fairview (Fairview), and the University of Minnesota (University) are undertaking a project that consists of the development of an Ambulatory Care Center (ACC) to provide patient and family centered health care services. The University has agreed to finance the construction of the ACC contingent upon the receipt of corporate guarantees of the debt from UMP and Fairview and leases as described below. Total required funding (Debt) is approximately $165,500,000, which includes capitalized interest during the construction period.

Fairview and UMP have formed a new jointly owned entity, UMPhysicians-UMMC, Fairview Health Services, Inc. ("Health Services"), through which they will operate certain aspects of the ACC. The University has negotiated leases of the ACC with each of Fairview and Health Services that require them to pay rent reflecting the cost of the debt service for the Debt, plus all operating and maintenance costs for the building.

The University is requesting approval of the attached financing resolution authorizing the issuance and sale of the Debt up to an aggregate principal amount of $165,500,000 to finance the ACC project.

Background Information:

Existing facilities are well below market standard for ambulatory clinics and have significant challenges due to inefficient workflow. Furthermore, the HVAC, electrical, and life safety systems are in need of upgrade. The move of clinics provides an opportunity to repurpose space in the Phillips Wangensteen Building.

The Ambulatory Care Center project funding was included in the FY 2013 Capital Budget ($142,500,000), approved by the Board of Regents in June 2012, and the FY 2014 Capital Budget ($22,500,000), approved by the Board of Regents in June 2013.

The schematic design plans for the project and the authorization to proceed with the completion of the design and construction of the project were approved by the Board of Regents in December 2013.

The appropriate administrative officers received authorization to execute the lease agreements, guaranties, and master agreement for the Ambulatory Care Center by the Board of Regents in December 2013. The ceremonial groundbreaking also occurred in late December 2013.

President's Recommendation for Action:

The President recommends approval of the Resolution Related to Issuance of Debt.

REGENTS OF THE UNIVERSITY OF MINNESOTA

RESOLUTION RELATED TO

ISSUANCE OF DEBT

WHEREAS, it has been proposed that the University proceed with a plan of financing which involves, among other things, the issuance and sale of indebtedness (such indebtedness, whether issued in the form of bonds, notes, or such other form of indebtedness as may be designated by the University, the "Bonds"), the proceeds of which are to be used to finance University capital projects which may include purchases of land and buildings, construction and remodeling projects, and the acquisition and installation of equipment, as well as the costs of issuance of the Bonds;

WHEREAS, the Bonds will be issued pursuant to an Indenture of Trust between the University and a bank or trust company acting as trustee or pursuant to an Order of the University;

WHEREAS, the Indenture of Trust or Order pursuant to which the Bonds will be issued will contain the terms of such Bonds and agreements and covenants of the University with respect to the payment of the principal of, premium, if any, and interest on such Bonds;

WHEREAS, the principal amount of the Bonds authorized will be the amount of the Bonds outstanding at any time, and not an aggregate principal amount;

NOW, THEREFORE, BE IT RESOLVED by the Board of Regents of the University of Minnesota (the "Board") as follows:

1. To provide funds to finance capital projects which may include purchases of land and buildings, construction and remodeling projects, and the acquisition and installation of equipment, as well as the costs of issuance of such financing, the Board hereby authorizes the sale and issuance of Bonds in the principal amount of up to $165,500,000. The Bonds may be issued in one or more series and shall mature not later than the date that is 30 years after the date of issuance of each series. The Treasurer is authorized to determine whether or not the Bonds shall be issued as general obligations of

the University or special purpose debt, and whether or not the Bonds shall be tax-exempt under Section 103 of the Internal Revenue Code of 1986, as amended (the “Code”).

2. The purchases of land and buildings, construction and remodeling projects, or acquisition of equipment to be financed by the proceeds of the Bonds shall be those the source of funding of which is so designated by the Board or by the Treasurer as part of the University’s capital planning process.

3. The Bonds may be sold in either a negotiated sale or a competitive process, as determined by the Treasurer. The Treasurer is authorized to negotiate and approve the terms and conditions of the appropriate agreement or agreements with financial advisors, banks, investment banking firms, or other financial institutions, including the terms and conditions upon which their services will be rendered and the terms and conditions upon which the Bonds will be sold and issued. The Treasurer is further authorized to negotiate and approve the terms and conditions of any credit support or liquidity facility for any series of Bonds and any interest rate swap agreement or other agreement for the purpose of hedging the University’s interest rate risk with respect to any series of Bonds. Such agreements shall be in the form and contain such rights, obligations, covenants, agreements, representations and warranties of the University as are approved by the Treasurer and the General Counsel.

4. In connection with the issuance of any series of the Bonds, the President and Treasurer are authorized to execute and deliver on behalf of the University the Indenture of Trust or Order or any supplement or amendment thereto under which the Bonds are to be issued in the form and containing such covenants, agreements, representations and warranties as is approved by the Treasurer and the General Counsel, and the Secretary and Treasurer are authorized to execute and deliver the Bonds in accordance with such Indenture of Trust or Order or any supplement or amendment thereto. The signatures of the Secretary and/or Treasurer on the Bonds may be by facsimile.

5. The President and Treasurer are authorized to execute and deliver a purchase agreement with the initial purchaser or purchasers of any series of Bonds in the form and containing such covenants, agreements, representations and warranties of the University as are approved by the Treasurer and General Counsel.

6. The Treasurer is authorized to approve the Preliminary Official Statement, final Official Statement, Offering Memorandum, Offering Circular, or other offering material or any supplements or amendments thereto to be prepared and distributed to any purchaser or potential purchaser of a series of Bonds, and the President is authorized to execute and deliver the final Official Statement or any supplements or amendments thereto. In the case of the sale of any series of Bonds in a competitive process,

the Treasurer is authorized to approve the Notice of Sale and any amendment thereto.

7. Section 147(f) of the Code requires that, prior to the issuance of any Bonds that are tax exempt under Section 103 of the Code and are "qualified 501(c)(3) bonds" under Section 145 of the Code, a public hearing be held, following reasonable public notice, and the proposed issuance of the Bonds be approved by the governmental unit having jurisdiction over the area in which the facility to be financed is located. Pursuant to that requirement, the Treasurer is hereby authorized and directed to publish notice of and conduct a public hearing on the proposed facility to be financed by the Bonds and the proposed issuance of the Bonds on such date as he may select, at such location as he may select. The Treasurer or his designee is hereby authorized to serve as hearing officer for the University for purposes of conducting the public hearing.

8. The appropriate University officers are authorized to execute and deliver all other documents, certificates and to take such action as may be necessary or appropriate in connection with the issuance and sale of the Bonds.

9. The Secretary and other officials of the University are authorized and directed to prepare and furnish to any purchasers of the Bonds certified copies of all proceedings and records of the University as may be required or appropriate to evidence the facts relating to the legality of the Bonds as such facts appear from the books and records in the officers' custody and control or as otherwise known to them; and all such certified copies, certificates and affidavits, including any heretofore furnished, shall constitute representations of the University as to the truth of all statements contained therein.

10. The execution of any document by the appropriate University officers herein authorized shall be conclusive evidence of the approval of such documents in accordance with the terms hereof. In the absence of the President or Treasurer, any Indenture of Trust, Order, final Official Statement, purchase agreement or any other document to be executed by the President or Treasurer in connection with the Bonds may be executed by the Chair or Vice Chair instead of the President and by the Secretary instead of the Treasurer.

UNIVERSITY OF MINNESOTA
BOARD OF REGENTS

Finance Committee **February 13, 2014**

Agenda Item: Board of Regents Policy: *Endowment Fund*

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

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

Purpose:

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

To review proposed amendments to Board of Regents Policy: *Endowment Fund*.

Outline of Key Points/Policy Issues:

- Addition to the Board of Regents Policy: *Endowment Fund* of specific actions taken related to sustainability and renewable energy, in an effort to directly address concerns from student advisory groups and others. Information regarding these investments will be included in an annual report to the Board.

Background Information:

The existing Regents policy was adopted in September 8, 1989, and was last amended in 2011.

President's Recommendation for Action:

The President recommends adoption of the proposed amendments to Board of Regents Policy: *Endowment Fund*.

ENDOWMENT FUND

Adopted: September 8, 1989
Amended: May 11, 1990; July 10, 1992; November 10, 1993; January 14, 1994; April 9, 1998; November 10, 2000; December4 13, 2002; March 12, 2004; February 11, 2005; May 13, 2005; July 12, 2006; May 14, 2010; June 10, 2011
Supersedes: (see end of policy)
DRAFT for *review* February 13, 2014

UNIVERSITY OF MINNESOTA

BOARD OF REGENTS POLICY

ENDOWMENT FUND

SECTION I. SCOPE.

This policy governs the management of investments in the University of Minnesota (University) endowment fund (endowment).

SECTION II. INVESTMENT OBJECTIVES.

The investment objectives for the University endowment shall be, over the long~~-~~term, to:

(a) preserve the inflation adjusted value of the endowment;
(b) generate investment returns that meet or exceed the annual payout rate plus direct expenses incurred by the investment program after adjusting for inflation as measured by the Consumer Price Index;
(c) execute the investment program within acceptable risk parameters; and
(d) provide stable distributions for annual spending purposes.

SECTION III. COMPREHENSIVE PROGRAM REVIEW.

Annually, the president or delegate shall present to the Board of Regents (Board) a comprehensive review of the investment program including a discussion of the role of investment strategies employed during the previous year to achieve the investment objectives.

SECTION IV. ASSET ALLOCATION GUIDELINES.

Consistent with Board policies, the Board reserves the authority to approve asset allocation ranges. The president or delegate shall recommend asset allocation ranges and the Board shall act on them by resolution.

SECTION V. REPORTING.

The president or delegate shall make the following reports to the Board at the specified times or frequencies:

(a) a quarterly~~, a~~ report regarding the status of the endowment containing ~~all of~~ the following information:
    (1) the total market value and investment performance relative to selected benchmarks for each asset class and the total portfolio;
    (2) an attribution analysis of investment performance;
    (3) an analysis of investment performance relative to investment objectives;
    (4) an evaluation and discussion of portfolio risk;
    (5) deviations from asset allocation ranges, if any; and
    (6) new managers, manager terminations, and changes in investment allocations to existing managers.

(b) an annual report ~~These items shall be summarized~~ containing the following information:~~in an annual report~~.
   (1) a comparison to peer institutions of relative performance and asset allocation;
   (2) steps taken to provide opportunities to emerging, minority-owned, and woman-owned investment management firms; and
   (3) an evaluation of investments related to sustainability and renewable energy.

~~(b) at its next regularly-scheduled meeting, any significant change in investment strategy and any internal or external event that has the potential to materially affect the performance of the fund;~~
~~(c) a comparison to peer institutions of relative performance and asset allocation,~~
~~(d) steps taken to provide opportunities to emerging, minority-owned, and woman-owned investment management firms;~~
~~(e) any other information requested by the Board.~~

(c) at the next regularly scheduled meeting of the Board a report containing the following information:
   (1) any significant change in investment strategy and any internal or external event that has the potential to materially affect the performance of the fund; and
   (2) any other information requested by the Board.

SECTION VI. INVESTMENT MANAGEMENT GUIDELINES.

Subd. 1. Use of Investment Managers. Except as provided in Subd. 3 below, endowment funds shall be invested only through investment managers. The president or delegate shall choose investment managers with demonstrated expertise and engage them by written agreement to execute transactions in their discretion within stated parameters and in accordance with applicable policy. No investment manager may manage more than 20 percent of the endowment for a period of more than 12 consecutive months.

Subd. 2. Liquidity. Between 60 and 70 percent of total endowment assets shall be capable of being converted to cash or cash equivalents within 12 months without material loss of market value. The sum of (a) assets that do not meet this liquidity criterion and (b) total unfunded commitments to limited partnerships shall not at any time exceed 55 percent of total endowment assets.

Subd. 3. Rebalancing. The president or delegate shall monitor market value of endowment assets in comparison to the asset allocation ranges approved by the Board. At least quarterly, the president or delegate shall determine whether rebalancing is appropriate and, if necessary, act in a timely and cost-effective manner. In order to achieve rebalancing, the following investment instruments may be employed with the use of an investment manager:

(a) futures contracts, only on a net unleveraged basis;
(b) options contracts for purposes of hedging or the sale of covered options, provided that aggregate option exposure may not exceed 10~~ten~~ percent of the value of the endowment; and
(c) investments in exchange-traded funds.

Subd. 4 Limitations.

(a) The use of derivatives for speculative purposes is prohibited.~~;~~

(b) No individual investment may be made for the purpose of exercising management control in any company. This provision is not intended to prohibit the use by investment managers of control strategies with respect to portfolio companies.
(c) A maximum of ten percent of the endowment may be invested in any single fund or account.
(d) The investment of endowment funds shall comply at all times with the restrictions on investment of amounts comprising the Permanent University Fund that are set forth in Minnesota Statutes Section 11A.24 or its successor.

Subd. 5. Social Responsibility. The University shall consider social responsibility in its investment decisions.

SECTION V. PAYOUT RATE.

The endowment payout rate shall be set at a level that supports University operations while enabling the endowment to grow at an inflation-adjusted rate that will provide for future distributions. Distributions shall be made quarterly. The annual payout rate shall be 4.5 percent of the average of the endowment's trailing month-end market values for the prior 60 months.

See Board Of Regents Resolution Relating To Board Of Regents Policy: *Endowment Fund* Dated May 13, 2005.

Supersedes: Investment Social Concerns Dated September 13, 1991.

UNIVERSITY OF MINNESOTA
BOARD OF REGENTS

Finance Committee **February 13, 2014**

Agenda Item: Annual Capital Financing & Debt Management Report

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

Presenters: Vice President/CFO Richard Pfutzenreuter
Carole Fleck, Director, Debt Management

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:

On June 30, 2013, the University's long-term debt outstanding was $1,300,730,000, consisting of general obligation (GO) bonds, special purpose revenue bonds, commercial paper (CP) notes, auxiliary revenue bonds, infrastructure development bond (IDB) obligations, and capital leases.

The balance outstanding at June 30, 2013, excluding the special purpose revenue bonds (State Supported Stadium Debt and State Supported Biomedical Science Research Facilities), was $1,002,398,000.

<u>Significant FY 2013 debt transactions:</u>

- The Line of Credit (LOC) with Wells Fargo that supports the University's self-liquidity backing the commercial paper outstanding was extended in September 2012 for an additional year to October 1, 2013 with a reduction in the amount to $40,000,000. In June 2013, the University provided notice to the bank to terminate the credit agreement effective July 19, 2013.

- Amendments to the Board of Regents policy: *Debt Transactions*, were approved by the 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.

- In February 2013, the University issued GO Bonds, Series 2013A, in the par amount of $73,570,000, and GO Taxable Bonds, Series 2013B, in the par amount of $13,780,000. All-in true interest costs were 3.00% and 3.33%, respectively. This was the first time the University sold bonds through a competitive sale. Total proceeds will be used for various capital projects including a portion of the renovation of Northrop Memorial Auditorium, the construction of a student residence hall and dining facility, and the construction of the

Physics & Nanotechnology Building, all on the Twin Cities campus, and construction of residence halls on each of the Crookston and Morris campuses.

<u>FY 2014 activities to date:</u>

- The third 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, the fourth and final project of the program, and costs of issuance.

    - $35,395,000 Special Purpose Revenue Bonds, Series 2013C (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.

    - $12,760,000 GO Taxable Bonds, Series 2013D (University Supported Biomedical Science Research Facilities Funding Program).

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

- The Resolution Related to Issuance of Debt, providing the authority to issue debt up to $83,000,000 for the Combined Heat and Power Plant, was approved by the Board of Regents in December 2013. This debt will be issued sometime in the winter of 2014.

Background Information:

The University pursues the following goals when issuing debt:

- Maintain key financial metrics to assure continued access to capital markets.
- Minimize University borrowing costs at acceptable levels of risk over the life of the debt.
- Maintain a portfolio of variable and fixed-rate debt that is in the long-term best interest of the University.

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

- Debt Management Advisory Committee (DMAC), chaired by Regent Allen.
- Debt Oversight Group (DOG), which includes executive leadership across University functional areas.

A Debt Process Team (DPT) 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 2013.

UNIVERSITY OF MINNESOTA
BOARD OF REGENTS

Finance Committee **February 13, 2014**

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**

The *Annual Peer Benchmarking Report* containing a summary of investment performance and asset allocation data related to peer institutions for the fiscal year ending June 30, 2013, and is presented to the Board of Regents for discussion.

Outline of Key Points/Policy Issues:

- Endowment Fund investment performance of 12.8% ranked in the upper decile of peer institutions.

- Drivers of performance included Distressed Debt and Venture Capital managers who produced greater than 20% returns, in addition to an 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.

Office of Investments & Banking

Annual Peer Benchmarking | Fiscal Year 2013

University of Minnesota

NACUBO/Commonfund

Study of Endowments

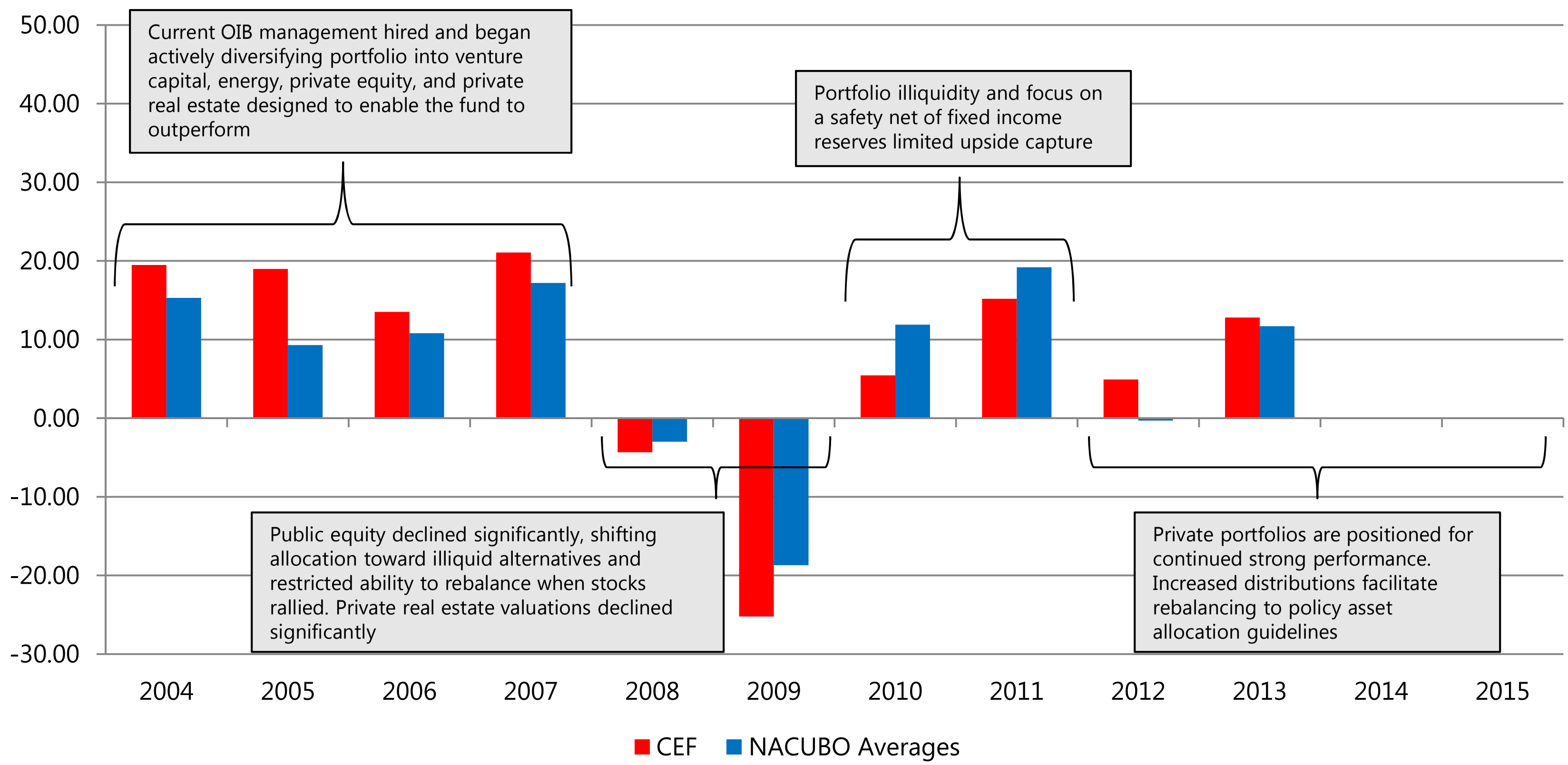
- Conducted jointly by National Association of College and University Business Officers (NABUCO) and Commonfund Institute

- 2013 Study had 835 participating institutions ranging in size from under $25 million to over $20 billion

- All data is as of June 30, 2013

Endowment Annual Performance

Fiscal Year Performance* Comparison



* Net of Manager Fees

Effective Spending Rates

Size of Endowment	2013 %	2012 %	2011 %	2010 %	2009 %	2008 %	2007 %	2006 %	2005 %	2004 %
Over $1 Billion	4.8	4.7	5.2	5.6	4.6	4.2	4.4	4.6	4.7	5.2
$501 Million to $1 Billion	4.6	4.7	5.2	5.7	4.9	4.5	4.4	4.5	4.8	5.2
$101 Million to $500 Million	4.4	4.3	5.0	4.9	4.4	4.2	4.5	4.6	4.7	4.9
$51 Million to $100 Million	4.4	4.3	4.5	4.6	4.7	4.6	4.8	4.7	4.7	4.9
$25 Million to $50 Million	4.3	3.8	4.0	4.1	4.3	4.3	4.8	4.8	4.7	4.8
Under $25 Million	4.1	3.7	3.7	3.5	3.9	4.1	4.6	4.6	4.8	4.6
University of Minnesota	4.8	4.8	5.0	5.1	5.3	4.7	5.1	5.4	5.6	5.6

Peer Comparison

Institution	State	Type	Market Value (in millions)	Total Returns (%)			
				1 Year	3 Years	5 Years	10 Years
Harvard University	MA	Private	32,334	11.3	-	-	-
Yale University	CT	Private	20,780	12.5	-	3.3	11.0
The University of Texas System	TX	Public	20,448	9.5	9.2	3.4	8.2
Stanford University	CA	Private	18,689	12.2	11.5	3.3	10.0
Princeton University	NJ	Private	18,200	11.7	12.0	4.2	10.2
Massachusetts Institute of Technology	MA	Private	11,006	11.1	12.3	5.3	10.7
The Texas A&M University System	TX	Public	8,732	10.5	9.6	3.7	7.2
University of Michigan	MI	Public	8,382	10.8	11.0	3.3	10.2
Columbia University	NY	Private	8,198	11.5	12.1	6.8	11.0
Northwestern University	IL	Private	7,883	11.9	11.9	3.9	9.7
University of Pennsylvania	PA	Private	7,741	14.4	11.3	5.5	8.0
University of Notre Dame	IN	Private	6,856	11.8	11.9	4.3	10.8
University of California	CA	Public	6,377	11.6	10.3	4.1	7.4
Duke University	NC	Private	6,041	13.5	12.6	4.1	10.6
The Ohio State University	OH	Public	3,149	11.6	9.2	2.9	5.8
The Pennsylvania State University	PA	Public	2,957	11.3	12.4	5.2	8.6
University of Minnesota & Foundations	MN	Public	2,757	12.2	10.9	3.1	7.6
Purdue University	IN	Public	2,182	12.2	10.6	4.3	7.7
University of Wisconsin Foundation	WI	Public	2,020	12.6	10.1	3.3	7.5
NACUBO Over $1 Billion (average)	-	-	3,975	11.8	10.5	3.8	8.3

Big Ten Peer Comparison

Institution	Market Value (in millions)	Total Returns (%)			
		1 Year	3 Years	5 Years	10 Years
University of Illinois	581.3	14.3	14.8	7.6	7.8
University of Nebraska	1,338.7	12.9	10.5	3.8	7.2
Regents of the University of Minnesota	1,068.6	12.8	10.9	1.5	7.2
University of Wisconsin Foundation	2,020.0	12.6	10.1	3.3	7.5
Indiana University and Foundation	1,735.1	12.5	11.4	3.7	7.3
University of Illinois Foundation	1,344.7	12.3	11.2	3.7	6.8
Purdue University	2,182.2	12.2	10.6	4.3	7.7
University of Iowa and Foundation	1,094.8	12.1	11.7	5.4	6.4
Michigan State University	1,637.2	12.1	9.6	3.8	8.6
Northwestern University	7,883.3	11.9	11.9	3.9	9.7
University of Minnesota Foundation	1,688.9	11.8	11.0	4.1	7.8
The Ohio State University	3,149.2	11.6	9.2	2.9	5.8
The Pennsylvania State University	2,956.8	11.3	12.4	5.2	8.6
University of Wisconsin System	352.1	10.9	10.1	5.0	8.3
University of Michigan	8,382.3	10.8	11.0	3.3	10.2
Michigan State University Foundation	321.2	10.5	7.7	3.1	7.2
NACUBO Over $1 Billion (average)	3,975.5	11.8	10.5	3.8	8.3

Big Ten Peer Comparison

Institution	Asset Allocation											
	US Equity	Fixed Income	Ex-US Equity	Real Estate	Venture Capital	Private Equity	Energy	Commodities	Hedge Funds	Distressed Debt	Cash	Other
University of Illinois	37.7	17.4	21.8	0.0	0.3	4.3	0.0	0.0	8.5	0.0	0.8	9.2
University of Nebraska	31.7	20.4	23.0	3.2	0.2	1.3	0.1	2.2	17.6	0.0	0.3	0.0
Regents of the University of Minnesota	**13.0**	**17.7**	**16.1**	**13.0**	**12.1**	**11.4**	**3.7**	**3.3**	**1.4**	**7.7**	**0.0**	**0.6**
University of Wisconsin Foundation	28.1	14.7	25.5	3.2	1.5	15.7	5.2	0.0	3.1	0.0	3.0	0.0
Indiana University and Foundation	21.3	9.1	18.5	5.7	6.1	8.7	4.8	1.2	22.3	1.7	0.5	0.0
University of Illinois Foundation	28.4	8.5	13.9	5.6	0.0	8.1	0.0	0.0	11.2	0.0	7.4	16.9
Purdue University	25.8	11.2	18.9	2.9	3.8	5.7	4.1	2.4	21.5	0.0	3.8	0.0
University of Iowa and Foundation	23.0	9.4	19.3	0.0	3.2	7.3	5.6	0.0	26.5	2.1	0.0	3.6
Michigan State University	19.3	18.5	24.7	2.6	0.1	7.0	4.7	4.5	16.3	2.2	0.0	0.0
Northwestern University	11.9	10.5	15.5	7.8	7.6	13.5	9.5	1.2	17.7	3.3	1.5	0.0
University of Minnesota Foundation	15.3	18.7	11.2	4.7	8.5	9.7	5.9	0.0	20.8	3.1	2.1	0.0
The Ohio State University	17.4	7.9	7.6	5.3	0.8	11.5	4.5	0.6	35.3	5.4	3.7	0.0
The Pennsylvania State University	31.7	18.6	16.7	2.9	4.6	8.2	3.1	3.9	6.4	2.1	1.9	0.0
University of Wisconsin System	25.1	19.9	31.0	0.0	4.2	7.1	1.6	0.0	9.1	0.7	1.3	0.0
University of Michigan	7.7	7.7	16.3	15.0	11.2	14.7	8.5	0.0	14.8	0.0	4.1	0.0
Michigan State University Foundation	17.3	6.9	21.6	4.6	3.1	5.9	6.3	0.0	31.0	1.8	1.5	0.0
NACUBO Over $1 Billion (average)	**16.8**	**9.4**	**17.6**	**6.3**	**5.4**	**11.4**	**6.3**	**3.0**	**20.6**	**4.1**	**3.1**	**5.0**

UNIVERSITY OF MINNESOTA
BOARD OF REGENTS

Finance Committee **Feruary 13, 2014**

Agenda Item: Annual Insurance & Risk Management Report

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

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

Purpose:

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

To provide a report on the risk management and insurance programs at the University for fiscal year 2013.

Outline of Key Points/Policy Issues:

The University's total cost of risk for FY 2013 (which is the sum of captive costs, self-insurance costs, and the cost of commercially-purchased insurance) was $12.5 million, virtually unchanged from $12.4 million for the prior year.

During FY 2013, Risk Management finalized the extra-Minnesota excess clinical trials liability insurance policy, cooperated in the completion of the Alcoholic Beverage Sales and Service and Venue Liquor Licensing policy, and worked with the Office of Human Resources and third party administrator Sedgwick Claims Management to minimize claimant payment errors.

Goals for FY 2014 include exploring possibilities for reducing the incidence of slip/trip/fall accidents and back injuries arising from improper lifting, and developing alternatives for addressing risks of cell phone use while operating a vehicle in the course of university business.

Background Information:

This report is prepared and presented to the Board of Regents Finance Committee on an annual basis.

UNIVERSITY OF MINNESOTA

Annual Report
of the
Office of Risk Management and Insurance
as of
Fiscal Year Ended
30 June 2013

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.

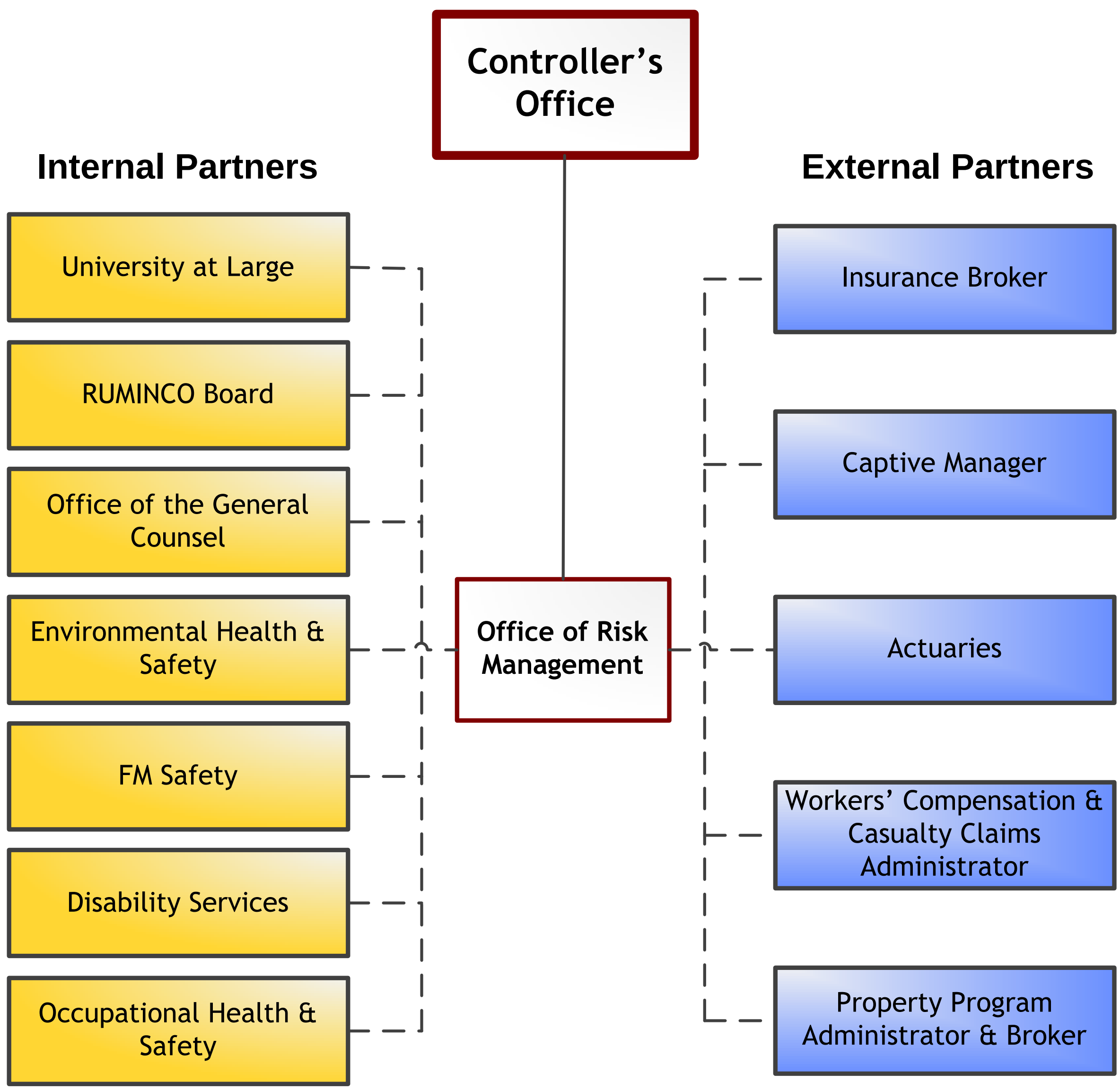
Risk Management uses commercial insurance, captive insurance, and self-insurance to transfer, or budget for, monetary loss arising from risk. It is responsible for the design, procurement, implementation, and maintenance of these programs. Risk Management routinely consults with the Office of General 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, 2013.

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.



FY13 Completed Projects

Extra-Minnesota Medical Clinical Trials Liability

Within Minnesota jurisdiction, the University is afforded protection from high-dollar lawsuits by statute. Since we cannot count on similar protections in foreign jurisdictions, Risk Management studied university Medical Clinical Trials activity, prepared application submissions accurately reflecting our exposure, received alternative proposals for addressing the exposures, and finalized and bound coverage for liabilities excess of RUMINCO limits occurring outside Minnesota.

Alcoholic Beverage Sales and Service and Venue Liquor Licensing Policy

We worked with the Office of the President, Contract Administration, and the Office of the General Counsel to complete this administrative policy.

Workers Compensation

Risk Management worked with university Human Resources and Third Party Administrator Sedgwick to improve internal and external communication to minimize claimant payment errors.

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

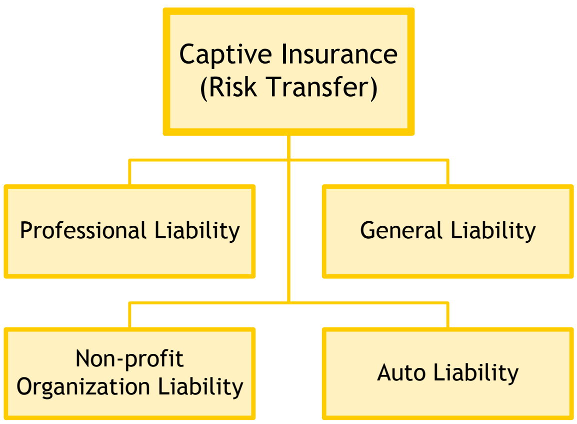
There are specific rationales behind the decision to transfer or retain a specific risk. Because retaining one's own risk (within limits) tends to be more economical in the long run than paying a third party to assume it, the guiding principle has been for the University to retain risk, to the extent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

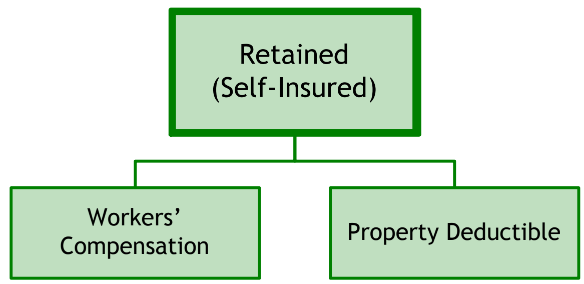
Generally, this principle is not useful when the University is exposed to truly catastrophic loss potential. A good example of this is the property associated with the University's campuses. The University has approximately $11B in property values, and carries a $1B property insurance limit. Because there is no good way to fund $1B internally, the University purchases an insurance policy to transfer the exposure to a third party.

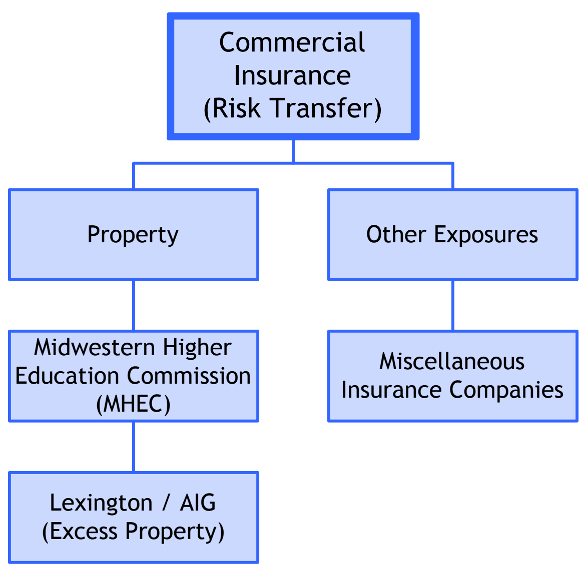
University Structures

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:



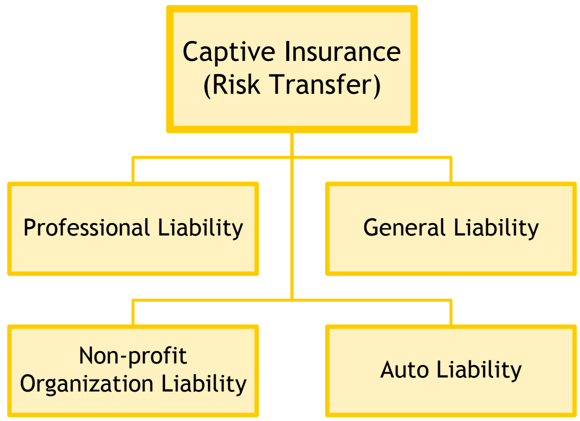




The Office of Risk Management monitors the University's loss trends and the insurance marketplace to determine the optimal risk financing strategy. This process includes ongoing reviews of the University's loss exposures, claim frequency and severity, and trends in each.

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. 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: Concentrations of people in facilities such as 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
- 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. 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:

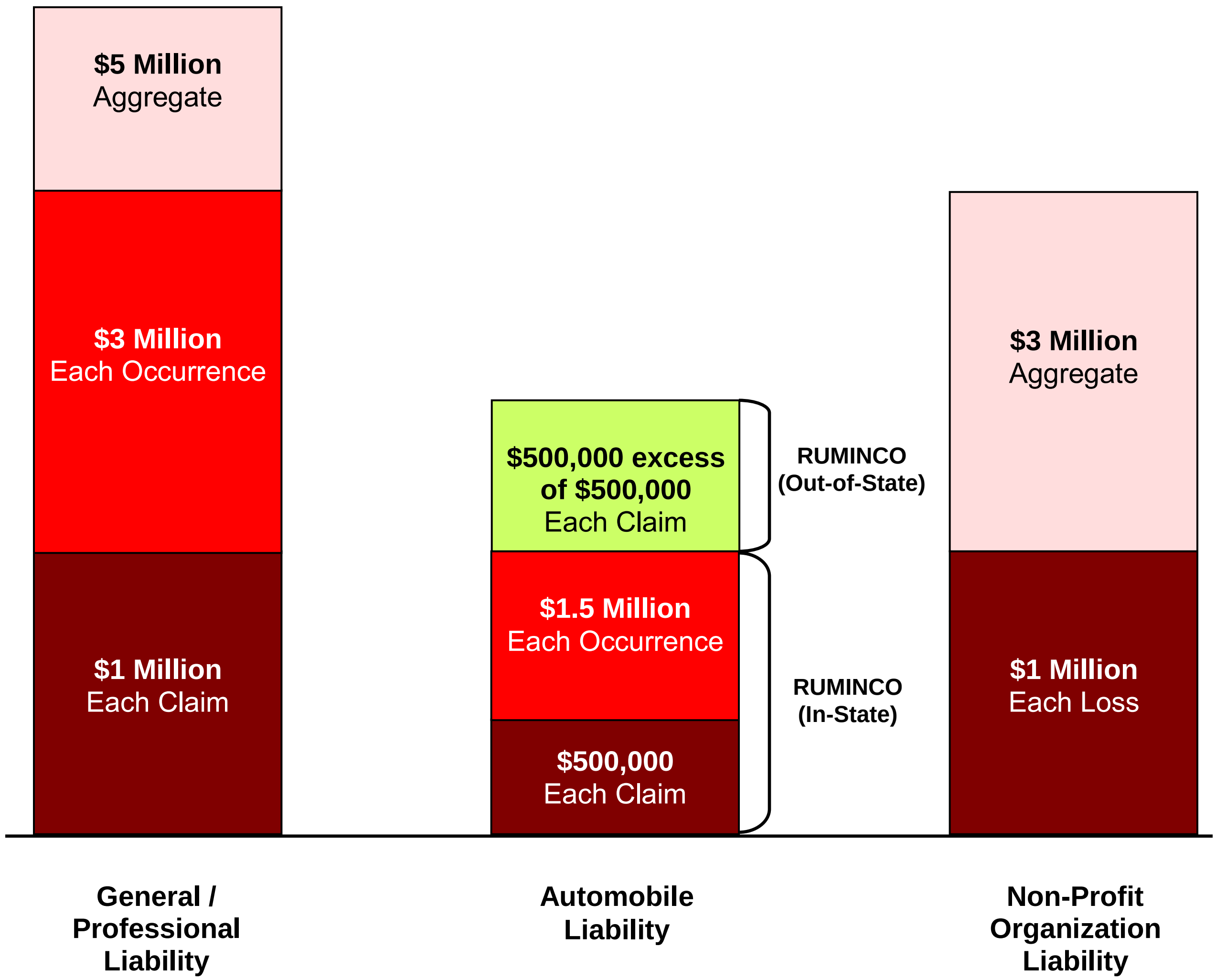
- Directors' and Officers' Liability
- Employment Practices Liability
- Personal Injury e.g., libel, slander, defamation, emotional distress

Principal Exposure:

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

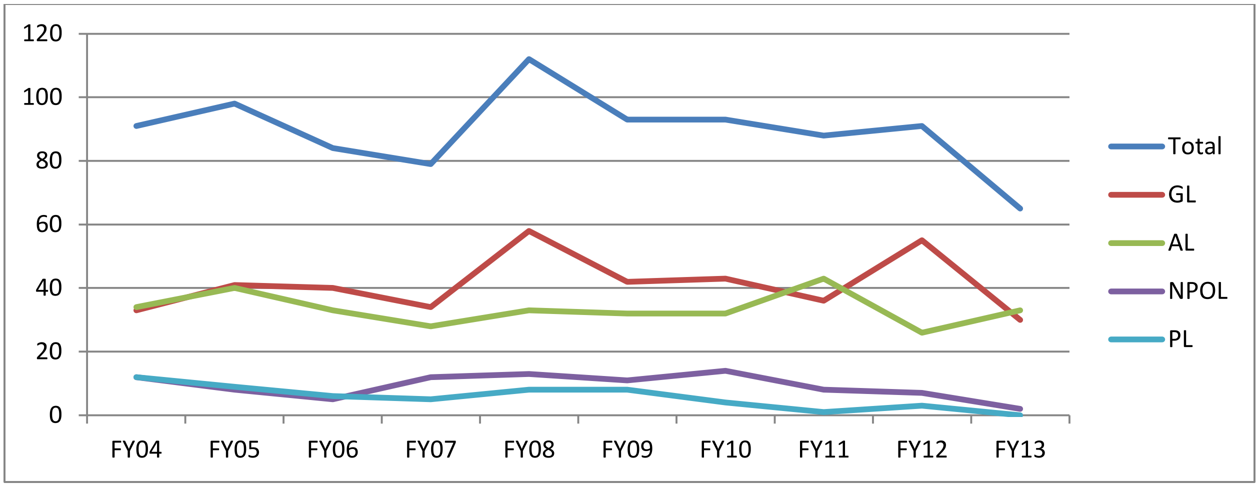
Summary of RUMINCO Ltd. Limits

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



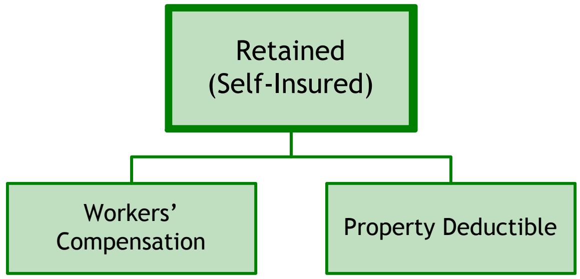
Claim frequency for the four RUMINCO lines of liability coverage over the past ten years.

RUMINCO's Total Claim Count has averaged 89 claims per year over the past ten years.

The FY13Claim Count of 65 represents a ten-year low.

No FY13 claim counts lie farther than two Standard Deviations from the mean. Statistically, this suggests that despite being low, the FY13 claim counts are still within the expected range.

RETAINED (SELF-INSURED)

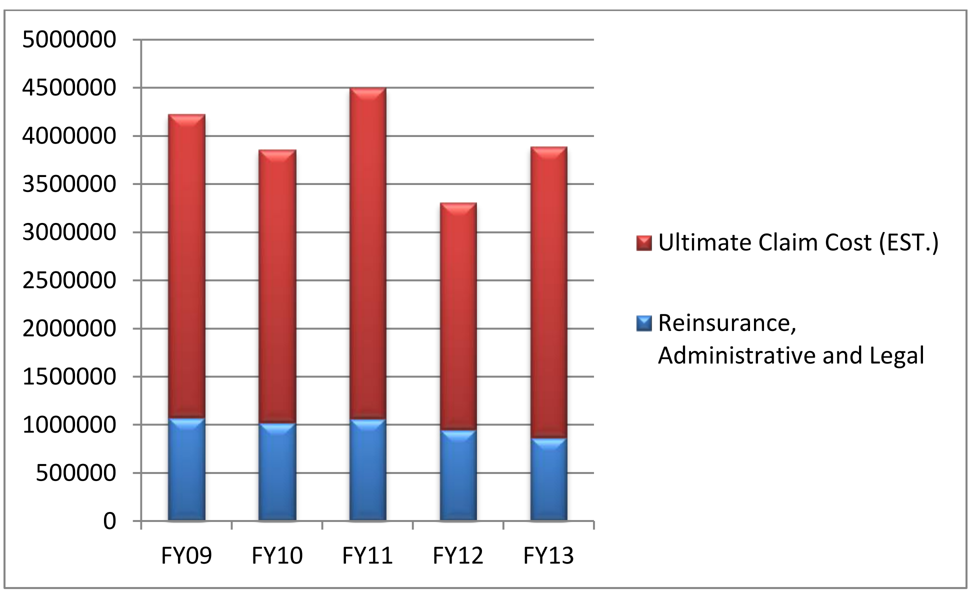


Workers' Compensation Overview

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 $1,840,000 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

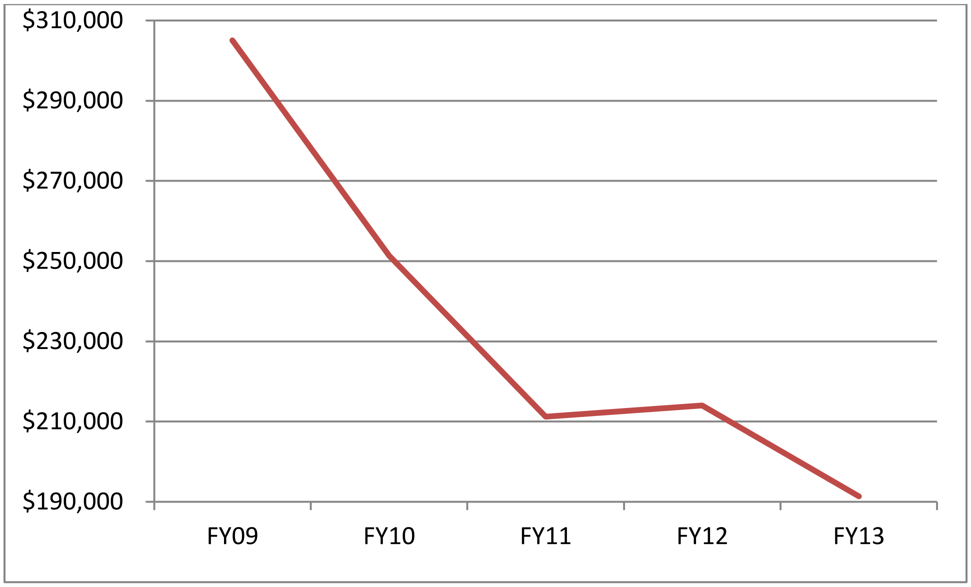


Annual claim cost is moderately volatile. Ancillary administrative costs have steadily decreased now 19% less than in FY09.

Workers' Compensation

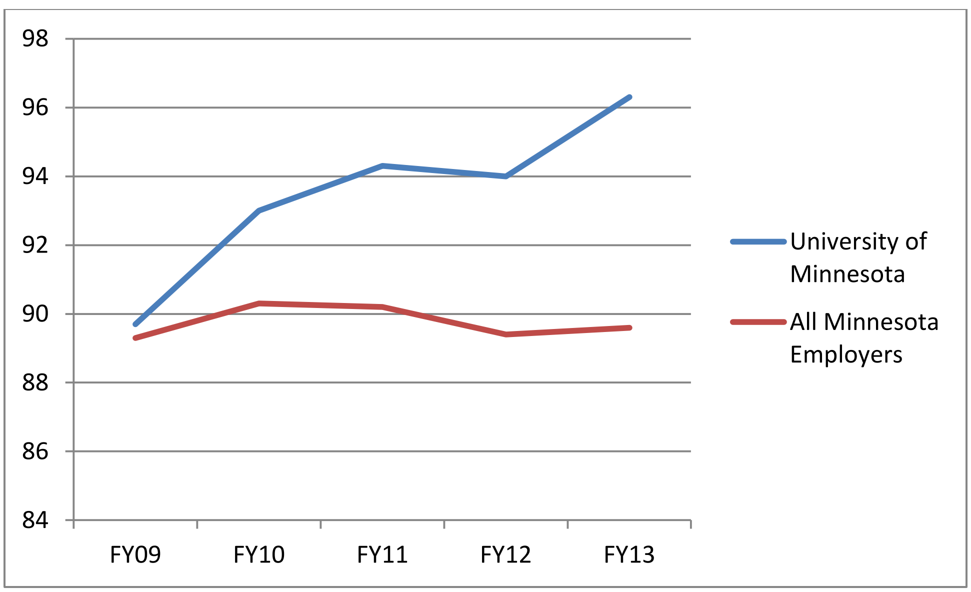
Beginning in FY09, Risk Management began a continuing initiative to make the statutory Workers' Compensation benefit system more transparent, accessible, and easy to use for all parties. That initiative formed the basis for positive trends.

Workers' Compensation Legal Expenses



Cost of litigating Workers' Compensation has decreased by 37% since FY09.

On-time Reporting to Department of Labor and Industry



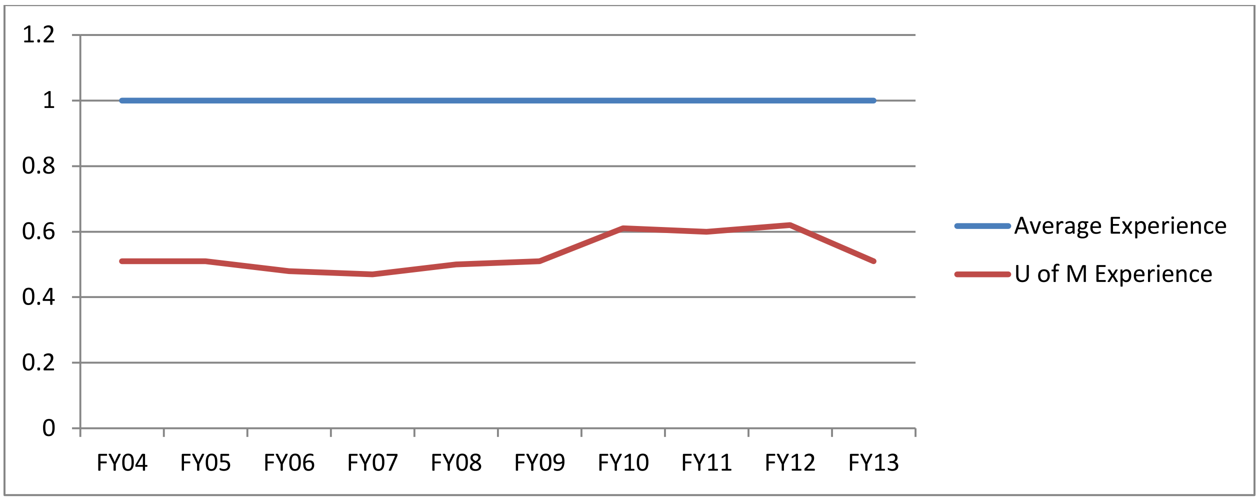
The university's timely reporting of DOLI claims consistently exceeds the Minnesota average. Accurate apportionment of fines and electronic claim reporting are key drivers.

Workers' Compensation

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

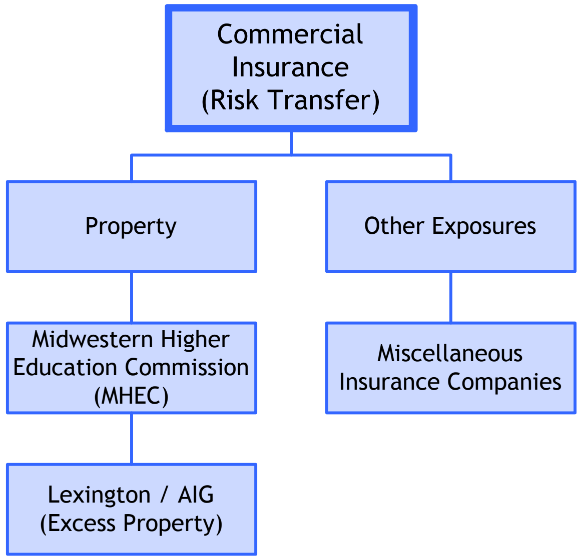
An "Experience Modification Factor" is a standard measure of Workers' Compensation results. It derives from specific employers' rolling three-year loss experience. An Experience Mod of "1.0" designates industry average performance, with levels below and above signifying better and worse than average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

Minnesota Workers' Compensation Reinsurance Association
Experience Modification Factor



Over the past 10 years, the University's Workers' Compensation experience has 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 Extra MN General/Auto Liability; $1.75B Property Insurance) and
- convenience , low price of transfer, or acceptance by third parties (NCAA Athletic Injury Primary; 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.

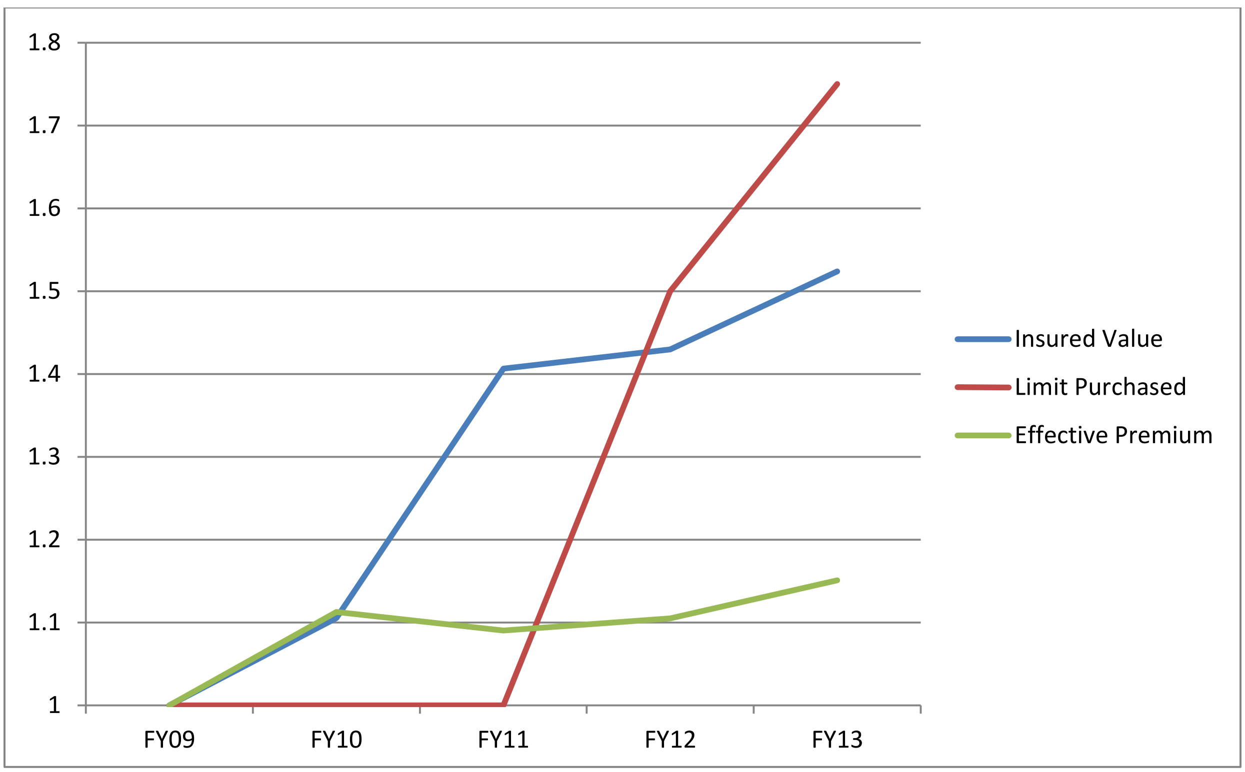
The university had been participating in optional excess layers totaling $1.5B, and purchased another $250MM high excess layer this year, for a total of $1.75B per occurrence.

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.

An effective measure of performance is Effective Premium, which reflects deductible cost:

Effective Premium = Premium Paid to Insurer + Deductible Internally Retained

Trends in Values, Premium and Rates: FY09 = 1

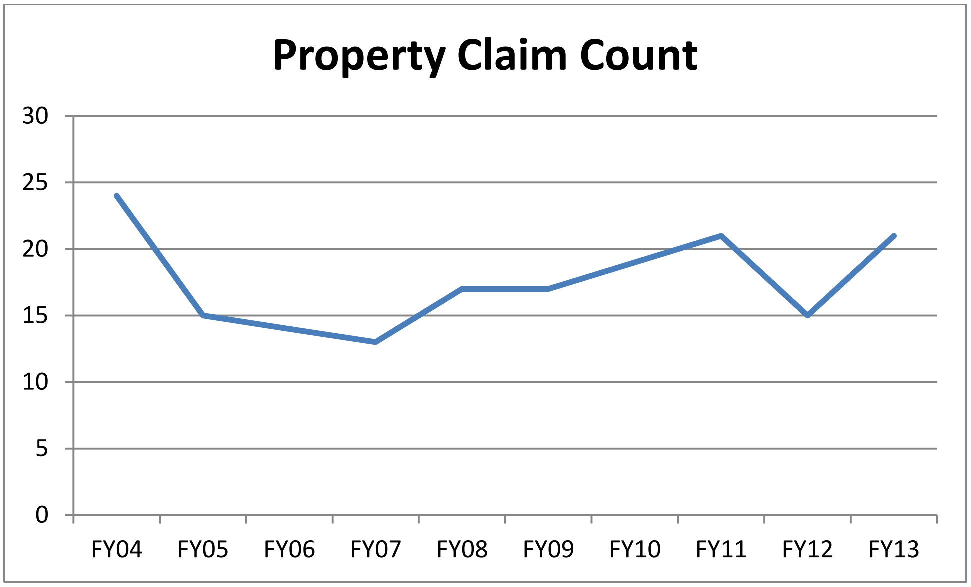


Property insurance cost drivers are Insured Value and Limit Purchased.

Using FY09 as the baseline, we see the marked increase in both, yet effective Premium has remained comparatively stable over the past three years.

Property Insurance

Property Claim Count by Fiscal Year



Property claim count for events exceeding $10,000 was 21 events for FY13, near FY11's ten year high of 24 events.

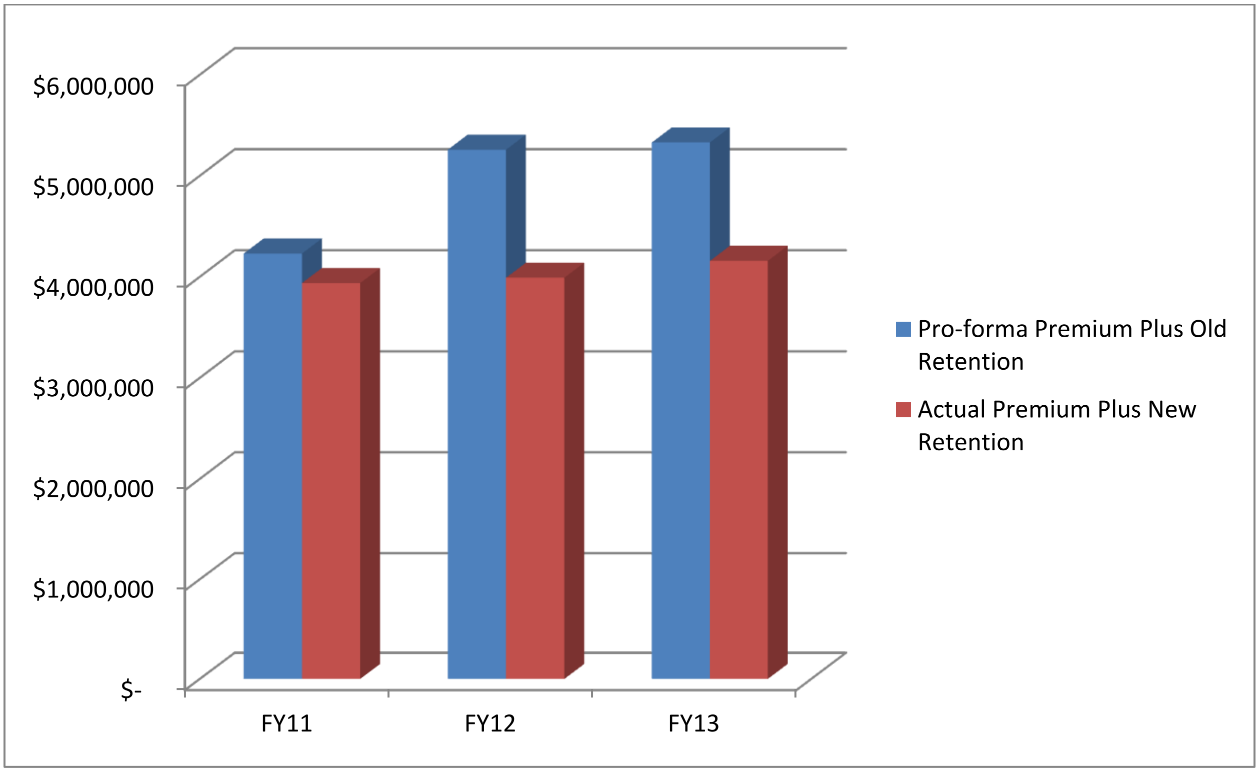
In FY13, four losses exceeded $200,000:

- December 25, Water Damage, Domestic Plumbing, Mayo
- January 20, Water Damage, Domestic Plumbing, Mayo
- February 17, Water Damage, Domestic Plumbing, Wallin Medical Biosciences
- April 23, Water Damage, Vandalism, Dwan

Property Insurance

Because we reduced the rate and increased the deductible from $200,000 to $500,000 for FY11, we are interested in whether those changes are 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 a total of $2.7MM over the past three years.

Miscellaneous Commercial Insurance Coverage

The aggregate cost of all commercial insurance programs (excluding the MHEC Property Program) and associated brokerage and consulting was $555,596. The increase from last year's $421,202 was due primarily to the addition of the Excess Clinical Trials Liability policy. Here is a brief overview of purchased policies with premiums exceeding $10,000:

New Coverage:

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

Enhanced Coverage:

NON-OWNED AIRCRAFT LIABILITY: Covers the university's liability arising out of use of non-owned aircraft rented or chartered by the University. The new limit is $50MM per occurrence, up from last year's $25MM, and is excess of policies purchased by the owner of the aircraft.

Unchanged Coverages:

EXCESS GENERAL AND AUTO 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.

III. Total Cost of Risk

Total Cost of Risk Summary

University of Minnesota Total Cost of Risk: Fiscal Years 2009 – 2013

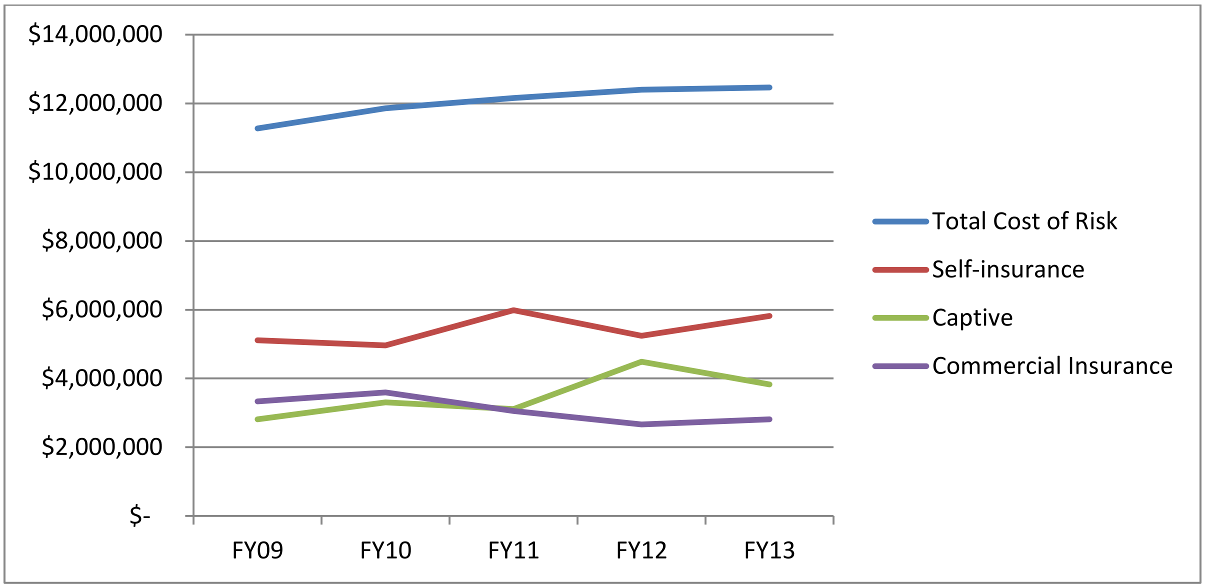
COST ITEM	FY09	FY10	FY11	FY12	FY13
Captive					
Paid Losses	$1,504,934	$1,746,899	$891,472	$1,592,923	$518,400
Case Reserves	2,566	67,695	281,382	922,557	681,521
Incurred, But Not Reported (EST.)	8,430	27,270	136,984	321,830	1,146,326
Liability Claims Administrator	50,724	74,075	69,717	63,566	51,707
Captive Administrative Expenses	148,305	140,793	117,876	120,930	116,909
Litigation Cost	1,103,282	1,245,967	1,617,689	1,469,704	1,309,705
Total Captive	**$2,818,241**	**$3,302,699**	**$3,115,120**	**$4,491,510**	**$3,824,568**
Self-Insurance					
Workers' Compensation Ultimate Loss (EST.)	3,147,605	2,835,245	3,434,216	2,355,966	3,019,959
WC Reinsurance Association	130,873	158,827	160,246	142,096	155,784
Special Compensation Fund	244,764	261,894	356,973	291,348	207,312
WC Claims Administrator	317,428	298,348	291,712	267,826	275,324
Litigation Cost	305,033	251,371	211,198	214,019	191,338
Bill Review Service	35,191	33,641	36,751	28,640	32,717
WC Actuarial	12,000	7,144	9,892	9,288	10,300
WC Broker Consultation	33,210	11,550	--	--	--
WC Total	**4,226,104**	**3,858,020**	**4,500,988**	**3,309,183**	**3,892,734**
Retained Property Losses [1]	709,190	901,752	1,318,161	1,749,707	1,810,830
Electronic Data Processing [2]	22,184	31,568	36,095	29,707	24,371
Automobile Physical Damage	154,891	173,682	127,295	156,843	87,779
Total Self-insurance	**$5,112,369**	**$4,965,022**	**$5,982,539**	**$5,245,440**	**$5,815,714**
Commercial Insurance					
All Risk Property	$2,987,422	$3,115,827	$2,618,781	$2,240,136	$2,261,562
Property Experience Dividend	(85,691)	na	na	na	na
Total Property Insurance	2,901,731	3,115,827	2,618,781	2,240,136	2,261,562
Excess General/Auto Liability - Extra MN	--	205,511	233,400	234,745	238,002
Excess Clinical Trials Liability - Extra MN	--	--	--	--	139,839
Intercollegiate Athletics	39,000	34,195	53,000	31,500	31,500
Hull, Liability, Pollution (Blue Heron Watercraft)	26,124	28,977	30,613	30,613	31,558
Fidelity & Crime	19,967	19,967	19,967	20,210	20,162
Fine Arts	18,495	17,549	17,549	18,280	18,280
Nonowned Aircraft Liability	19,187	18,229	18,000	18,000	22,000
Showboat	7,648	6,925	6,925	6,925	9,739
Broadcaster's Liability	5,365	5,365	5,365	5,365	5,365
Child Care Center AD&D	931	1,173	1,173	1,188	1,159
Upward Bound AD&D	376	376	376	376	406
RSO Liability	8,047	8,067	--	--	--
Excess Liability for Metrodome [3]	101,894	--	--	--	--
Automobile Liability (out of state) [3]	53,610	--	--	--	--
Study Abroad (France)	7,203	--	--	--	--
Brokerage	128,750	128,750	54,000	54,000	37,586
Total Commercial Insurance	**$3,338,328**	**$3,590,911**	**$3,059,149**	**$2,661,338**	**$2,817,158**
GRAND TOTAL COST OF RISK	**$11,268,938**	**$11,858,632**	**$12,156,809**	**$12,398,288**	**$12,457,440**

[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"
[4] FY11 Retained Property Losses reflects <$1,345,403> Annual Aggregate Deductible Recovery
{5} FY12 Retained Property Losses contemplates expected FEMA reimbursement of $1MM Glensheen Flood Deductible

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 $12MM over the past five years; it was $14MM in FY08.

IV. Workplan

Goals for FY14

Slip/Trip/Fall Accidents

Slip/Trip/Fall accidents are the most common accident at the university. Visitors, students and employees are all subject to these events. We will explore possibilities for reducing the incidence of Slip/Trip/Fall accidents on campus.

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 will investigate education and engineering remediations of this hazard.

Vehicular Cell Phone Use

We will consider alternatives for addressing risks specific to the use of cell phones while operating a vehicle in the course of university business.

UNIVERSITY OF MINNESOTA
BOARD OF REGENTS

Finance Committee **February 13, 2013**

Agenda Item: Consent Report

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

Presenters: Vice President/CFO Richard Pfutzenreuter

Purpose:

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

General Contingency
To seek approval for allocations from General Contingency greater than $250,000.

Purchase of Goods and Services $1,000,000 and Over
To seek approval for purchases of goods and services of $1,000,000 and over.

Outline of Key Points/Policy Issues:

General Contingency
Expenditure of $275,000 by the Vice President for University Services, for increased student-related public safety operations, requires Board approval.

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

- To North Highland Company for $1,300,000 for consulting services to support the Program Management Office (PMO) of the Enterprise Systems Upgrade Program (ESUP). ESUP is a University-wide program approved by the Board of Regents of the University of Minnesota. The cost of these services and products is covered by the approved budget for the program. 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 for Action:

The President recommends approval of the Consent Report.

General Contingency

2013-14 General Contingency:

	Recipient		Allocation	Balance	Purpose
	FY2014 General Contingency			**$1,000,000**	
	Carryforward from FY2013 into FY2014		1,406,141	2,406,141	
1	Dean of the College of Liberal Arts		20,000	2,386,141	Consultant to negotiate Showboat management agreement
2	Vice President for University Services	*	250,000	2,136,141	U Stores sprinkler upgrade
3	Ex Dir for the Office for Business & Community Economic Dev.		55,000	2,081,141	Awards Incentive & Recognition (AIR) program
4	Vice President for Research		225,000	1,856,141	Consultant for F&A rate development and negotiation
5	Director of the Department of Concerts and Lectures		200,000	1,656,141	Northrop grand opening celebration
6					
7	**New items this reporting period:**				
8					
9	General Counsel		235,745	1,420,396	Outside legal counsel fees
10					
11	Vice President for University Services	*	275,000	1,145,396	Increased student-related public safety operations
12					
13	**FY 2013-14 Ending Balance**			**$1,145,396**	
14					
15					
16					
17					
18	* Subject to Board approval				
19					
20					
21					
22					
23					

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

To North Highland Company for $1,300,000 for consulting services to support the Program Management Office (PMO) of the Enterprise Systems Upgrade Program (ESUP).

North Highland will provide an experienced team of personnel for the PMO, consisting of a Program Management Lead, an Implementation Lead, a Planning Lead and a Project Coordinator. The team will improve plan, status and budget reporting, and monitor progress and provide directional leadership for a successful deployment. The experience of the proposed team is beyond that currently available within the University staff assigned to the Program. Their presence will allow ESUP to maintain progress toward a timely and successful implementation. While supporting existing Program management, the PMO will work on behalf of the University to maintain visibility on progress, ensure compliance with standards and facilitate requisite decision making by appropriate University leadership.

This vendor was chosen through a competitive bidding process. For the price proposed, North Highland provided the greatest understanding of the project, the most qualified team and the greatest probability of a seamless transition to the new PMO structure.

ESUP is a University-wide program approved by the Boards of Regents of the University of Minnesota. The cost of these services and products is covered by the approved budget for the program.

Submitted by: Carolyn Chase
Finance and Operations Manager, Enterprise System Upgrade Program
150 Williamson Hall
Phone: 612-625-1387
Email: chase007@umn.edu

Approval for this item requested by:

[signature] 1/28/2014

Executive Oversight Committee, Chair — Date

UNIVERSITY OF MINNESOTA
BOARD OF REGENTS

Finance Committee **February 13, 2013**

Agenda Item: Information Items

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

Presenters: Vice President/CFO Richard Pfutzenreuter

Purpose:

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

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

Quarterly Asset Management Report
To report on the quarterly results of investment performance in the area of asset management for the period ended December 31, 2013. The Office of Investments & Banking (OIB) prepares this report on the assets it oversees for review by the Investment Advisory Committee and the Board of Regents.

Emergency Approval
To provide the Board with information regarding emergency approval of a purchase of $1,000,000 or over.

Outline of Key Points/Policy Issues:

Annual Report on 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 either allocated out in small, targeted amounts to specific units; transferred to operating and maintenance (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), unrealized 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% of state appropriations, or $25,000,000, whichever is greater.

The Central Reserves year-end balance on June 30, 2013, was $140,467 higher than what was anticipated in the original FY 2013 approved budget. This gain can be attributed to a higher than anticipated average balance in TIP combined with slightly lower than anticipated fees/operating costs, which were both partially offset by lower than anticipated realized capital gains and miscellaneous income receipts. The beginning balance for FY 2013 was $14,587,412; actual net revenues for the year were $11,638,943; and transfers and payments out of the fund totaled $10,672,000, resulting in a final ending balance of $15,554,355. (Note: this ending balance was $2.2 million less than what was projected for the year at the time the FY 2014 budget was approved, primarily due to over-estimated investment income at the time of the FY 2014 budget.)

The approved budget plan for FY 2014, set before the FY 2013 results were final, included a planned beginning balance of $17,782,037; net revenues totaling $13,299,625, and transfers/payments out of $10,690,000. At this point in the year, those estimates have been updated as follows:

- The beginning balance was reduced to reflect the actual amount carried forward from FY 2013 ($15,554,355 or $2,227,682 less than anticipated due to lower than estimated investment income).

- Net revenues for the year are currently projected to be $3,674,625, which is $325,0000 less than the approved budget due to a slight reduction in the anticipated average balance in TIP.

- The expected transfers/payments out remain at the approved budget level of $10,690,000.

The combined impact of these updated estimates leaves the projected balance in the central reserves fund for June 30, 2014 at $17,838,980; $2,552,682 less than in the approved budget and $7,161,020 less than the policy goal of $25,000,000 ($6,209,260 less than the other policy parameter of 4% of state appropriations.)

Quarterly Asset Management Report

- The invested assets of the University totaled approximately $2.3 billion on December 31, 2013.

- The Consolidated Endowment Fund (CEF) value as of December 31, 2012, was $ 1,176.1 million, an increase $66.3 million over the previous quarter after distributions of $7.9 million. The total investment return for CEF was 6.2% for the quarter and 16.1% for the last 12 months compared to passive benchmarks of 5.0% and 15.4% respectively.

- The investment return for CEF exceeded the benchmark primarily for two reasons: a) the public equity portfolio was up over 7.4% for the quarter and over 24.3% for the 12 month period with the active managers outperforming their benchmarks, and b) the risk mitigating and return generating fixed income portfolios were up 0.11% and 5.36% respectively over the last 12 months, also exceeding their specific benchmarks.

The market value of the short term reserves (TIP) was $991.2 million as of December 31, 2013. This was a decrease of $180.3 million over the previous quarter. The investment return on the portfolio over the last 12 months was -0.4% compared to a benchmark return of 0.4%, due largely to the underperformance of the mortgage and government agency bond sub-portfolios. The decline in value was due to timing of the receipt of tuition payments and the specific payroll funding cycle.

Emergency Approval

On January 21, 2014, Regents Beeson, Johnson and McMillan approved a purchase of $1,000,000 or greater as follows:

- To IntraSee, Inc., for an estimated $1,600,000 for consulting services and products related to the implementation of the Oracle PeopleSoft portal as part of the Enterprise System Upgrade Program.

In support of using the emergency process, Denis Wenzle, Program Director for the Enterprise Systems Upgrade Program, cited the risk to the program schedule that a delay until the

February meeting of the Regents would cause, along with an estimated $3 million in additional cost.

The approval was consistent with Board of Regents Policy: *Board Operations and Agenda Guidelines*, Section II, Subd. 10, which states:

> Upon the recommendation of the president, the Board chair, vice chair, and the respective Committee chair may act on behalf of the Board when delay for Board approval poses a significant health, safety, or financial risk to the University. Any such emergency approvals will be brought to the next meeting of the Board, consistent with Board policy.

Background Information:

- Annual Report on Central Reserves: The FY 2013 Annual Report on Central Reserves was submitted for the January 2013 Finance Committee meeting.

Office of Investments & Banking

Quarterly Asset Management Report | December 31, 2013

University of Minnesota

Table of Contents

Overview – All Funds

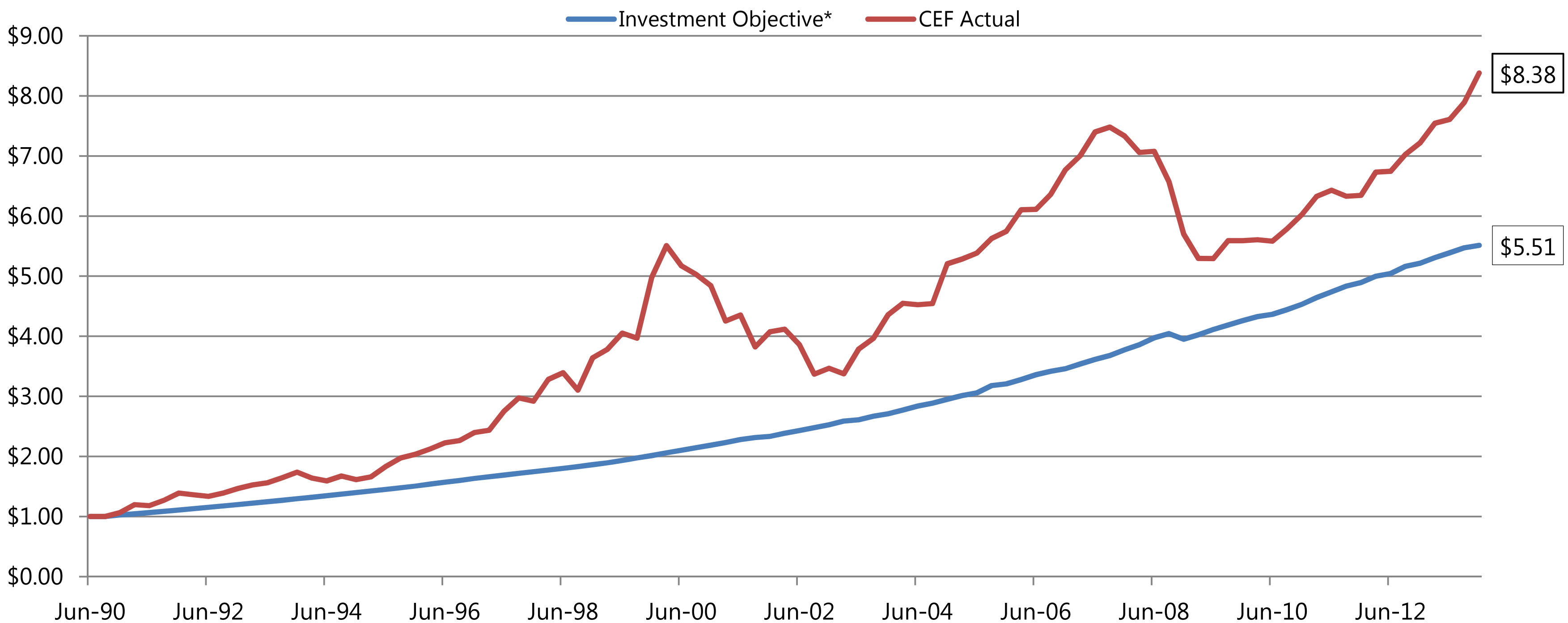
OIB Managed Funds ($ millions)	Dec. '13	June '13	June '12	June '11
Consolidated Endowment Fund (CEF) [1]	$ 1,176.1	$ 1,079.7	$ 977.6	$ 956.8
Long-Term Reserves (GIP) [2]	47.0	46.4	44.7	44.3
Short-Term Reserves (TIP)	991.2	1,031.4	972.2	824.9
RUMINCO Ltd.	39.3	35.8	32.6	32.3
Invested Assets Related to Indebtedness	90.3	87.0	189.7	181.9
Total Managed Assets	**2,343.9**	**2,280.3**	**2,216.8**	**1,963.5**

Other Funds ($ millions)	Dec. '13	June '13	June '12	June '11
U of M Foundation Fund	1,831.2	1,610.0	1,560.1	1,564.4
Faculty Retirement Plans	4,550.0	4,199.8	3,807.9	3,709.3

[1] Includes TIP, GIP and PUF investments, which as of 12/31/13 were $120.0, $13.1, and $483.4 respectively.
[2] Market value excludes $13.1 currently invested in CEF. This value is included in the remainder of the report, for purposes of performance calculation.

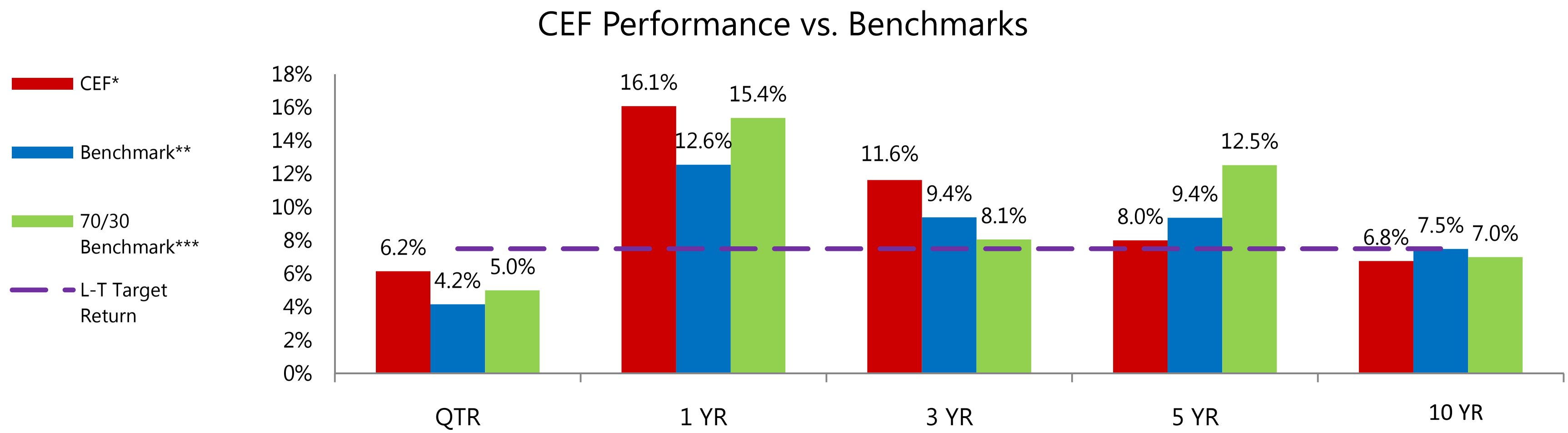
Endowment Growth

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



* CPI plus payout plus actual expenses (calculated quarterly)

Endowment Performance



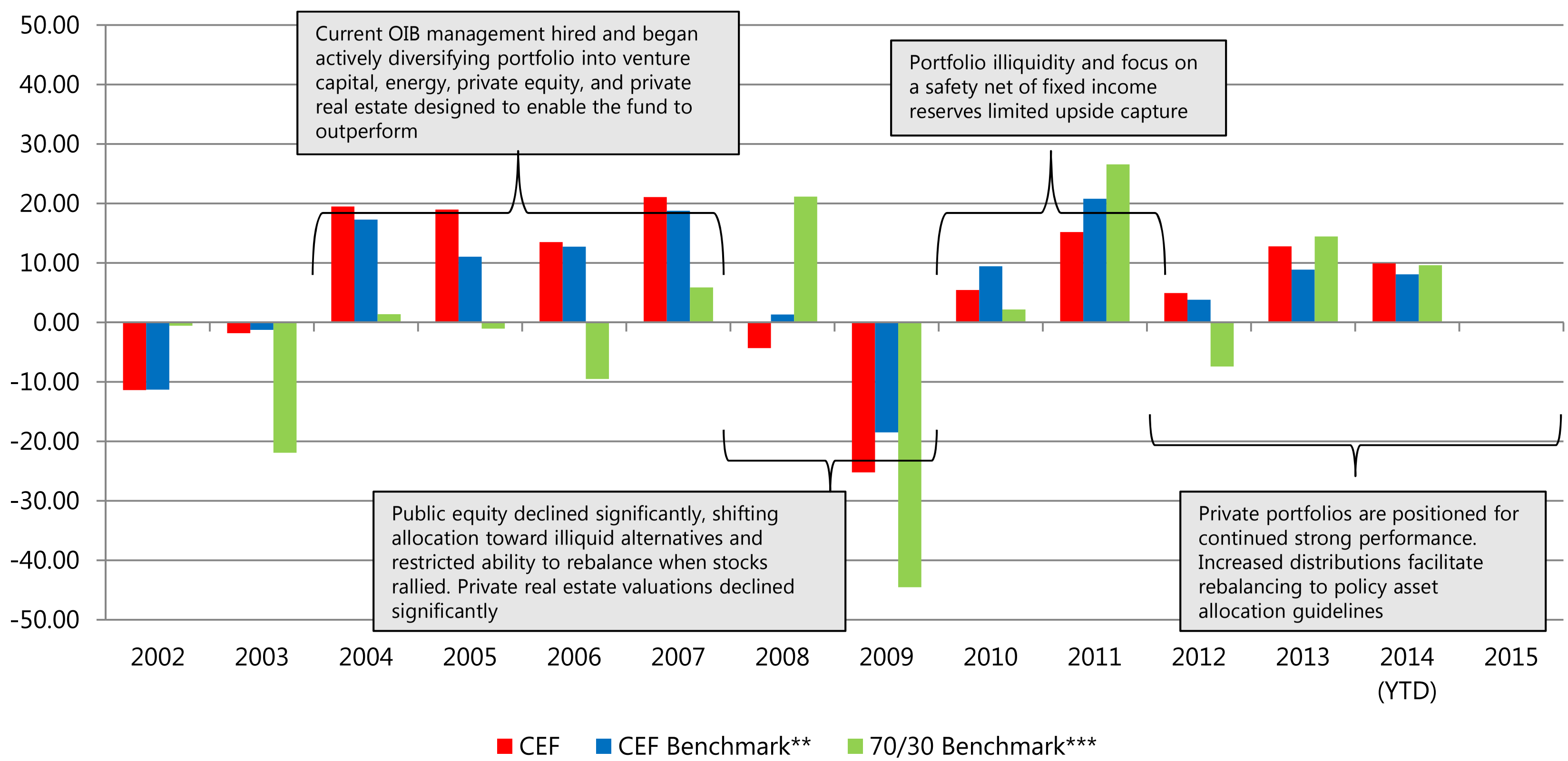
Q4 outperformance driven primarily by the following:

- Strategic overweight and significant outperformance by venture capital managers
- Tactical overweight to MBS and other non-US Treasury securities in risk mitigating fixed income
- Outperformance (10 bps) by public equity managers
- Outperformance (192 bps) by return generating fixed income managers
- Fund Value $1,176.1M****

* Net of Manager Fees
** Benchmark: CEF Custom Index as of 9/30/2013
*** Benchmark: 70% MSCI ACWI IMI / 30% Barclay's Capital Aggregate
**** Total CEF Market Value includes $120.0 of TIP and $13.1 of GIP investments

Endowment Annual Performance

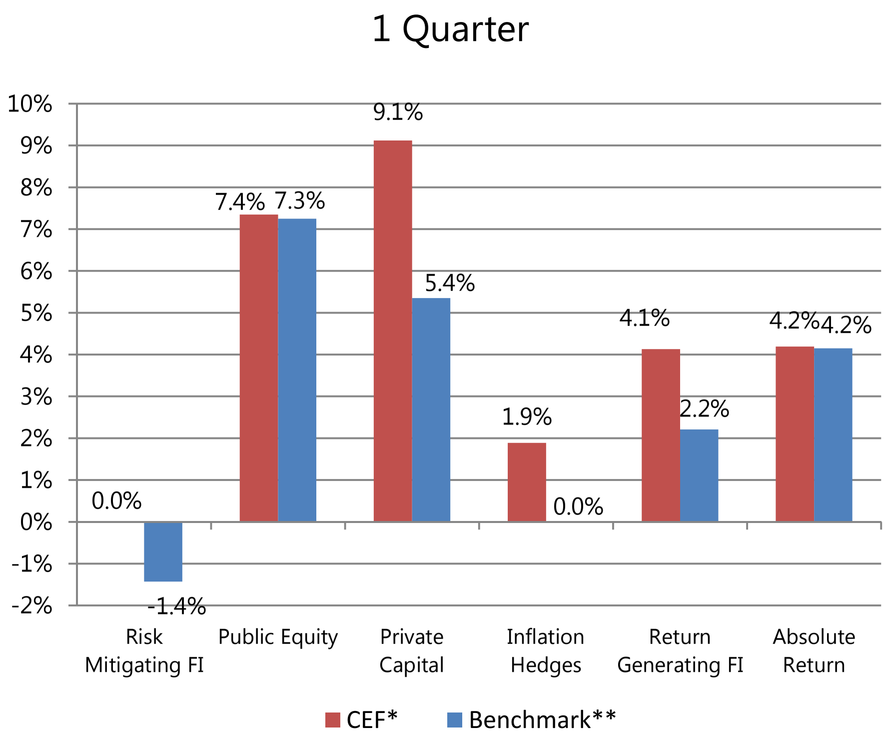
Fiscal Year Performance* Comparison

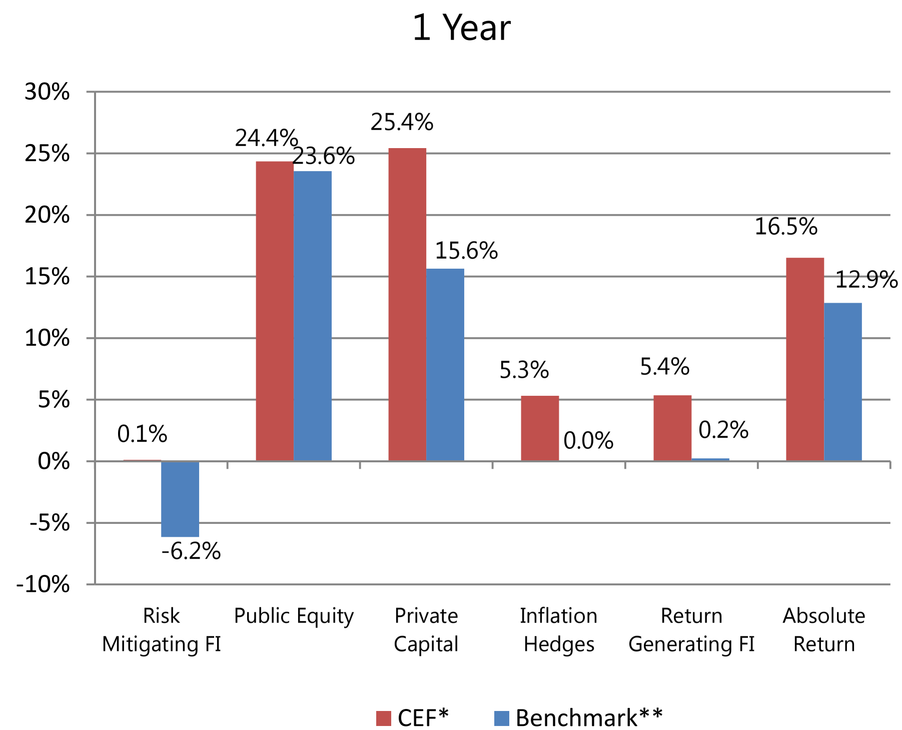


* Net of Manager Fees
** Benchmark: CEF Custom Index
*** Benchmark: 70% MSCI ACWI IMI / 30% Barclay's Capital Aggregate

Endowment Annual Performance

Sector vs. Benchmark Returns

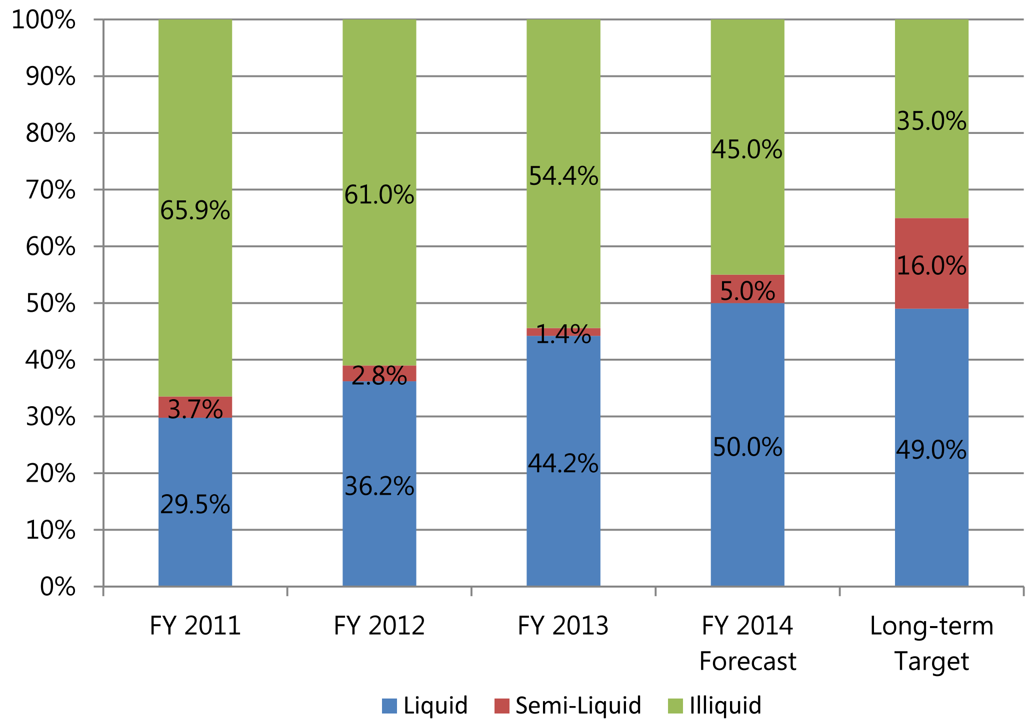




* Net of Manager Fees
** Components of CEF Custom Index

Endowment Liquidity

Liquidity Transition Plan



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

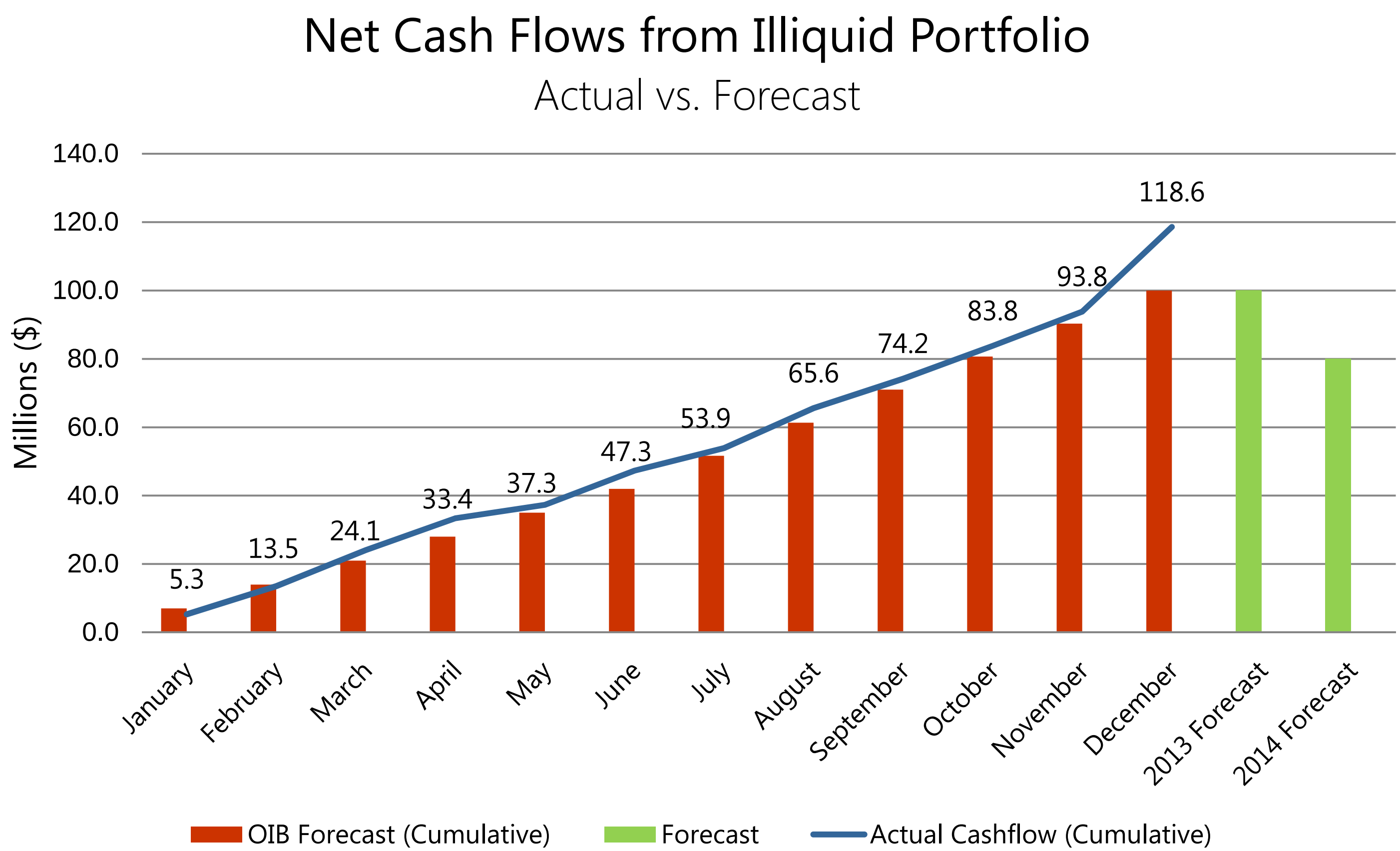
Target: Within a target range of 30 to 40% invested in illiquid assets. Illiquid assets market value plus unfunded commitments should not exceed 55%

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

Endowment Portfolio Exposure

Exposure	12/31/2012 Portfolio	12/31/2013 Portfolio	Long-Term Policy	Ranges
Risk Mitigating Fixed Income	7.1	8.7	12.0	8 - 15
Public Equity	23.4	36.7	30.0	25 - 35
Private Capital	36.0	28.8	20.0	15 - 25
Inflation Hedges	23.2	17.0	15.0	10 - 20
Return Generating Fixed Income	7.5	8.0	12.0	10 - 15
Absolute Return	2.8	0.8	11.0	8 - 15
Total	100.0	100.0	100.0	

Endowment Liquidity



Investment Manager Diversification

Top 10 Managers

Manager	Total Market Value ($M)	% of Total Fund
Blackrock*	210.3	17.9
TCW	87.4	7.4
Goldman Sachs	68.2	5.8
Acadian	49.8	4.2
Reams	35.8	3.0
Lazard	33.9	2.9
Pembroke	33.6	2.9
PineBridge	33.0	2.8
Emergence	31.9	2.7
MHR	31.9	2.7

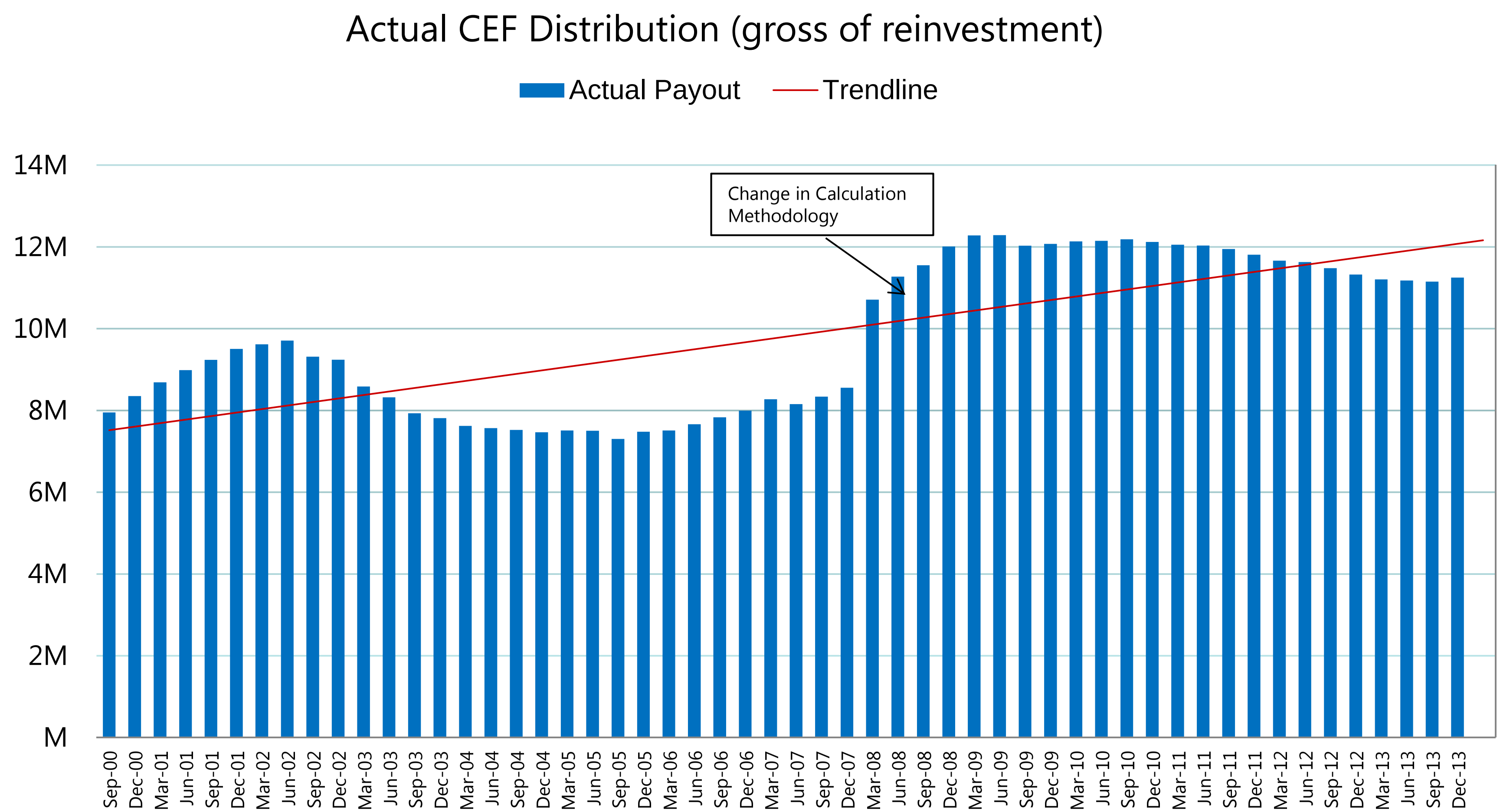
Definition: Maintain concentration in managers and funds at appropriate levels

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 10.7% of the endowment

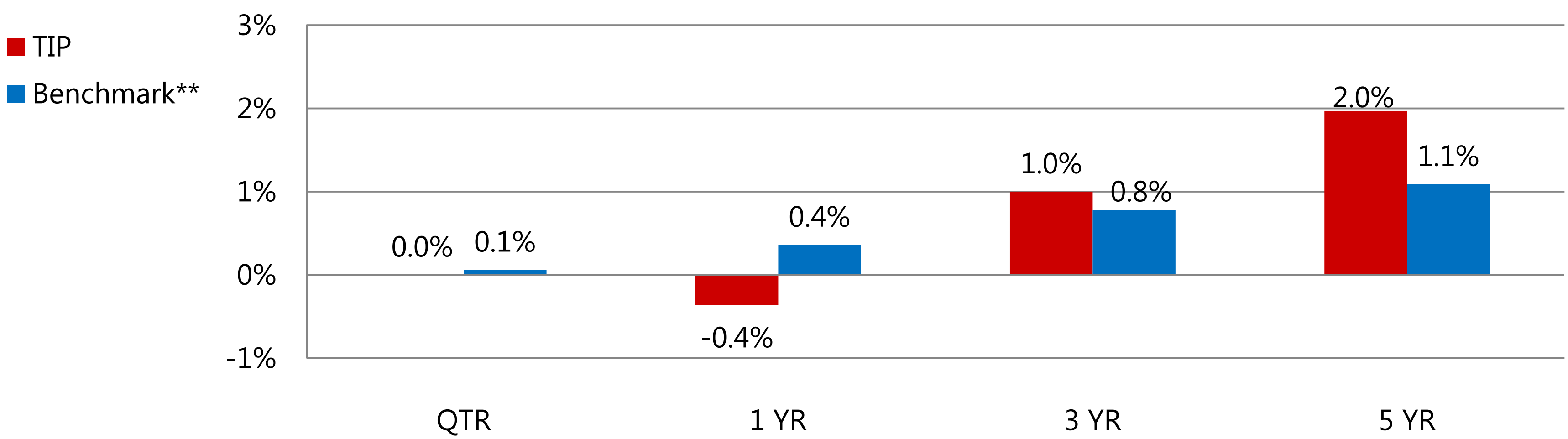
Distribution Stability



TIP Review

TIP – Fund Performance*

Market Value: $991.2M***



Q4 underperformance driven primarily by:

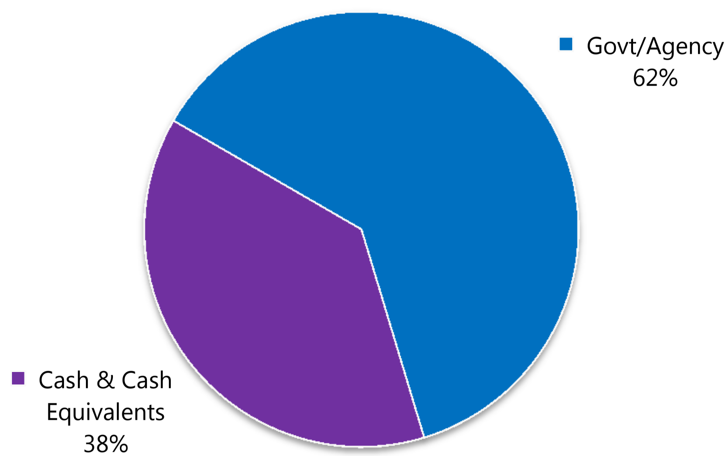
- Longer portfolio duration relative to benchmark

* 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 $120.0 million investment in CEF

TIP – Asset Allocation

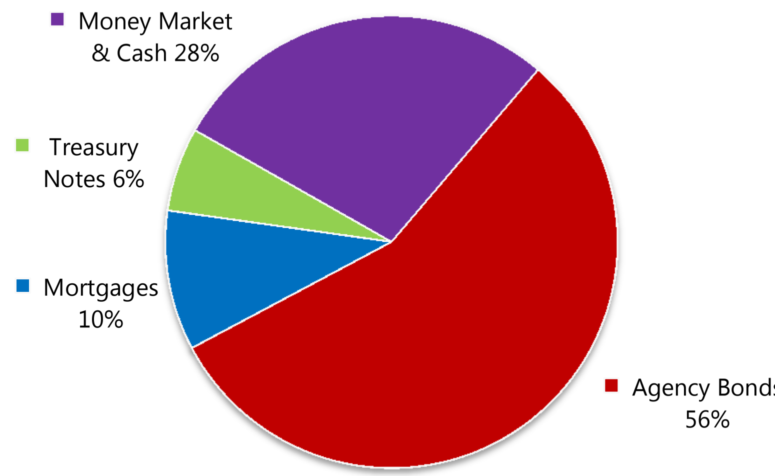
Market Value: $991.2M

Credit Quality



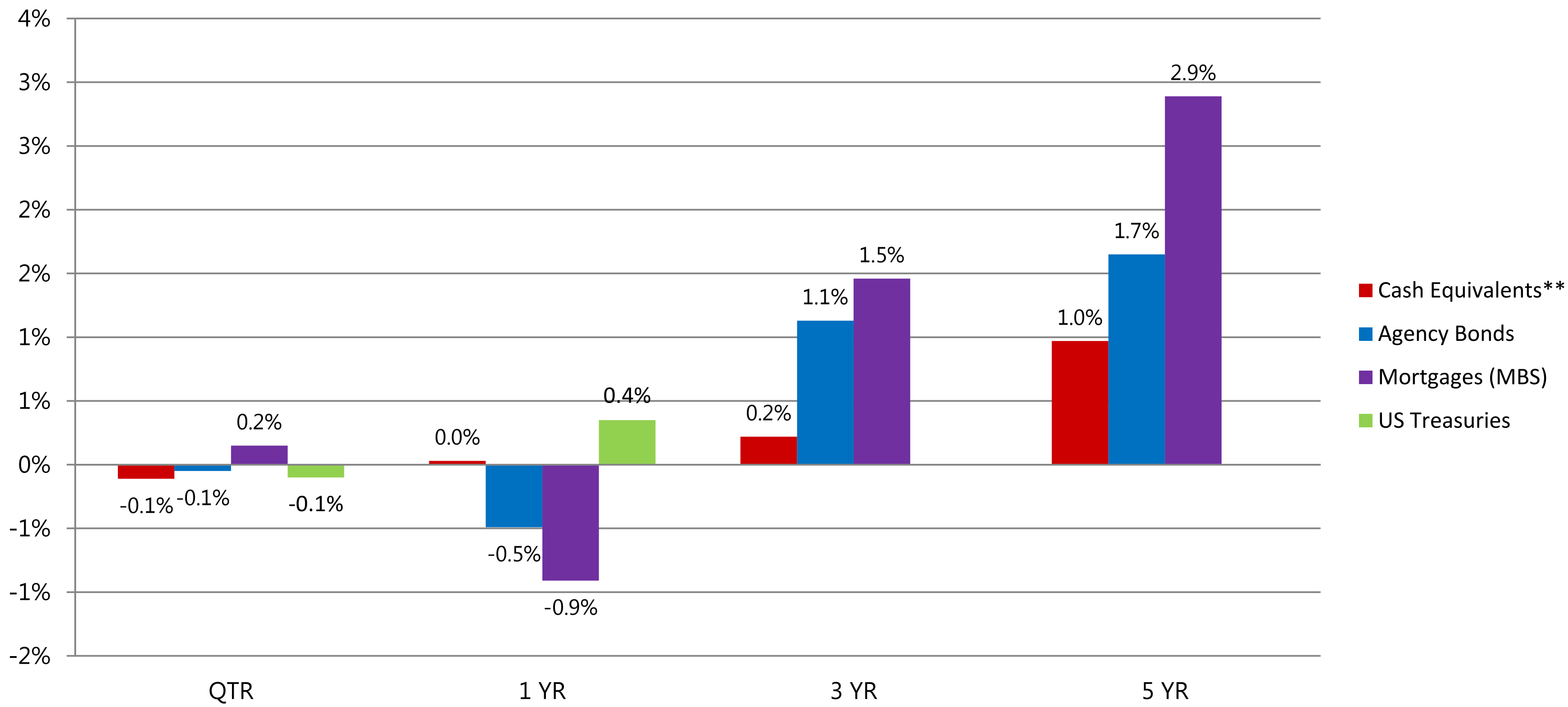
Statistic	Portfolio	Benchmark
Average Duration	2.18	1.40
Average Credit Rating	Govt/Agency	Govt/Agency
Current Yield	0.88%	0.30%

Sector Exposure



TIP – Performance* by Sector

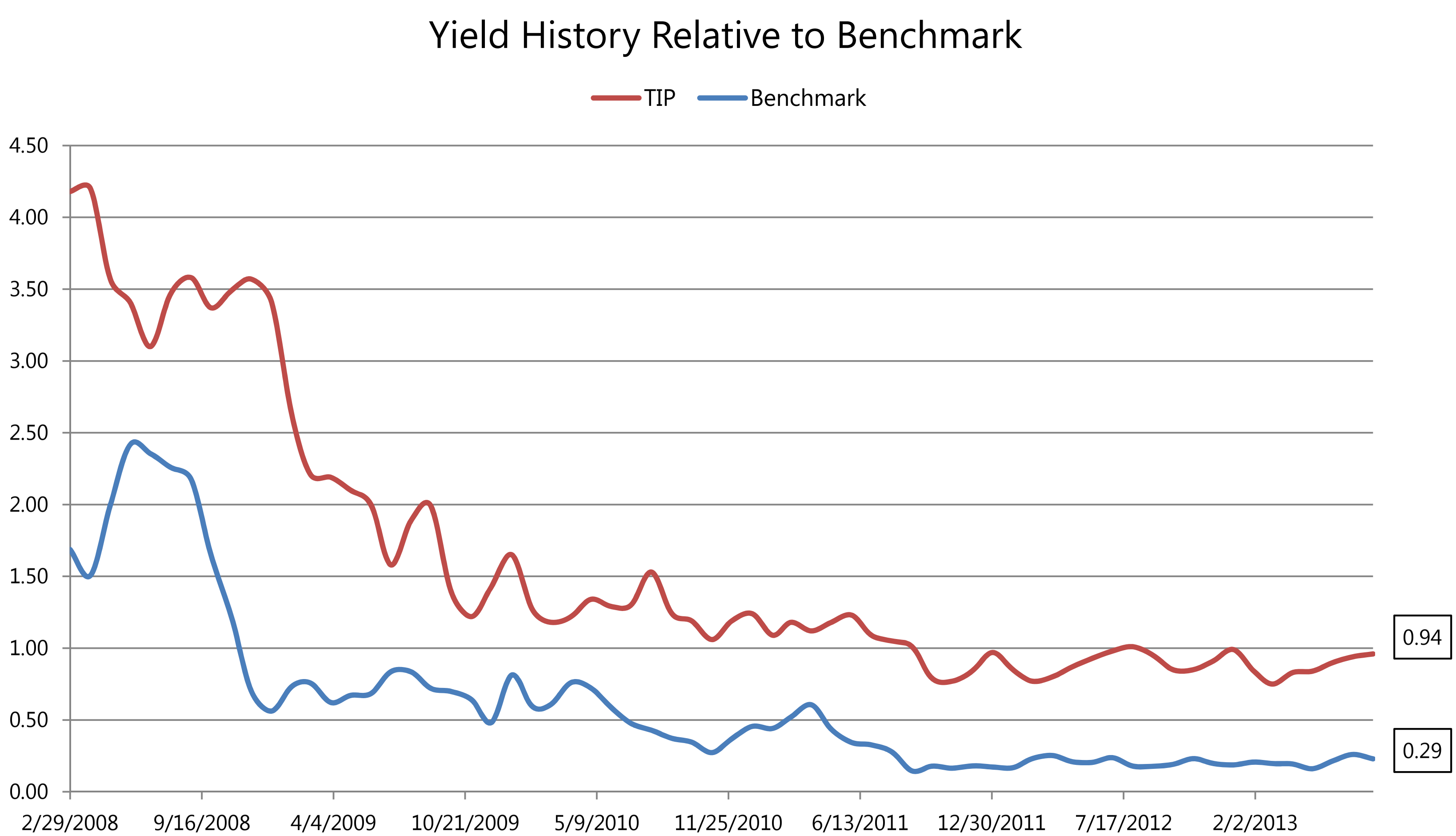
Market Value: $991.2M



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

TIP – Yield History

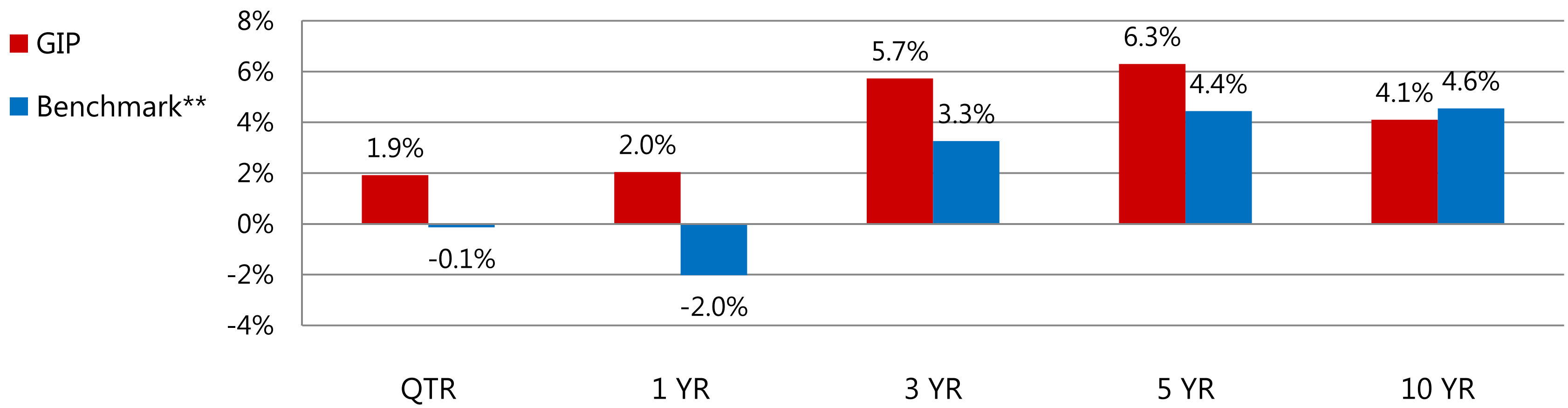
Market Value: $991.2M



GIP Review

GIP – Fund Performance*

Market Value: $60.1M***



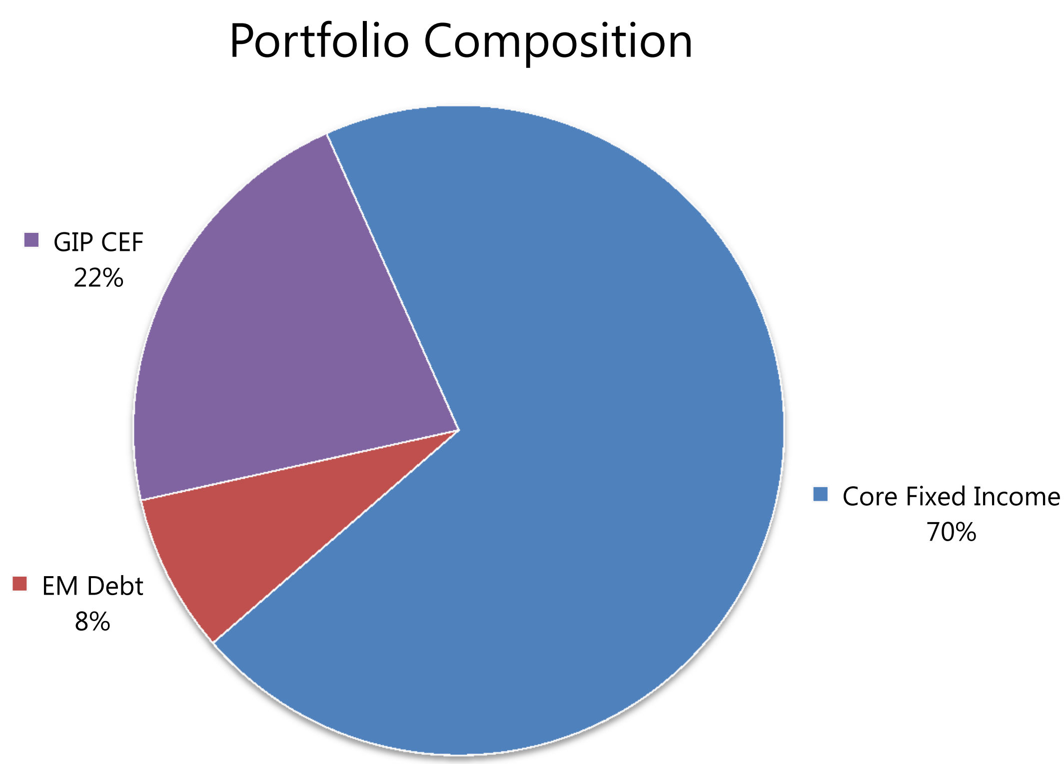
Q4 outperformance driven primarily by:

- Investment in CEF (22% allocation) outperformed the GIP benchmark by 741 bps
- Underweight to US Treasuries relative to the benchmark
- EM debt outperformed the GIP benchmark by 187 bps
- TCW and PIMCO Total Return Funds both outperformed the GIP benchmark

* Performance is net of manager fees
** Benchmark: 100% Barclays Capital Aggregate
*** Total GIP market value and investment performance includes the $13.1 million investment in CEF

GIP – Asset Allocation

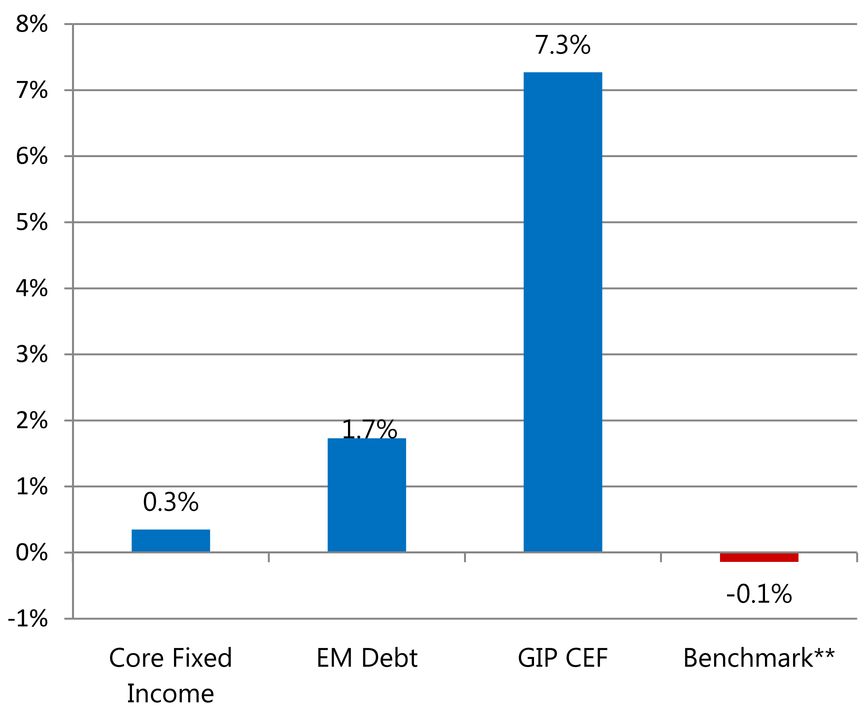
Market Value: $60.1M



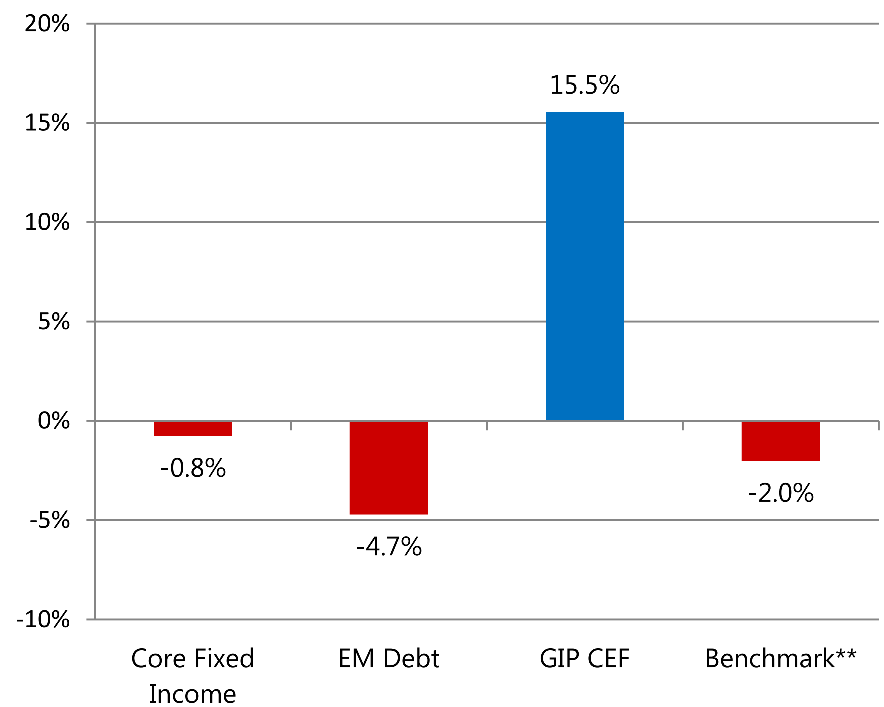
GIP – Performance* by Sector

Market Value: $ 60.1M

1 Quarter



1 Year

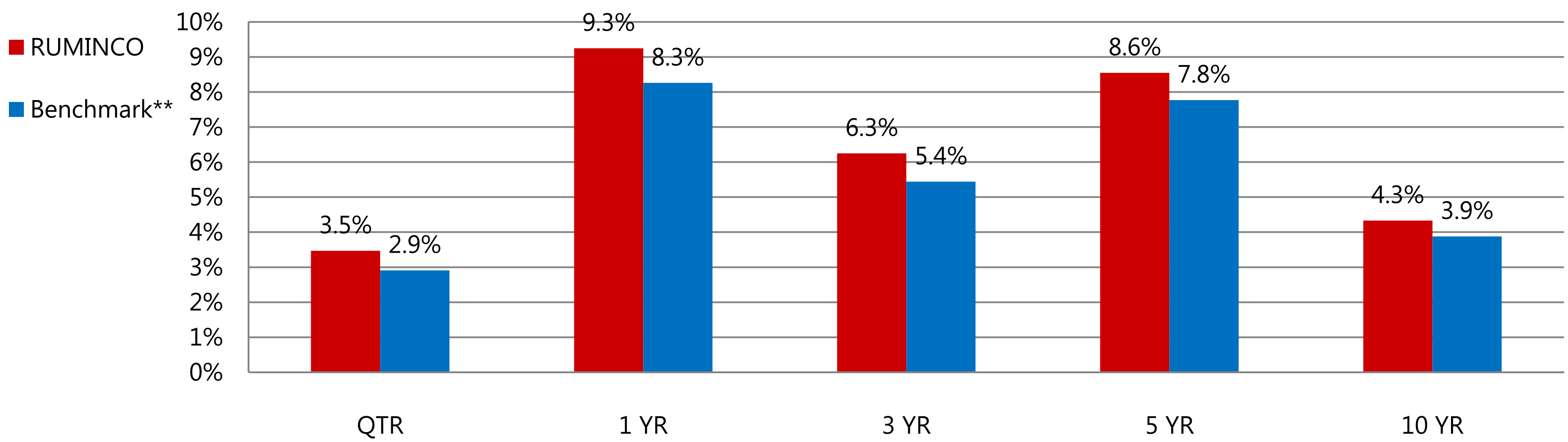


* Performance is net of manager fees
** Benchmark: 100% Barclays Capital Aggregate

RUMINCO Review

RUMINCO – Fund Performance*

Market Value: $39.3M



Q4 outperformance driven primarily by:

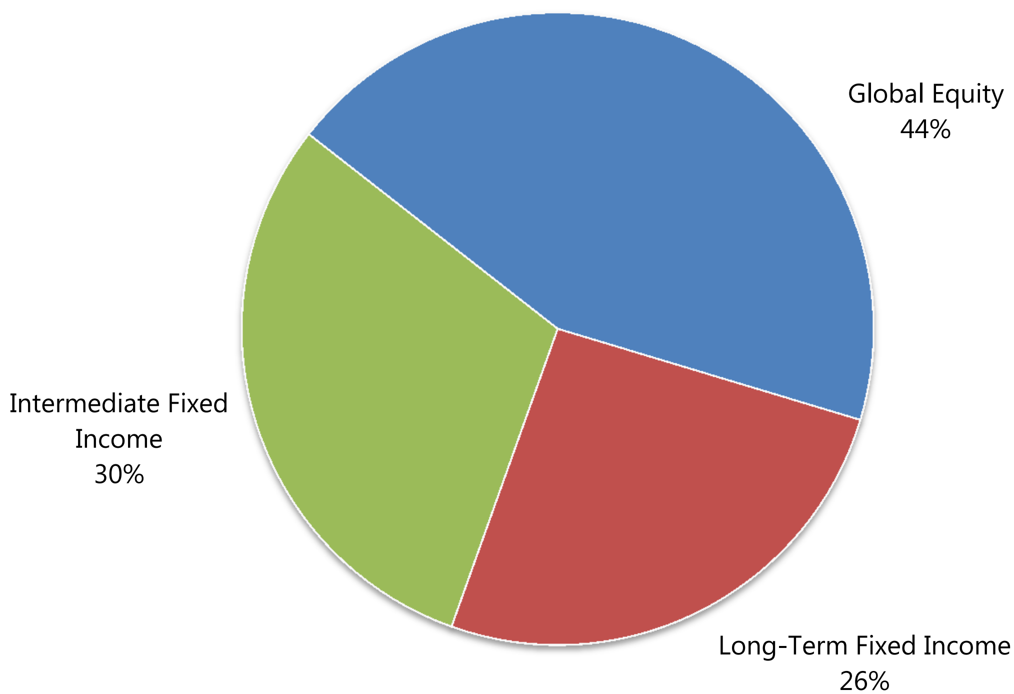
- Outperformance of short-duration fixed income relative to the benchmark
- Slight overweight to Global Equities
- Significant overweight to MBS in the TCW Total Return portfolio

* Performance is 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: $39.3M

Portfolio Composition



UNIVERSITY OF MINNESOTA

Board of Regents
Office of the Executive Director and Corporate Secretary

600 McNamara Alumni Center
200 Oak Street S.E.
Minneapolis, MN 55455
_612-625-6300_

January 21, 2014

To: President Eric Kaler

From: Brian Steeves, Executive Director & Corporate Secretary

Re: *Emergency Approval*

By email and phone on January 20, 2014, Chair Beeson, Vice Chair Johnson, and Finance Committee Chair McMillan each reviewed and approved the request from you for emergency approval of the following action (as described in the attached letter):

- To IntraSee, Inc., for an estimated $1,600,000 for consulting services and products related to the implementation of the Oracle PeopleSoft portal as part of the Enterprise System Upgrade Program.

I understand that this information will be reported to the Board of Regents at the February 2014 meetings, as required by Board Policy.

c: Karen Hanson, Senior Vice President
Richard Pfutzenreuter, Vice President

UNIVERSITY OF MINNESOTA

Office of the Senior Vice President for Academic Affairs and Provost

234 Morrill Hall
100 Church Street S.E.
Minneapolis, MN 55455-0110

Phone: 612-625-0051
Fax: 612-624-3814

January 17, 2014

The Honorable Richard B. Beeson
The Honorable Dean E. Johnson
The Honorable David McMillan

Dear Members of the Board:

As you know, the policy on Board Operations and Agenda Guidelines stipulates that Board approval is required before the University makes any purchase of goods or services in the amount of $1,000,000 or more. This approval is also required by the Regents policy on Purchasing.

Since the Board will not be meeting in January 2014, no approvals for large purchases are possible until February 13, 2014, under normal procedures. However, the Board Operations and Agenda Guidelines allow for an emergency procedure if an emergency situation exists as defined in the Guidelines. Specifically, in Section II, Subd. 10, the policy reads as follows:

> Upon the recommendation of the president, the Board chair, vice chair, and the respective committee chair may act on behalf of the Board when delay for Board approval poses a significant health, safety, or financial risk to the University. Any such emergency approvals will be brought to the next meeting of the Board, consistent with Board policy.

Upon the request of the Director of Purchasing, the Controller, and the Vice President and Chief Financial Officer, I am recommending Board approval for the following large purchases using this emergency process:

- To IntraSee, Inc., for an estimated $1,600,000 for consulting services and products related to the implementation of the Oracle PeopleSoft portal as part of the Enterprise Systems Upgrade Program.

I am recommending that these be approved on an emergency basis to assure the purchases are made as economically as possible, and to avoid interruption of their related projects.

Attached is additional information and supporting documentation for the purchases themselves and justification for handling them under the emergency approval process.

Sincerely,

Karen Hanson
Senior Vice President for Academic Affairs and Provost
on behalf of Eric W. Kaler, President

KH:jes

Enclosures (3)

UNIVERSITY OF MINNESOTA

Twin Cities Campus *University of Minnesota* *Minneapolis, MN 55454*

January 16, 2014

Tim Bray
Director of Purchasing
Purchasing Services
1300 South 2nd Street
Minneapolis, MN 55454

Dear Tim,

The Enterprise Systems Upgrade Program would like to secure a Board of Regents approval on an emergency basis for a contract for professional services exceeding $1,000,000. This request is for $1,600,000 to retain IntraSee, Inc. as a partner for the implementation, software and hosting of an Enterprise Portal within the Oracle PeopleSoft upgrade. IntraSee and the Office of General Counsel are both involved in determining mutually acceptable Terms and Conditions for the contract and a complete Statement of Work.

If we are unable to proceed with this contract until after the February Regents' meeting, the schedule of the project will be at risk. The Enterprise Portal must be sufficiently advanced for the end-to-end project testing to begin on schedule. Therefore, a delay in bringing the implementation partner on board could result in delay in the deployment of the new enterprise systems. A one month delay would cost the University approximately $3 million in Fall 2014. Because the Portal will be the sole access point for students, faculty and staff into all PeopleSoft functions, it cannot be developed and implemented outside the framework of ESUP. We therefore request that this be submitted through the emergency approval process.

Sincerely,

Dennis Wenzel
Enterprise Systems Upgrade Program

Driven to Discover℠

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

To IntraSee, Inc. for an estimated $1,600,000 for consulting services and products related to the implementation of the Oracle PeopleSoft portal as part of the Enterprise Systems Upgrade Program.

IntraSee, Inc. provides consulting services and software that will enable the University of Minnesota to replace the current myU portal with a new portal that provides a significant expansion of access and services using updated enterprise-wide technology on the PeopleSoft platform. Once the upgrade is complete, the portal will be the gateway for all staff, faculty, and students to directly engage with University information - an online connection that will be customized and personalized for every user (audience-specific communication, employee benefits, payroll, grades, course information, events, training, etc.).

IntraSee will work closely with local University staff to do the design, development, testing, training, deployment and transfer of knowledge. They will work with the University of Minnesota staff and stakeholders of the systems, help with the development and execution of the project plan, change management and communication plan, provide detailed functional and technical designs, and deploy the new software.

ESUP is a University-wide program approved by the Boards of Regents of the University of Minnesota. The cost of these services and products is covered by the approved budget for the program.

Submitted by: Dennis Wenzel
Director, Enterprise System Upgrade Program
150 Williamson Hall
Phone: 612-625-1387
Email: ajhill@umn.edu

Approval for this item requested by:

Vice President and CFO

1/16/14
Date

Rationale for Exception to Competitive Bidding

This purchase has not been competitively bid because IntraSee, Inc. does not have any competitors in the market place due to their unique market niche of focusing on the Oracle/PeopleSoft Portal user experience only. Many companies deliver one of the components, however, not the complete package. IntraSee, Inc. is able to provide the user with the Oracle/PeopleSoft experience needed in a shorter time period leveraging the University of Minnesota content plus IntraSee's toolkit.

Intrasee's staff are both PeopleSoft and web developers, which is another unique situation allowing for a successful PeopleSoft/Oracle Portal solution in a more timely fashion. They provide the model that allows for easier sustainability by the university not tying up resources in Information Technology plus a platform to continue building and enhancing without their involvement. They are also a strategic partner with Oracle which allow for advancement in the Portal solution for users.

Intrasee has a unique capability with few competitors. The University determined reasonableness of the price through comparison of their bid to comparable projects at other institutions. It was determined that most comparable projects have cost approximately $1,500,000. In addition, CCI (the University's implementation partner) estimated their cost at approximately $1,400,000 if they were to attempt the project. The University also identified one other institution that completed a comparable project with a cost of approximately $2,000,000. Based on these facts, the University determined that Intrasee's bid of $1,600,000 was reasonable and competitive.

The Director of Purchasing and the University Controller concluded that the process used resulted in a fair and reasonable price to the University.