

UNIVERSITY OF MINNESOTA

BOARD OF REGENTS

Finance & Operations Committee

Thursday, June 9, 2011

1:30 – 3:30 p.m.

600 McNamara Alumni Center, East Committee Room

Board Members

John Frobenius, Chair
Venora Hung, Vice Chair
Clyde Allen
Richard Beeson
Patricia Simmons
Steve Sviggum

Student Representatives

A G E N D A

1. Board of Regents Policy: *Endowment Fund* - Action - R. Pfutzenreuter/S. Mason (pp. 2-9)
2. Board of Regents Policy: *Investment Functions* - Action - R. Pfutzenreuter/S. Mason (p. 10-17)
3. Resolution Related to Asset Allocation Guidelines - R. Pfutzenreuter/S. Mason (pp. 18-19)
4. Resolution Related to Issuance of Debt for State-Supported Biomedical Facilities - R. Pfutzenreuter/C. Fleck (pp. 20-25)
5. Issues Related to: President's Recommended FY2012 Provisional Annual Operating Budget - R. Pfutzenreuter/J. Tonneson (pp. 26-27)
6. Consent Report - Review/Action - R. Pfutzenreuter (pp. 28-31)
7. Information Items - R. Pfutzenreuter (pp. 32-51)



**UNIVERSITY OF MINNESOTA
BOARD OF REGENTS**

Finance and Operations Committee

June 9, 2011

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 act on proposed amendments to Board of Regents Policy: *Endowment Fund*.

Outline of Key Points/Policy Issues:

The Administration is proposing amendments to Board of Regents Policy: *Endowment Fund*. The Office of Investments and Banking reviewed changing industry standards and current literature; and surveyed peer institutions regarding governance and common practices. The Investment Advisory Committee (IAC) formulated a recommendation in favor of the new policy structure. The Administration proposes the following changes intended to clarify the authority of the Board of Regents and to enable it to more effectively exercise its fiduciary duties:

- Add a comprehensive annual review of strategic objectives and the investment program;
- Significantly expand reporting requirements to the Board;
- Refine investment objectives;
- Add liquidity constraints;
- Refine risk considerations;
- Add a new Section IV, following the discussion at the May 12, 2011, meeting of the Finance and Operations Committee, stating that the Board retains the authority to approve asset allocation ranges.

Background Information:

The proposed changes were reviewed at the May 2011 meeting of the Finance & Operations Committee.

The new policy is on pages 3-6 of the docket materials. The existing policy is on pages 7-9.

President's Recommendation for Action:

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



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BOARD OF REGENTS POLICY**

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Financial

ENDOWMENT FUND

Adopted: September 8, 1989

Amended: May 11, 1990; July 10, 1992; November 10, 1993; January 14, 1994; June 10, 1994; April 9, 1998; November 10, 2000; December 13, 2002; March 12, 2004; February 11, 2005; May 13, 2005; July 12, 2006; May 14, 2010

Supersedes: (see end of policy)

DRAFT for action June 10, 2011

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 ~~engage with~~ present to the Board of Regents (Board) ~~in~~ 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 IV. REPORTING.

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



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BOARD OF REGENTS POLICY

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Financial

ENDOWMENT FUND

Adopted: September 8, 1989

Amended: May 11, 1990; July 10, 1992; November 10, 1993;
January 14, 1994; June 10, 1994; April 9, 1998; November 10, 2000;
December 13, 2002; March 12, 2004; February 11, 2005; May 13,
2005; July 12, 2006; May 14, 2010

Supersedes: (see end of policy)

DRAFT for action June 10, 2011

(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 current asset allocation targets and ranges, if any; and
- (6) new managers, manager terminations, and changes in investment allocations to existing managers.

These items shall be summarized in an annual report.

(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) annually, a comparison to peer institutions of relative performance and asset allocation and steps taken to provide opportunities to emerging, minority-owned, and woman-owned investment management firms; and

(d) 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.



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Financial

ENDOWMENT FUND

Adopted: September 8, 1989

Amended: May 11, 1990; July 10, 1992; November 10, 1993; January 14, 1994; June 10, 1994; April 9, 1998; November 10, 2000; December 13, 2002; March 12, 2004; February 11, 2005; May 13, 2005; July 12, 2006; May 14, 2010

Supersedes: (see end of policy)

DRAFT for action June 10, 2011

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. ~~Asset Allocation and Rebalancing.~~ ~~The president or delegate shall monitor market value of endowment assets in comparison to the establish asset allocation targets and ranges to accomplish adequate diversification for the prudent management of risk without sacrificing the potential for returns sufficient to meet the investment objectives approved by the Board. At least quarterly, the president or delegate shall determine~~ A determination shall be made as to whether deviations from such ranges are likely to be short-term or whether rebalancing is appropriate and, if necessary, act in a timely and cost-effective manner in order to maintain expected portfolio performance. In order to achieve rebalancing, the following investment instruments may be employed without 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 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



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BOARD OF REGENTS POLICY**

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Financial

ENDOWMENT FUND

Adopted: September 8, 1989

Amended: May 11, 1990; July 10, 1992; November 10, 1993; January 14, 1994; June 10, 1994; April 9, 1998; November 10, 2000; December 13, 2002; March 12, 2004; February 11, 2005; May 13, 2005; July 12, 2006; May 14, 2010

Supersedes: (see end of policy)

DRAFT for action June 10, 2011

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 VII. 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.

NEW

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.



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BOARD OF REGENTS POLICY**

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Financial

ENDOWMENT FUND

Adopted: September 8, 1989

Amended: May 11, 1990; July 10, 1992; November 10, 1993; January 14, 1994; June 10, 1994; April 9, 1998; November 10, 2000; December 13, 2002; March 12, 2004; February 11, 2005; May 13, 2005; July 12, 2006; May 14, 2010

Supersedes: (see end of policy)

ENDOWMENT FUND

SECTION I. SCOPE.

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

SECTION II. GUIDING PRINCIPLES.

The following principles shall guide the University's management of the endowment:

- (a) The University shall seek to maximize financial returns on invested assets consistent with an appropriate degree of risk as measured by industry guidelines for comparable long-term objectives.
- (b) The University shall consider social responsibility in its investment decisions.

SECTION III. INVESTMENT OBJECTIVES.

Subd. 1. Overall Objectives. The overall objectives for the University endowment shall be to:

- (a) preserve the inflation-adjusted value of the endowment; and
- (b) maximize total return (income plus capital appreciation) within acceptable risk parameters and a goal of at least 500 basis points annually above inflation (as measured by the Consumer Price Index) over a five-year trailing period.

Subd. 2. Investment Manager Objectives. The objectives for the investment managers of the endowment shall be to exceed the investment performance of appropriate benchmarks selected by the University.

SECTION IV. ASSET ALLOCATION GUIDELINES.

Subd. 1. Public Equities. The long-term target allocation for publicly traded equities, both domestic and international, shall be between 35 and 45 percent.



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Financial

ENDOWMENT FUND

Adopted: September 8, 1989

Amended: May 11, 1990; July 10, 1992; November 10, 1993; January 14, 1994; June 10, 1994; April 9, 1998; November 10, 2000; December 13, 2002; March 12, 2004; February 11, 2005; May 13, 2005; July 12, 2006; May 14, 2010

Supersedes: (see end of policy)

Subd. 2. Fixed Income. The long-term target allocation for fixed income shall be between 15 and 25 percent.

Subd. 3. Private Capital. The long-term target allocation for private capital (such as private equity, venture capital, and distressed debt) shall be between 15 and 25 percent.

Subd. 4. Real Assets. The long-term target allocation for real assets (such as real estate partnerships, timberlands, oil and gas partnerships, and other investable commodities) shall be between 15 and 25 percent.

Subd. 5. Futures and Exchange Traded Funds (ETFs). In order to rebalance exposures to certain asset classes, the purchase or sale of futures contracts or ETFs is permissible. Futures may be employed only on a net unleveraged basis. Futures shall not be employed for speculative purposes.

Subd. 6. Options. The use of options shall be limited to the purchase of options for hedging purposes or the sale of covered options. The option exposure in aggregate shall not exceed 10 percent of the value of the endowment.

Subd. 7. Short-Selling of Securities. The aggregate market value of short sales shall not exceed 10 percent of the value of the endowment.

Subd. 8. Management Control. The University shall make no direct investments for the purpose of exercising management control in the underlying companies. Control strategies are permissible in the context of investments in portfolio companies made by approved investment managers.

Subd. 9. Investment Manager Limit. A maximum of 20 percent of the endowment may be invested by any one investment management firm. The president or delegate shall make adjustments to a portfolio if an investment management firm exceeds this limit for 12 consecutive months.

Subd. 10. Calculations of Limits. Calculations of all percentage limitations shall be done on a market value basis.



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Financial

ENDOWMENT FUND

Adopted: September 8, 1989

Amended: May 11, 1990; July 10, 1992; November 10, 1993; January 14, 1994; June 10, 1994; April 9, 1998; November 10, 2000; December 13, 2002; March 12, 2004; February 11, 2005; May 13, 2005; July 12, 2006; May 14, 2010

Supersedes: (see end of policy)

Subd. 11. Adherence to Guidelines and Addressing Deviations. The president or delegate shall attempt to cause the allocation of invested assets to remain within the guidelines stated in Section IV. If market changes cause the asset allocations to deviate from the guidelines, the president or delegate shall develop a plan to restore the allocations to guideline proportions over a period of time that is appropriate in light of the reason for the deviations and the nature of the subject investments.

SECTION V. DISTRIBUTION RATE.

The endowment distribution rate shall be set at a level that is supportive of 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 distribution rate shall be 4.5 percent of the average of the endowment's trailing month-end market values for the prior 60 months.

SECTION VI. REPORTING.

The president or delegate shall report quarterly to the Board of Regents regarding the status and performance of endowment assets.

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 and Operations Committee

June 9, 2011

Agenda Item: Board of Regents Policy: *Investment Functions*

review review/action action discussion

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

Purpose:

policy background/context oversight strategic positioning

To act on proposed Board of Regents Policy: *Investment Functions*.

Outline of Key Points/Policy Issues:

The Office of Investments and Banking has reviewed changing industry standards, current literature, and has surveyed peer institutions regarding governance and related policy issues. The Investment Advisory Committee (IAC) has formulated a recommendation in favor of the proposed new policy structure. The Administration proposes superseding existing Board of Regents Policy: *Investment Transactions* and implementing a new policy entitled Board of Regents Policy: *Investment Functions*. The following differences between the two policies are intended to clarify the Board or Regents (Board) authority and enable it to more effectively exercise its fiduciary duties:

- Change policy name to *Investment Functions*;
- Add "Standard of Care" principal;
- Delegate the authority to engage investment managers to the president or president's delegate;
- Add reporting requirements for all investment pools;
- Add investment guidelines regarding custody, transaction costs and securities lending.

The proposal to delegate the establishment of asset allocation ranges has been removed as a result of discussion at the May 12, 2011, meeting of the Finance and Operations Committee.

The proposed policy is on pages 11-14 of the docket materials. The policy to be superseded is on pages 15-17.

Background Information:

The proposed changes were reviewed at the May meeting of the Board.

President's Recommendation for Action:

The President recommends adoption of Board of Regents Policy: *Investment Functions*.



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BOARD OF REGENTS POLICY

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Financial

INVESTMENT FUNCTIONS
Adopted:
Supersedes: (see end of policy)

DRAFT for action June 10, 2011

INVESTMENT FUNCTIONS

SECTION I. SCOPE.

This policy governs all investment functions conducted by the University of Minnesota (University).

SECTION II. GUIDING PRINCIPLES.

Subd. 1. Standard of Care. The standard applicable to all investment functions shall be the "prudent person standard," which provides that investment activities, both transactional and otherwise, shall be undertaken, under circumstances then prevailing, in the following manner:

- (a) with the judgment and care that persons of prudence, discretion, and intelligence would exercise under similar circumstances.
- (b) for investment purposes rather than speculation; and
- (c) taking into account the importance of capital preservation and the risk that will be incurred and managed in light of the expected return to be derived.

Subd. 2. Emerging and Minority- or Woman-Owned Investment Managers. The use of emerging investment management firms and investment management firms that are minority-owned or woman-owned ~~are~~ is encouraged, as well as steps in this regard consistent with the financial and fiduciary responsibility of the University.

SECTION III. DEFINITIONS.

Subd. 1. Security. *Security* shall mean any investment instrument or group of instruments commonly used by investors of institutional assets.

Subd. 2. Investment Advisor. *Investment advisor* shall mean a person or firm engaged to render advice to the University in connection with its investment activities. An investment advisor does not have authority to execute investment transactions.

Subd. 3. Investment Manager. *Investment manager* shall mean a person or firm engaged to execute investment-related activities on behalf of the University at its discretion within the parameters established by the president or delegate and ~~in~~ accordance consistent with applicable ~~policy~~ Board of Regents (Board) policies. In



UNIVERSITY OF MINNESOTA
BOARD OF REGENTS POLICY

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Financial

INVESTMENT FUNCTIONS

Adopted:

Supersedes: (see end of policy)

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circumstances where applicable industry standards require registration with the Securities and Exchange Commission (SEC), only investment managers duly registered with the SEC may be engaged to provide services to or act on behalf of the University.

Subd. 4. Investment Transactions. *Investment transactions* shall mean:

- (a) the purchase, investment in, possession, or other acquisition of an interest in a security;
- (b) the sale, conversion, exchange, transfer, or other disposal of an interest in a security; and
- (c) the pledge of a security.

Subd. 5. Emerging Investment Management Firms. *Emerging investment management firms* shall mean investment management firms that manage total assets of less than \$250 million.

Subd. 6. Broker/Dealer. *Broker/dealer* shall mean a person or firm duly registered as a broker-dealer with the SEC and a member in good standing of the Financial Industry Regulatory Authority, Inc. (FINRA) who is engaged to execute investment transactions on behalf of the University as directed by the president or delegate. Investment transactions may be executed in the open market or from the firm's inventory.

SECTION IV. DELEGATION OF AUTHORITY.

The president or delegate shall have the authority and power to take all actions necessary or appropriate to manage and conduct the investment program and execute investment transactions ~~in accordance~~ consistent with Board of Regents (Board) policies. Such actions include the following:

- ~~(a) to establish asset allocation guidelines and ranges designed to achieve the diversification necessary to meet the investment objectives established by the Board;~~
- (ba) to engage and terminate investment managers and advisers;
- (eb) to negotiate, enter into, and perform investment transactions with broker/dealers and investment managers;



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BOARD OF REGENTS POLICY

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Financial

INVESTMENT FUNCTIONS

Adopted:

Supersedes: (see end of policy)

DRAFT for action June 10, 2011

(dc) to negotiate, enter into, and perform purchases, sales, and other transactions in the secondary market when such action facilitates rebalancing to comply with asset allocation guidelines;

(ed) to exercise any voting right related to a security owned by the University in a manner determined by the president or delegate to be in the best interests of the University and in accordance with all applicable policies;

(fe) to direct the sale or exercise of any right related to a security; and

(gf) to execute, acknowledge, and deliver all certificates, agreements, powers of attorney, or other legal instruments for any purpose related to the management and performance of the investment function of the University.

SECTION V. REPORTING.

The president or delegate shall make periodic reports to the Board as may be required in Board policies or as may be appropriate or requested by the Board in order that it may exercise its oversight function.

SECTION VI. INVESTMENT PROGRAM REQUIREMENTS.

Subd. 1. Custody of Investment Securities. A system of custodianship shall be established to assure the appropriate management of access to, and the safety of, securities held on behalf of the University.

Subd. 2. Transaction Costs. All reasonable efforts shall be made to execute transactions at the lowest possible cost, taking into account commissions, efficiency of execution, and other relevant considerations.

Subd. 3. Limitations.

(a) Short sales may be effected only as a component of more complex hedging transactions and may not be made for speculative purposes.

(b) No direct purchases may be made of a security issued by the University.

Subd. 4. Securities Lending. Securities lending programs maybe used as a means of augmenting income. Cash collateral received from borrowers may be invested only in cash equivalents and U.S. government securities.



**UNIVERSITY OF MINNESOTA
BOARD OF REGENTS POLICY**

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Financial

INVESTMENT FUNCTIONS

Adopted:

Supersedes: (see end of policy)

DRAFT *for action June 10, 2011*

SECTION VII. CERTIFICATE OF AUTHORITY.

As needed or may be requested, the secretary of the Board shall certify the authority and power of the president or delegate to enter into investment transactions or to invest and deal in securities as provided in this policy.

NEW

SUPERSEDES: INVESTMENT TRANSACTIONS DATED MAY 14, 2010; AND INVESTMENT MANAGERS DATED NOVEMBER 9, 1990.



UNIVERSITY OF MINNESOTA
BOARD OF REGENTS POLICY

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Delegation of Authority
INVESTMENT TRANSACTIONS
Adopted: November 12, 1976
Amended: July 8, 1983; October 9, 1987; March 11,
1994; July 8, 1994; March 12, 2004; May 14, 2010
Supersedes: (see end of policy)

INVESTMENT TRANSACTIONS

This policy governs the administration's authority to invest and deal in securities and to engage investment managers.

Subd. 1. Definitions. For purposes of this policy, the terms below shall have the following meanings:

(a) *Security* shall mean any investment instrument or group of instruments commonly used by investors of institutional assets.

(b) *Investment advisor* shall mean a person or firm engaged to render advice to the University of Minnesota (University) in connection with its investment activities. An investment advisor does not have authority to execute investment transactions.

(c) *Investment manager* shall mean a person or firm engaged to execute investment transactions at its discretion on behalf of the University or to otherwise manage the University's investments. In circumstances where applicable industry standards require registration with the Securities and Exchange Commission (SEC), only investment managers duly registered with the SEC may be engaged to provide services to or act on behalf of the University.

(d) *Investment transactions* shall mean:

- (1) the purchase, investment in, possession, or other acquisition of an interest in a security;
- (2) the sale, conversion, exchange, transfer, or other disposal of an interest in a security; and
- (3) the pledge of a security.

(e) *Emerging investment management firms* shall mean investment management firms that manage institutional assets under \$250 million.

(f) *Broker/dealer* shall mean a person or firm duly registered as a broker-dealer with the SEC and a member in good standing of FINRA (Financial Industry Regulatory Authority, Inc.) executing investment transactions on behalf of the University upon the University's directive. Investment transactions may be executed in the open market or from the firm's inventory.



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BOARD OF REGENTS POLICY

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Delegation of Authority
INVESTMENT TRANSACTIONS

Adopted: November 12, 1976

Amended: July 8, 1983; October 9, 1987; March 11, 1994; July 8, 1994; March 12, 2004; May 14, 2010

Supersedes: (see end of policy)

Subd. 2. Delegation of Authority. In accordance with Board of Regents Policy: *Reservation and Delegation of Authority*, the president or delegate shall have the authority and power to take all actions necessary or appropriate to conduct investment-related activities and execute investment transactions. Such actions may include, but are not limited to, the following:

(a) to negotiate and enter into investment transactions with broker/dealers, investment managers, or other qualified counterparties;

(b) to negotiate and enter into sales and other divestment transactions in the secondary market when such action is required for rebalancing to comply with asset allocation guidelines;

(c) to vote any voting securities owned by the University in accordance with relevant Board of Regents (Board) policies;

(d) to give to investment managers written or oral instructions with respect to investment transactions;

(e) to bind and obligate the University to, and for the execution of, any contract, arrangement, or transaction that may be entered into by any such officer for and on behalf of the University;

(f) to pay such sums as may be necessary in connection with any investment transactions;

(g) to deliver securities to and deposit funds with investment managers or broker/dealers;

(h) to order the transfer or delivery of a security to any other person whatsoever and/or to order the transfer or record of a security to the name of the University;

(i) to direct the sale or exercise of any rights with respect to a security;

(j) to execute, acknowledge, and deliver proper transfers, assignments, and letters of transmittal;

(k) to execute consents to reorganizations, modifications, or extension agreements and compromises;



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Delegation of Authority
INVESTMENT TRANSACTIONS

Adopted: November 12, 1976

Amended: July 8, 1983; October 9, 1987; March 11, 1994; July 8, 1994; March 12, 2004; May 14, 2010

Supersedes: (see end of policy)

(l) to execute, acknowledge, and deliver all powers of attorney or any other legal instruments for the purpose of splitting and issuance of new certificates in exchange, transferring, and disposing of or releasing any stocks, bonds, or other evidences of indebtedness held by the University or for any other purpose with relationship thereto in the ordinary course of business;

(m) to sign for the University all releases, powers of attorney, and/or other documents in connection with any such transaction and to agree to any terms or conditions to control any such account; and

(n) to direct investment managers or broker/dealers to surrender a security to the proper agent or party for the purpose of effecting any exchange or conversion or for the purpose of deposit with any protective or similar committee.

Subd. 3. Authority to Engage Investment Managers. The Board reserves to itself the exclusive authority and power on behalf of the University to engage investment managers, provided that, in exigent situations, the president or delegate shall have the authority to engage immediately an investment manager. In such instance, the president or delegate shall seek Board approval of the engagement at the next regularly scheduled Board meeting. The president or delegate shall have the authority and power to terminate the engagement of an investment manager and to engage and to terminate investment advisors.

Subd. 4. Targeted Investment Managers. The Board encourages the use of emerging investment management firms and investment management firms that are minority-owned or woman-owned, and encourages steps in this regard consistent with the financial and fiduciary responsibility of the University. The administration shall report annually all steps taken to provide opportunities to emerging, minority-owned, and woman-owned investment management firms.

Subd. 5. Binding Effect. Action taken by the president or delegate pursuant to this policy shall be an act of and shall bind the Board.

Subd. 6. Certificate of Authority. The secretary of the Board shall certify the authority and power of the president or delegate to enter into investment transactions or to invest and deal in securities as provided in this policy.

SUPERSEDES: INVESTMENT MANAGERS DATED NOVEMBER 9, 1990.



**UNIVERSITY OF MINNESOTA
BOARD OF REGENTS**

Finance and Operations Committee

June 9, 2011

Agenda Item: Resolution Related to Asset Allocation Guidelines

review review/action action discussion

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

Purpose:

policy background/context oversight strategic positioning

To act on a resolution related to asset allocation ranges for investments in the Endowment Fund.

Outline of Key Points/Policy Issues:

The reservation of authority to approve asset allocation ranges for the investments in the Endowment Fund has been retained by the Board, as detailed in amendments to Board of Regents Policy: *Endowment Fund* and in the new Board of Regents Policy: *Investment Functions*. The amendments to Board Policy: *Endowment Fund* provide that the specific asset allocations ranges will be described in a Board resolution that is approved from time to time upon the recommendation of the president or delegate. The asset allocation ranges in this resolution are those that have been in place over the last three years and were delineated in the previous form of the policy.

Rather than change Board policy every time it is advantageous to change the asset allocation ranges, it is recommended that such changes be made by resolution while leaving broader policy issues in place.

Background Information:

The last significant revision to asset allocation guidelines occurred with adoption of amendments to Board of Regents Policy: *Endowment Fund* on July 12, 2006.

President's Recommendation for Action:

The president recommends that the Board of Regents approve the Resolution Related to Asset Allocation Guidelines.



REGENTS OF THE UNIVERSITY OF MINNESOTA
RESOLUTION RELATED TO
ASSET ALLOCATION GUIDELINES

WHEREAS, Board of Regents (Board) Policy: *Endowment Fund* provides in part that the president or delegate shall recommend asset allocation ranges for approval by the Board; and

WHEREAS, the following asset allocation ranges have been recommended:

1. Public Equities: The long-term target allocation for publicly traded equities, both domestic and international, shall be between 35 and 45 percent.
2. Fixed income: The long-term target allocation for fixed income shall be between 15 and 25 percent.
3. Private Capital: The long-term target allocation for private capital (such as private equity, venture capital, and distressed debt) shall be between 15 and 25 percent.
4. Real Assets: The long-term target allocation for real assets (such as real estate partnerships, timberlands, oil and gas partnerships, and other investable commodities) shall be between 15 and 25 percent.

NOW, THEREFORE, BE IT RESOLVED that the asset allocation ranges that have been recommended for investments in the Endowment Fund are hereby approved effective as of the date of this meeting.



**UNIVERSITY OF MINNESOTA
BOARD OF REGENTS**

Finance and Operations Committee

June 9, 2011

Agenda Item: Resolution Related to Issuance of Debt for State-Supported Biomedical Facilities

review review/action action discussion

Presenters: Vice President/CFO Richard Pfutzenreuter
Carole Fleck, Director of 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 for State-Supported Biomedical Facilities is being presented for action.

Outline of Key Points/Policy Issues:

The University is undertaking four projects, collectively referred to as the Biomedical Sciences Research Facilities (the "Facilities"), located on its campus to be used as research facilities and laboratories for biomedical science and biomedical technology. The Facilities will benefit the state's economy, advance the biomedical technology industry, benefit human health, and facilitate research collaboration between the University of Minnesota and other private and public institutions in this state.

The University is requesting approval of the attached financing resolution authorizing the issuance and sale of bonds up to an aggregate principal amount of \$100,300,000 to finance the remaining portion of the second and third projects within the Facilities.

Background Information:

On March 10, 2006, the Board of Regents approved the Resolution Related to Minnesota Biomedical Science Research Facilities Authority.

The 2008 Minnesota Legislature enacted Sections 137.61 to 137.65 of the Minnesota Statutes, providing that upon the making of certain certifications the State will transfer to the University up to 75 percent of project costs, not to exceed \$219,000,000 (the "Biomedical Science Research Funding Legislation").

In November 2008, pursuant to the Biomedical Science Research Funding Legislation, the Board authorized the issuance of Bonds in one or more series in the total principal amount of up to \$292,000,000.

In November 2009, pursuant to the November 2008 Authorization, the Board authorized the issuance of Bonds in one or more series up to an aggregate principal amount of \$53,200,000, with additional series subject to the further approval of the Board.

In July 2010, pursuant to the November 2008 Authorization, the Board authorized the issuance of Bonds in one or more series up to an aggregate principal amount of \$100,000,000, with additional series subject to the further approval of the Board.

On September 30, 2010, the University issued Special Purpose Revenue Bonds (State Supported Biomedical Science Research Facilities Funding Program) Series 2010A and General Obligation Taxable Bonds (University Supported Biomedical Science Research Facilities Funding Program) Series 2010B in the total par amount of \$153,120,000 pursuant to the existing authorizations.

President's Recommendation for Action:

The President recommends approval of the Resolution Related to Issuance of Debt for State-Supported Biomedical Facilities.



REGENTS OF THE UNIVERSITY OF MINNESOTA
RESOLUTION RELATED TO
ISSUANCE OF DEBT FOR STATE-SUPPORTED
BIOMEDICAL FACILITIES

WHEREAS, on March 10, 2006, the Board of Regents (Board) of the University of Minnesota (University) approved a resolution which requested that the Minnesota Legislature provide funding to assist in the construction or renovation of capital facilities and related equipment supporting biomedical sciences research (Facilities);

WHEREAS, the 2008 Minnesota State Legislature enacted Sections 137.61 to 137.65 of the Minnesota Statutes (Biomedical Science Research Funding Legislation), which provides that, on the condition that certain required certifications are made by the Board and the Commissioner of Finance, the State will transfer to the University up to 75 percent of the project costs for each of four projects approved by the Board, provided that the principal amount of bonds issued by the University to pay the state's share of the costs must not exceed \$219,000,000 (State Funding);

WHEREAS, Section 137.63, Subd. 2 of the Biomedical Science Research Funding Legislation requires that (i) the University, either acting on its own or in collaboration with another private or public entity, must pay at least 25 per cent of the project costs for each of the projects funded by the Biomedical Science Research Funding Legislation and (ii) the Board must not use tuition revenue to do so;

WHEREAS, Section 137.64, Subd. 1 of the Biomedical Science Research Funding Legislation provides that for each project approved by the Board, (i) the Commissioner of Management and Budget of the State of Minnesota (Commissioner) must certify that the Board has, by Board resolution, approved the maximum project cost and complied with the requirements of Section 137.63, Subd. 2; and (ii) the Board must certify to the Commissioner the amount of the annual payments of principal and interest required to service the bonds issued to fund such project and the actual amount of the

State's annual payment to the University under Section 137.64, Subd. 2 of the Biomedical Science Research Funding Legislation; and

WHEREAS, in November, 2008, pursuant to the Biomedical Science Research Funding Legislation, the Board authorized the issuance of Bonds in one or more series in the total principal amount of up to \$292,000,000 (November 2008 Authorization), provided that authorization for each series is subject to the conditions that it has been or will be certified by the Board in compliance with Secs. 137.63, Subd. 2 and 137.64, Subd. 1 of the Biomedical Science Research Funding Legislation;

WHEREAS, pursuant to the November 2008 Authorization, in November, 2009 the Board authorized the issuance of Bonds in one or more series up to an aggregate principal amount of \$53,200,000; in July, 2010, the Board authorized the issuance of additional Bonds up to an aggregate principal amount of \$100,000,000; and Bonds in the total par amount of \$153,120,000 were issued in September, 2010;

WHEREAS, it is now proposed that the University proceed, pursuant to the November 2008 Authorization, with an additional issuance and sale of Bonds up to an aggregate principal amount of \$100,300,000 (a total of \$253,500,000 authorized to date);

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

1. As additional Bonds to be issued pursuant to the November 2008 Authorization, the Treasurer is authorized to approve the terms of one or more series of bonds up to a maximum project cost and an aggregate principal amount of \$100,300,000, including but not limited to the principal amount thereof, the maturity date or dates thereof, the interest rate or rates thereon, and the provisions, if any, with respect to the redemption of such Bonds prior to the stated maturity thereof, provided that if the interest rate on any series of Bonds shall be a fixed rate as provided in the Indenture of Trust or Order pursuant to which it is issued, the interest rate on any Bonds of such series may not exceed 8.00% per annum, and in no event shall any Bond mature later than 25 years following its date of issuance. The University, either acting on its own or in collaboration with another private or public entity, shall pay at least 25 per cent of the maximum project cost. The University shall not use tuition revenue to pay such costs.

2. The Treasurer is authorized to negotiate with one or more banks, investment banking firms or financial institutions to be engaged by the University as the underwriter for the Bonds, the terms and conditions upon which the Bonds shall be sold and issued, and to approve the terms of such sale and issuance, including if the Bonds shall be issued as general obligations of the University.

3. In connection with the issuance of any series of Bonds, the President and Treasurer are authorized to execute and deliver on behalf of the University the Indenture of Trust or Order of the University 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 of the University as may be 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 of the University or any supplement or amendment thereto. The signatures of the Secretary and/or Treasurer on the Bonds may be by facsimile.

4. 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 may be approved by the Treasurer and General Counsel.

5. In addition, the Treasurer is further authorized to negotiate with one or more commercial banks, insurers or other credit support providers the terms and conditions of any credit support for any series of Bonds, and the President and Treasurer are authorized to execute and deliver any agreements of the University with the provider of any such credit support facility. Such agreements shall be in the form and contain such rights, obligations, covenants, agreements, representations and warranties of the University as may be approved by the Treasurer and the General Counsel.

6. The Treasurer is authorized to approve the Preliminary Official Statement and the final Official Statement or any supplements or amendments thereto to be prepared and distributed by the University 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.

7. 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. The Treasurer is authorized and directed to take all action that may be necessary or appropriate to inform the Commissioner of the directives stated in the first paragraph of this resolution and thereby enable the Commissioner to make the certification required by Section 137.64, Subd. 1, for this project.

8. As soon as practicable after the Bonds to be issued under this resolution have been sold and the underwriter for such Bonds has reported to the University the necessary information, the Treasurer is authorized and directed to certify to the Commissioner, on behalf of the Board, the amount of the annual payments of principal and interest required to service such Bonds and the actual amount of the State's annual payment to the University under Section 137.64, Subd. 2 with respect to such 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 officers of the University 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 with the initial purchaser or purchasers of any series of Bonds 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 and Operations Committee

June 9, 2011

Agenda Item: Issues Related to: President's Recommended FY 2012 Provisional Annual Operating Budget

review review/action action discussion

Presenters: Vice President/CFO Richard Pfutzenreuter
Budget Director Julie Tonneson

Purpose:

policy background/context oversight strategic positioning

This agenda item represents an overview of the President's Recommended FY12 Provisional Annual Operating Budget Plan (see Board of Regents docket). An overview of a variety of specific financial issues will be provided, including information on investments, unit level reductions and resource adjustments, compensation plans, tuition rates, and related fees.

Outline of Key Points/Policy Issues:

The Finance and Operations Committee will be provided detail regarding the operating budget plans for the upcoming fiscal year in order to ensure that the Board of Regents has a broad understanding of the financial and operating recommendations of the President.

The 2011 Legislative Session ended without a resolution to the state budget, so the University of Minnesota does not know the level of state appropriations it will receive for the upcoming biennium. The University's fiscal year 2012 begins on July 1, 2011 and academic and support units are required to prepare an operating budget plan in the enterprise financial system prior to the start of the new fiscal year.

Because of the current financial uncertainty, the President is recommending to the Board of Regents the adoption of a provisional FY12 operating budget plan. A key component of the President's Recommended FY12 Provisional Operating Budget Plan is the assumption that the final outcome to the level of state general fund appropriations to the University of Minnesota for the 2011-2013 biennium will not worsen beyond the level contained in the House/Senate Conference Committee Report (H.F. 1101) and that there is a reasonable expectation for an improvement in the level of state appropriation once an overall state budget plan is agreed to between the Governor and the Minnesota Legislature. Based upon this key assumption, the President is recommending the following three part framework to maintain the University's academic mission and to ensure a balanced budget for FY12:

1. Adoption of a provisional FY12 operating budget based upon the funding level contained in H.F. 1101 as adopted by the House/Senate Conference Committee.
2. Identification of financial framework to be implemented in the event that the University's funding level improves relative to the amounts authorized by H.F. 1101.

3. Preparation of contingent financial plans to address the possibility of a short term state government shutdown in order to mitigate its impact on University operations.

For the third year in a row, the University of Minnesota faces a significant budget challenge due to another anticipated reduction in state funds explained above. This large state reduction in FY12 coupled with additional critical investment needs and cost increases has resulted in significant financial challenges for the University in both FY12 and FY13. In keeping with recent practice, the University will need to address the budget challenge through a combination of unit budget reductions and resource adjustments and new tuition revenue.

As the table below shows, the University will primarily address the challenge through unit reductions and resource adjustments.

Dollars in Millions – expressed as incremental change compared to FY11:

Budget Challenge

Reduction in Appropriation from FY11	\$70.8
Nonrecurring Financial Obligations	<u>\$58.9</u>
Total Challenge	\$129.7

Recommended Solution

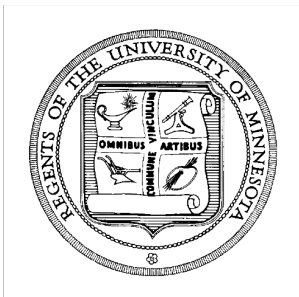
New Tuition Revenue	\$44.6	34%
Unit Reductions/Resource Adjustments	<u>\$85.1</u>	66%
Total Solution	\$129.7	

The financial plan outlined above along with the corresponding resource changes related to tuition and state funds are included in the all-funds budget for fiscal year 2011-12 for Board of Regents approval. The all current funds non-sponsored budget plan for fiscal year 2011-12, which includes state appropriations, tuition and all other sources (such as gifts, indirect cost recovery, sales and fees, and so forth) proposes total net resources of \$3,728,044,280 and expenditures of \$3,053,846,215. The sponsored funds budget plan for FY12 (for externally funded research grants and contracts) is an additional \$600,000,000.

Important budget planning and implementation will again be carried out in departments, centers, colleges and campuses.

Background Information:

The Board of Regents has received a variety of budget updates from the President during the course of the past 12 months.



**UNIVERSITY OF MINNESOTA
BOARD OF REGENTS**

Finance and Operations Committee

June 9, 2011

Agenda Item: Consent Report

review review/action action discussion

Presenters: Vice President/CFO Richard Pfitzenreuter

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

There are no items in the General Contingency report requiring Board approval.

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

- To Ex Libris USA, Inc. for an estimated \$1,336,000 to purchase, as part of an Early Adopter Program, the Alma Integrated Library System software service, for a training, migration, and implementation period of twenty-one (21) months from September 30, 2011, through June 30, 2013, followed by a three-year period of production-level operations, maintenance, and support from July 1, 2013, through June 30, 2016, for the Office of Information Technology and the University of Minnesota Libraries. The Office of Information Technology O&M and the University of Minnesota Libraries O&M resources will fund this project. See enclosed documentation regarding basis for vendor selection.

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

2010-11 General Contingency:

	Recipient	Allocation	Balance	Purpose
FY2011 General Contingency				
	Carryforward from FY2010 into FY2011	117,393	\$1,000,000	
1	Return unused funds	(151)	1,117,544	Unused funds from East Cliff boiler replacement project
2				
3	Exec Dir Office for Business & Community Economic Dev	55,000	\$1,062,544	Awards Incentive & Recognition Program
4				
5	Executive Director for the Board of Regents	149,563	912,981	Salary and fringe for new Deputy Director position
6				
7	Chancellor, University of Minnesota Crookston	100,000	812,981	Bridge funding for Dir of Assessment position, year 2 of 3
8				
* 9	Assoc. VP for Capital Planning and Project Management	215,000	597,981	Eastcliff maintenance and refurbishment projects
10				
11	Assoc. VP for Capital Planning and Project Management	75,000	\$522,981	Pre-Demolition work
12				
13	Assoc. VP for Capital Planning and Project Management	165,000	\$357,981	Security and phone system upgrades to Eastcliff property
14				
15	Vice President for Research	175,000	182,981	Consultant services for F & A rate development process
16				
17	General Counsel	36,495	146,486	Transition funding for attorney salary and fringe 0.2 FTE
18				
19	Executive Director for the Board of Regents	32,000	114,486	Presidential search and transition expenses
20				
21	New items this reporting period:			
22				
23	Assoc. VP for Capital Planning and Project Management	18,000	96,486	Eastcliff Improvements
24				
25	Executive Director for the Board of Regents	4,500	91,986	Association of Governing Boards planning meeting
26				
27	Balance as of May 31, 2011		91,986	

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

To Ex Libris USA, Inc. for an estimated \$1,336,000 to purchase, as part of an Early Adopter Program, the Alma Integrated Library System software service, for a training, migration, and implementation period of twenty-one (21) months from September 30, 2011 through June 30, 2013, followed by a three-year period of production-level operations, maintenance, and support from July 1, 2013 through June 30, 2016, for the Office of Information Technology and the University of Minnesota Libraries.

The new Ex Libris Alma library system will replace the University's multiple existing antiquated library management systems. The new library system will benefit the University in the following ways:

- *Highly preferential pricing of up to a 50% reduction of the anticipated retail price through the Early Adopter Program invitation presented to the University.*
- *Cost reduction through consolidation of three separate and duplicative library management systems into a unified system for managing print, electronic, and digital collections together.*
- *New efficiencies for library staff through redesigned and integrated workflows.*
- *Elimination of time required by University systems and database administrators to manage large, locally-installed systems, as the new system is received as a service without local infrastructure maintained.*
- *Elimination of costs for local hardware purchases and renewals, as the new system is received as a service without local infrastructure maintained.*
- *Benefits of more frequent software releases and upgrades as a characteristic of the Software-as-a-Service (SaaS) model.*

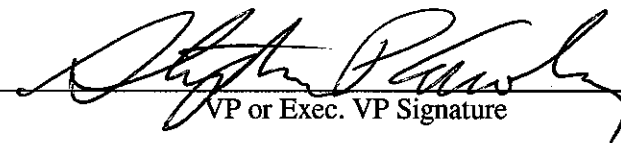
This purchase includes training, migration, implementation and full Software-as-a Service support by the vendor for a three year period of production-level service. In addition, the maintenance/support agreement provides a minimum of 99.5% availability, around-the-clock data center services, maintenance, and problem resolution including 7x24 monitoring of the system including networking, application, and database.

Ex Libris USA, Inc. has been selected as the vendor for the Alma Integrated Library System solution through an Exception to Bid process and review.

The Office of Information Technology O&M and University of Minnesota Libraries O&M resources will fund this project.

Submitted by: John T. Butler
Associate University Librarian for Information Technology
University of Minnesota Libraries
Phone: 612-624-4362
Fax: 612-626-9353

Approval for this item requested by:



VP or Exec. VP Signature

5/24/2011

Date

Rationale for Exception to Competitive Bidding

This purchase has not been competitively bid because of three central reasons determined why this service must be purchase from the proposed vendor. They are --

1. This vendor exclusively offers comprehensive support for all three library management workflows: a) print resource management, b) electronic resource management, and c) digital collection management. At present at the University of Minnesota Libraries, each one of these workflow is managed by a separate system.
2. The vendor has invited the University of Minnesota to be one of twelve institutions to enter its Early Adopter Program in North America, presenting two compelling reasons for acceptance: a) the invitation, which carries with it highly privileged pricing, estimated at up to a 50% reduction off the anticipated retail price expected in the post-2013 period and b) in its position as an early adopter, the University will be able to exert influence over the refinement and roadmapping of the system.
3. The University has this vendor as its current library management system vendor, which brings high assurance of a minimally disruptive migration event. This is of particular concern noting the Libraries' intention to move from an on-premise infrastructure model to a software-as-a-service model to reduce total cost of ownership over time.

The exclusivity of the current market for next-generation library management systems is reviewed in an April 1, 2011, article by leading library automation industry analyst Marshall Breeding at:
<http://www.libraryjournal.com/lj/home/889533-264/automation_marketplace_2011_the_new.html.csp>.

Procedures undertaken to ensure reasonableness of price included a total cost of ownership analysis of the sought service benchmarked against a cost analysis of the system that it would replace here at the University of Minnesota.

The total cost of this one-time order for three years is not to exceed \$1,335,781, including one-time implementation costs \$247,748. As such, the initial annual expense of the Alma software service subscription is \$345,132/year, with subsequent annual increases capped at no more than 5% for the remaining two years. The service contract would enable the replacement of three currently-run, locally-hosted systems each with annual maintenance expenses; and a cataloging data service (also paid for separately). The current software maintenance expense alone to the University of these separate systems totals \$282,794/year. For the initial year of the service contract, this is a difference of \$62,238/year more for Alma than the less efficient, non-integrated separate legacy systems currently in place. This higher expense, however, is far more than recouped as Alma, as Software-as-a-Service, Alma alleviates the University of data center, infrastructure, and system support expenses. The saved expenses here include hardware purchase (six servers are currently involved; two of them quite substantial and expensive); life-cycle hardware renewal, Sun Solaris and Linux system administrators, Oracle and MySQL database administrators, and change management and disaster recovery planning staff. These "data center and infrastructure" expenses far exceed the \$62K/year additional direct costs for the Alma software service. Not only do we assess the system to be less expensive to run from a total cost of ownership perspective than our costs for current systems, we expect this next generation system to bring critical new advantages of functionality and efficiencies not reflected in this brief analysis.

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



**UNIVERSITY OF MINNESOTA
BOARD OF REGENTS**

Finance and Operations Committee

June 9, 2011

Agenda Item: Information Items

review review/action action discussion

Presenters: Vice President/CFO Richard Pfutzenreuter

Purpose:

policy background/context oversight strategic positioning

Quarterly Investment Advisory Committee Update

To provide the Board of Regents with a summary of the Quarterly meeting of the Investment Advisory Committee (IAC) held May 11, 2011.

Quarterly Asset Management Report

To report on the quarterly results of investment performance in the area of asset management for the period ended March 31, 2011. 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.

Debt Management Advisory Committee Update

To provide a report on the semi-annual meeting of the Debt Management Advisory Committee (DMAC) held on June 8, 2011.

Outline of Key Points/Policy Issues:

Quarterly Investment Advisory Committee Update

Bill Rose, one of the IAC members is retiring from Okabena and moving to the east coast, so this was his last IAC meeting. Chair Frobenius read a letter of thanks from President Bruininks and presented him with a small gift as a token of appreciation.

Mr. Mason presented the investment performance summary for the March 31, 2011 ending quarter noting that all of the asset classes with the exception of private real estate had exceeded their benchmarks for the quarter and the last 12 months. With real estate providing a positive return for the quarter, the overall CEF portfolio return exceeded the custom benchmark and the 70/30 benchmark by approximately 50 basis. Liquidity constraints are improving somewhat but remain an important factor in limiting flexibility to rebalance to policy asset allocation targets. Mr. Mason highlighted that through the first four months of 2011 the budget for reduced liquidity in the portfolio was \$6.0 MM as a result of funding

capital commitment obligations, while the actual results represented a \$14.0 MM positive variance producing more than \$8.0 MM of new cash flow. In addition, OIB is in the process of selling one of the real estate partnership interests, at par, that is expected to result in an additional \$8.5 MM in cash and a modest reduction in unfunded future commitments.

The Committee then reviewed the final drafts of the proposed changes to the Endowment Fund and the Investment Transactions policies. After a lengthy discussion, they passed a resolution recommending the adoption of each of the provisions in the final drafts, which included among many issues, the delegation of the authority to engage new investment managers, and to establish the asset allocation ranges. The resolution also recommended the enhanced reporting and the clarification of the investment objectives as part of a process to improve effective oversight and the execution of the Board's fiduciary responsibilities.

Lastly, the Committee discussed the framework proposed by OIB for addressing possible changes in the asset allocation. That framework was intended to serve as the basis for analysis to be carried out before the next IAC meeting scheduled in late August.

Quarterly Asset Management Report

- The invested assets of the University totaled approximately \$2.0 billion on March 31, 2011.
- The Consolidated Endowment Fund (CEF) value as of March 31, 2011, was \$947.4 million, an increase \$38.4 million over the last quarter after distributions of \$12.1 million. The total investment return of the endowment was up 12.9% over the last 12 months compared to a benchmark return of 13.8%.
- The market value of the short term reserves (TIP) was \$794 million as of March 31, 2011. This was an increase of \$149.7 million over the last quarter. The investment return on the portfolio over the last 12 months was 1.5% compared to a benchmark return of 1.2%.
- Total outstanding debt on March 31, 2011 was \$1.1 billion. The effective interest rate on all outstanding debt obligations was 4.7%.

Debt Management Advisory Committee Update

The agenda for the meeting held on June 8, 2011, included:

- Updated Debt Capacity Projections
- Resolution Related to Issuance of Debt

Quarterly Report

March 31, 2011

UNIVERSITY OF MINNESOTA

Office of Investments & Banking

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- Highlights and Commentary
 - CEF
 - TIP
 - GIP
 - RUMINCO
 - Long-term Debt

Overview – All Funds

	Mar-11	Jun-10	Jun-09
OIB Managed Funds (\$ millions)			
Consolidated Endowment Fund (CEF) * **	\$ 947.4	\$ 861.5	\$ 827.2
Long-Term Reserves (GIP) ***	43.9	41.9	32.3
Short-Term Reserves (TIP) *** (market value)	793.7	697.6	595.7
RUMINCO Ltd.	33.4	31.2	28.3
Invested Assets Related to Indebtedness	<u>215.2</u>	<u>45.5</u>	<u>58.4</u>
Total	2,033.6	1,677.7	1,541.9

36

Other

U of M Foundation Fund

\$ 1,316.5 \$ 1,133.4 \$ 1,057.9

MN Medical Foundation Fund

239.6 189.4 181.9

Basic Faculty Retirement Plan

\$ 2,990.4 \$ 2,629.9 \$ 2,168.8

* Includes the market value of the Permanent University Funds

\$ 389.5 \$ 354.9 \$ 346.2

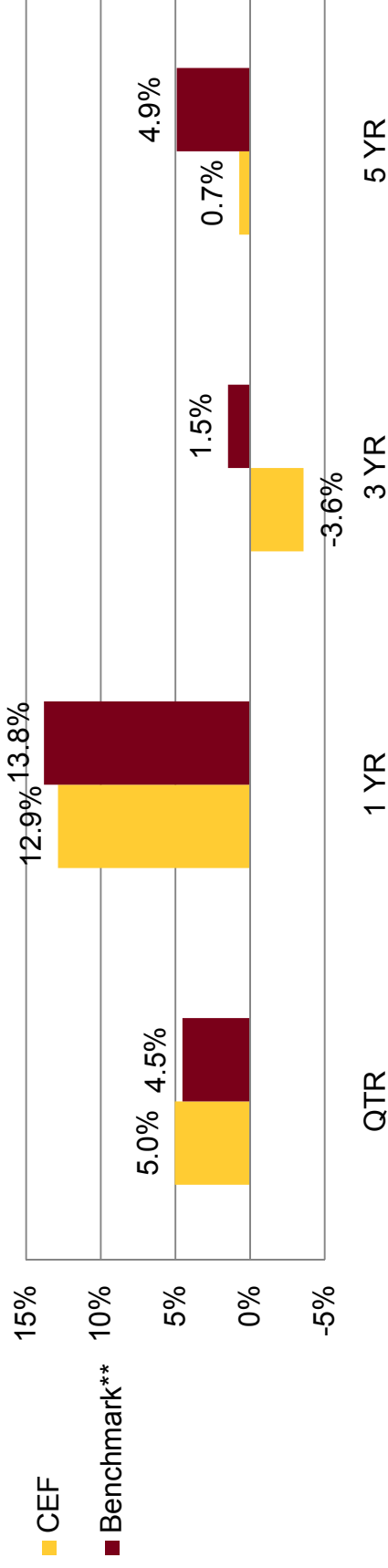
** Includes \$106.8 million TIP and \$9.9 million GIP investments (market value)

*** Balances exclude investment in CEF

CEF Analysis

Total Fund Performance* (%)

Market Value: \$947M



\$38.4 million increase over the last three months

- Three month performance driven by:
 - Strong global public & private equity performance
 - Hedge funds outperformed benchmarks
 - Real assets performance was positive but underperformed benchmark by 83bps
 - Fixed income outperformed its benchmark by 184 bps

* Net of Manager Fees

** Benchmark: CEF Custom Index – 20% Russell 3000, 20% MSCI AC World ex US (NET), 20% State Street PE 1 QTR Lag, 20% NCREIF Property One QTR Lag and 20% Barclays Capital Aggregate

*** Total CEF Market Value includes \$106.8M in TIP and \$9.9M in GIP investments (market value)

December 31, 2010

Office of Investments & Banking

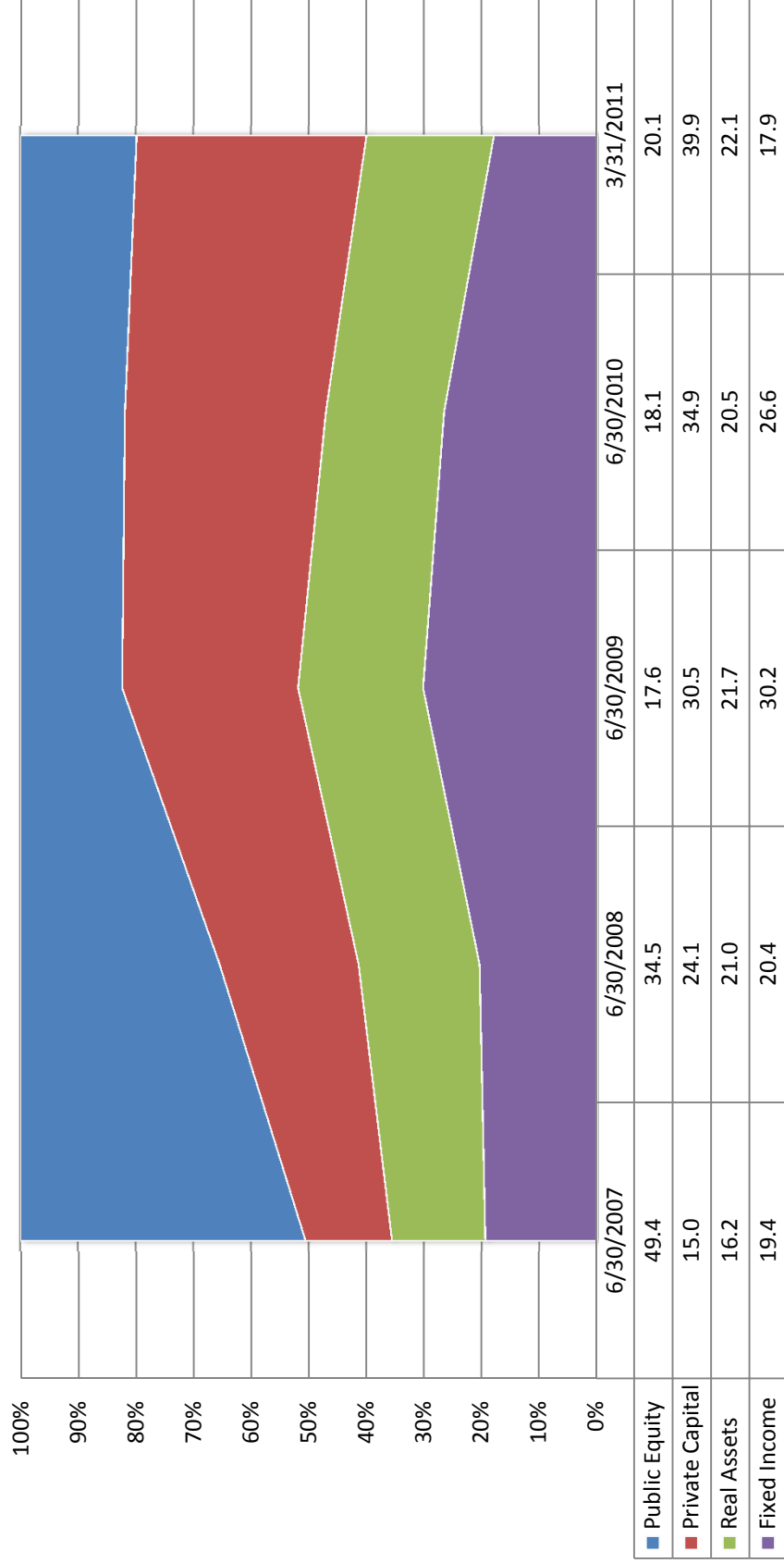
UNIVERSITY OF MINNESOTA

CEF Analysis

Asset Allocation (%)

Market Value: \$947M

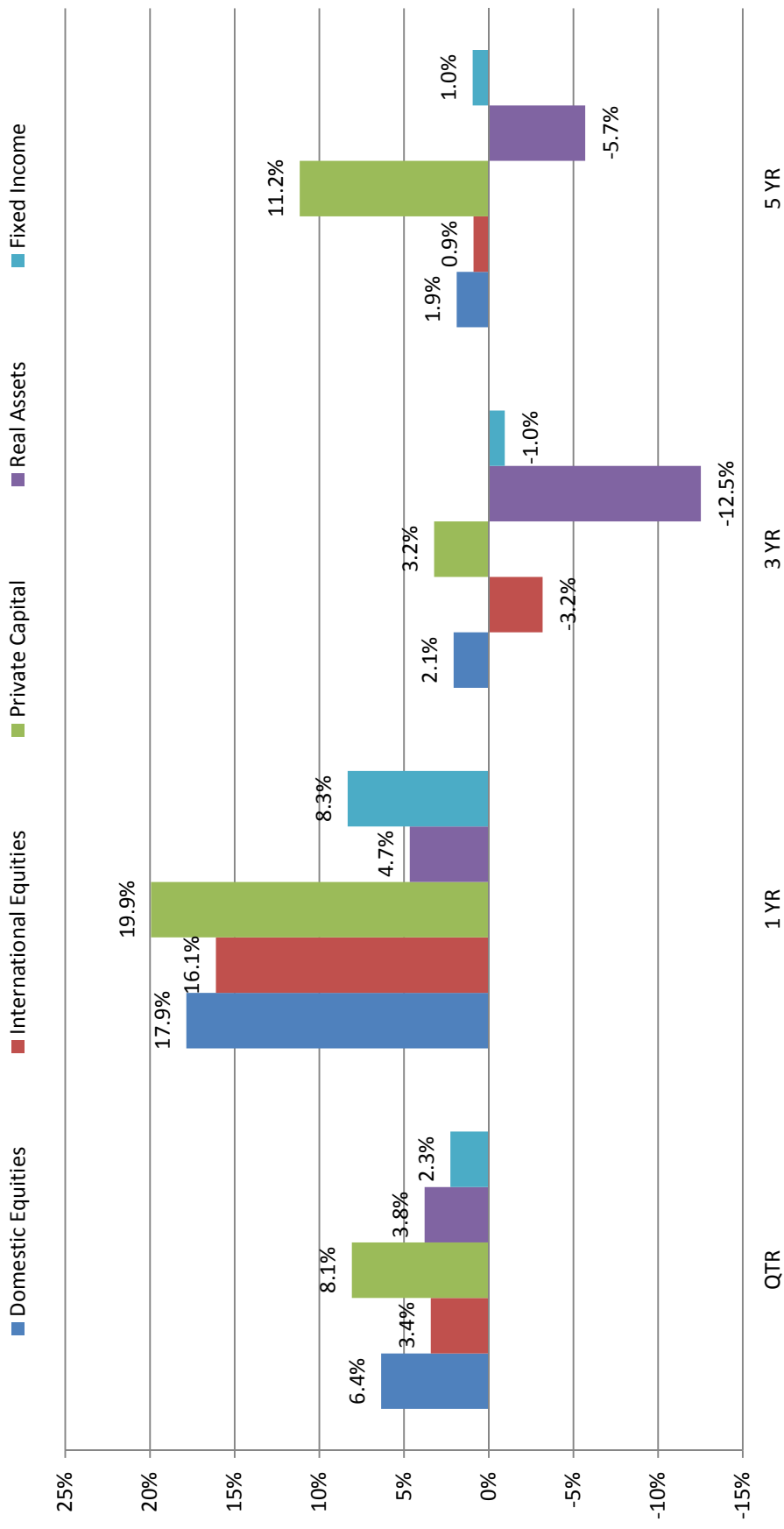
CEF Percent Allocation Over Time



CEF Analysis

Total Return by Sector* (%)

Market Value: \$947M



* Net of Manager Fees

December 31, 2010
Office of Investments & Banking

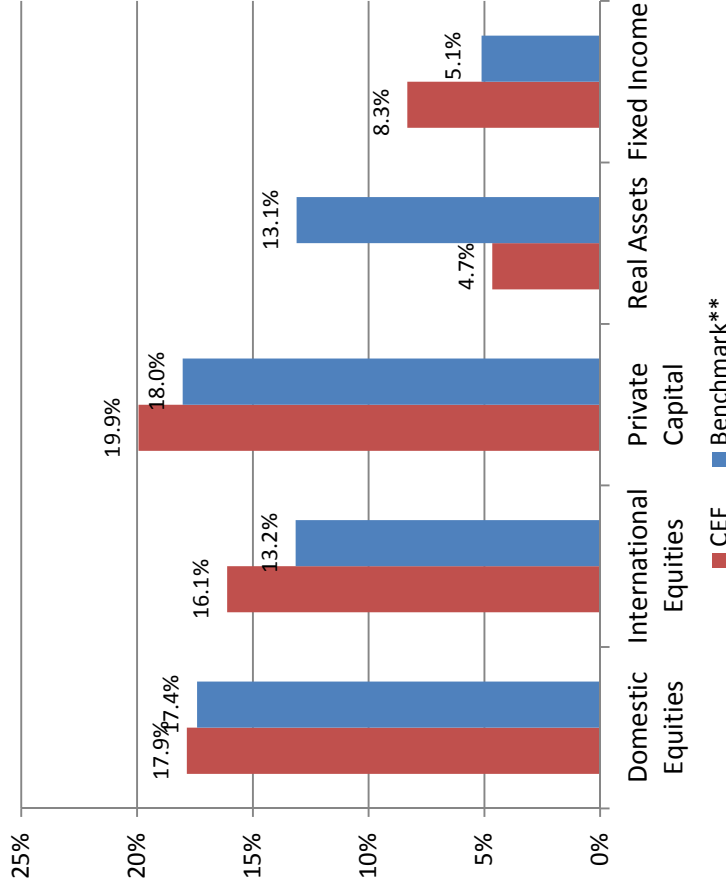
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CEF Analysis

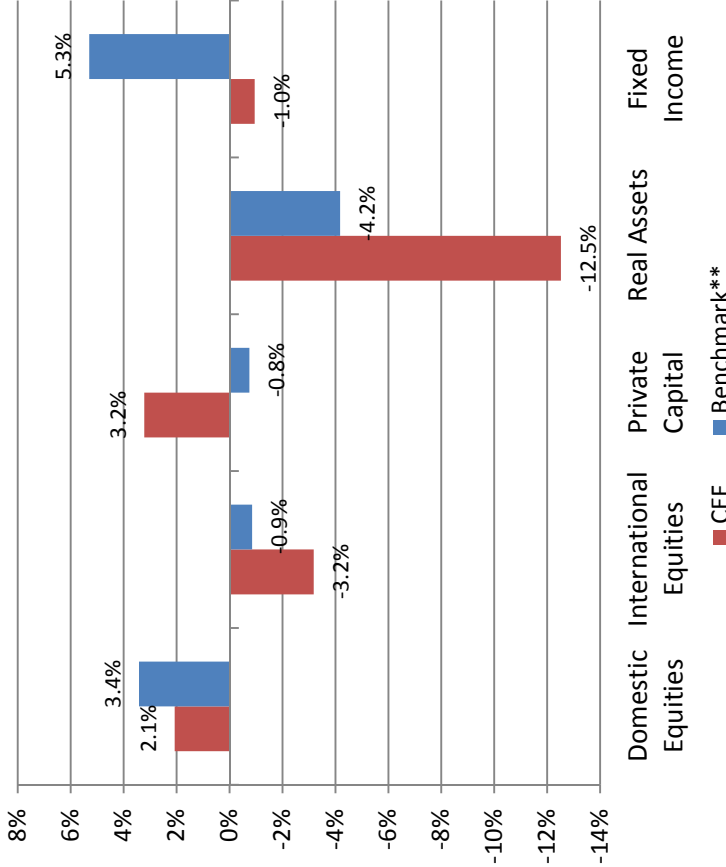
Sector vs. Benchmark Returns* (%)

Market Value: \$947M

1 Year



3 Year



* Net of Manager Fees

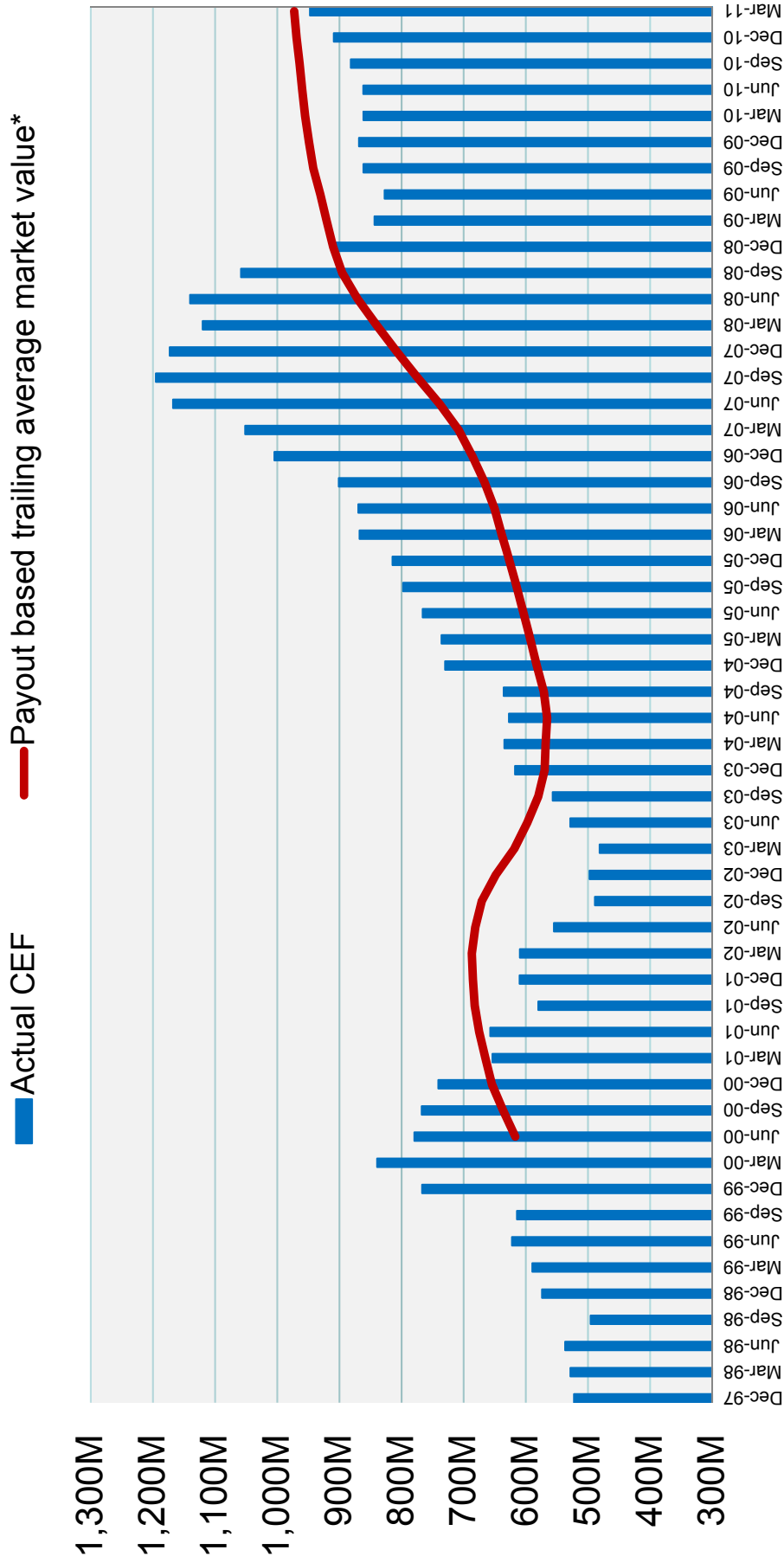
** Benchmark: Domestic Equity = Russell 3000; Int'l Equity = MSCI AC World ex US (NET); Private Capital = State Street PE 1 QTR Lag; Real Assets = NCREIF Property One QTR Lag; Fixed Income = Barclays Capital Aggregate

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CEF Analysis

Actual CEF vs. Payout Based Trailing Average Market Value



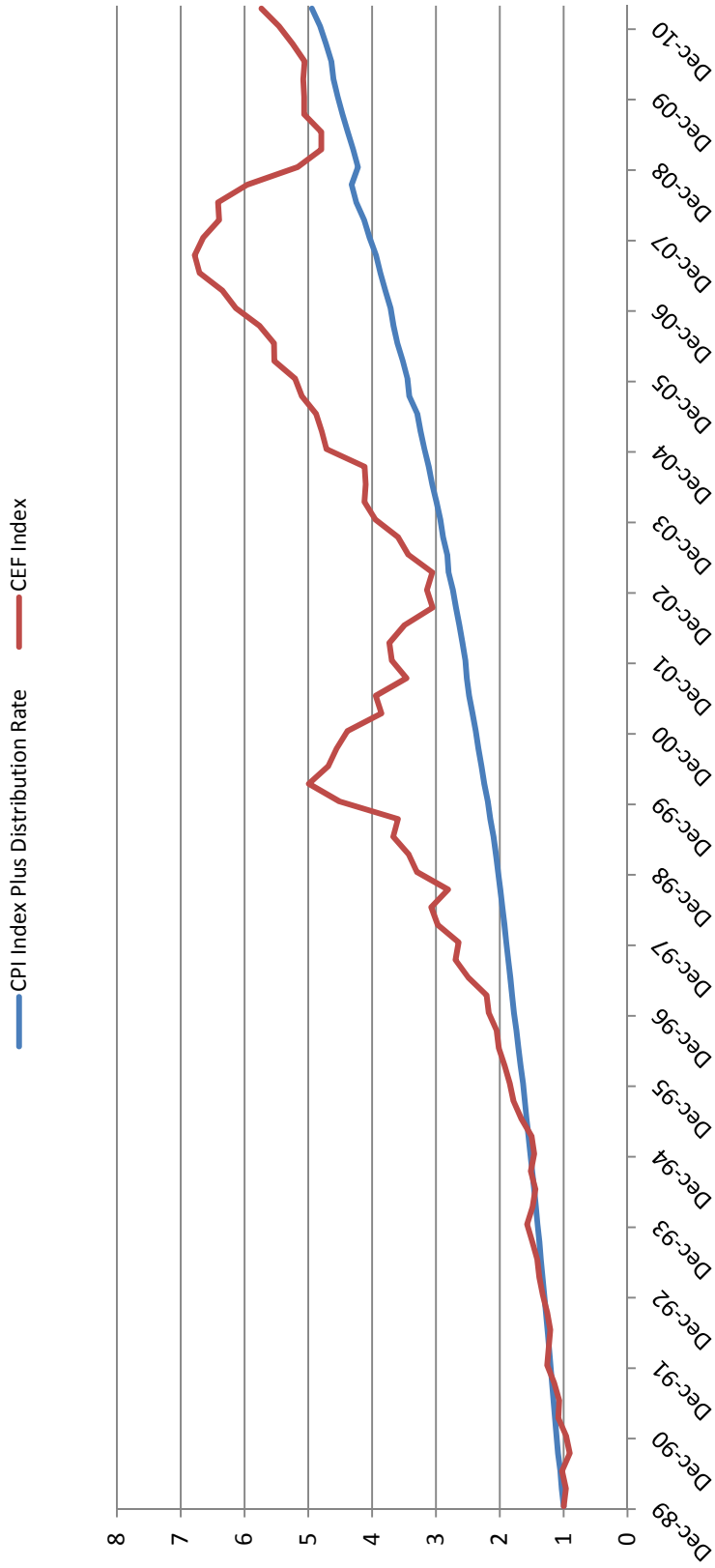
* Payout was based on a three-year trailing average before June 04, and was gradually moved to a 5-year trailing average.

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CEF Analysis

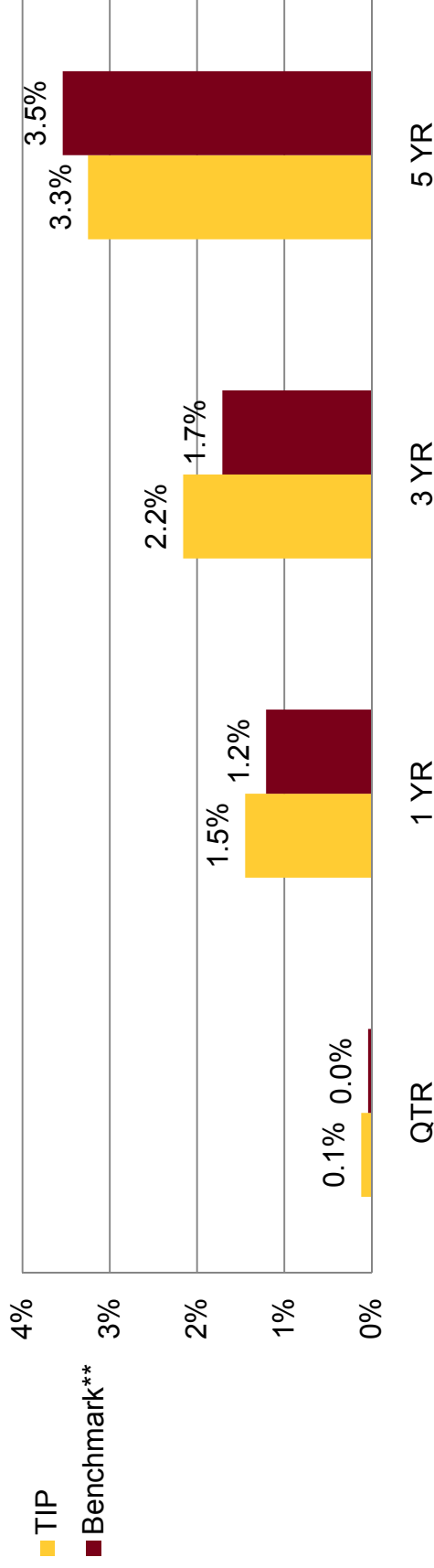
Value of \$1 dollar invested since December 31, 1989



TIP Analysis

Total Fund Performance*

Market Value: \$794M



\$149.7 million increase over the previous quarter

- Quarterly performance primarily driven by:
 - TIP was up 12bps, which was 8bps higher than the benchmark
 - Outperformance primarily due to spread tightening in the agency sector as well as the higher coupon yield in TIP relative to the benchmark

* Net of Manager Fees

** Benchmark: 70% ML Treasuries 1-3 Yr / 30% 91 Day T-Bill

*** Total TIP Market value excludes the \$106.8M investment in CEF

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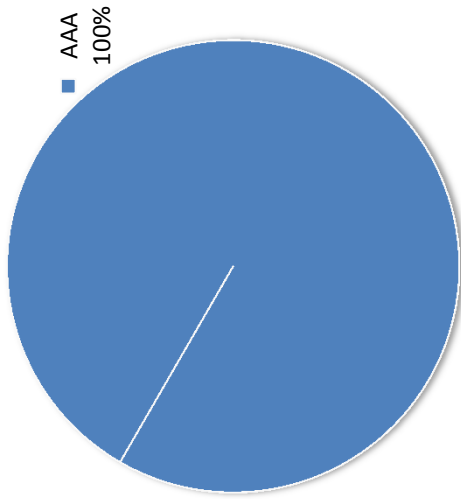
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TIP Analysis

Asset Allocation

Market Value: \$794M

Credit Quality



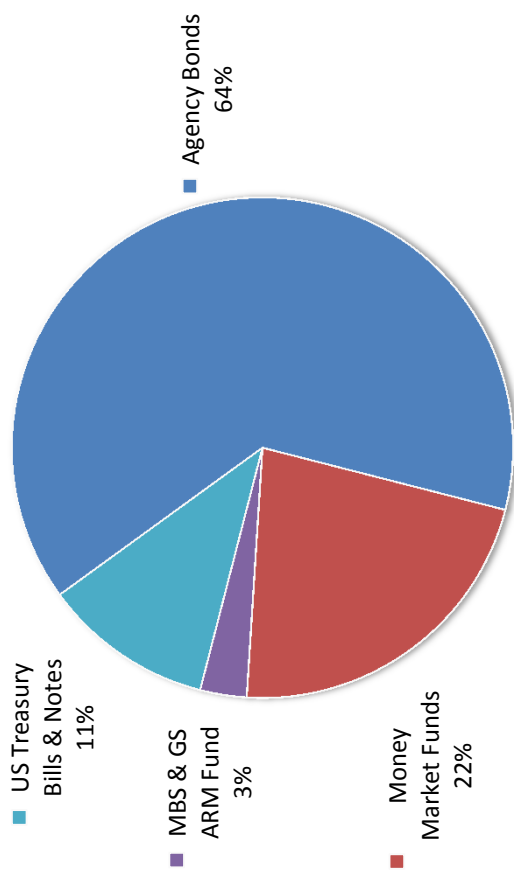
Portfolio Statistics:

Average Duration = 1.61

Average Credit Rating = AAA

Current Yield = 1.12%

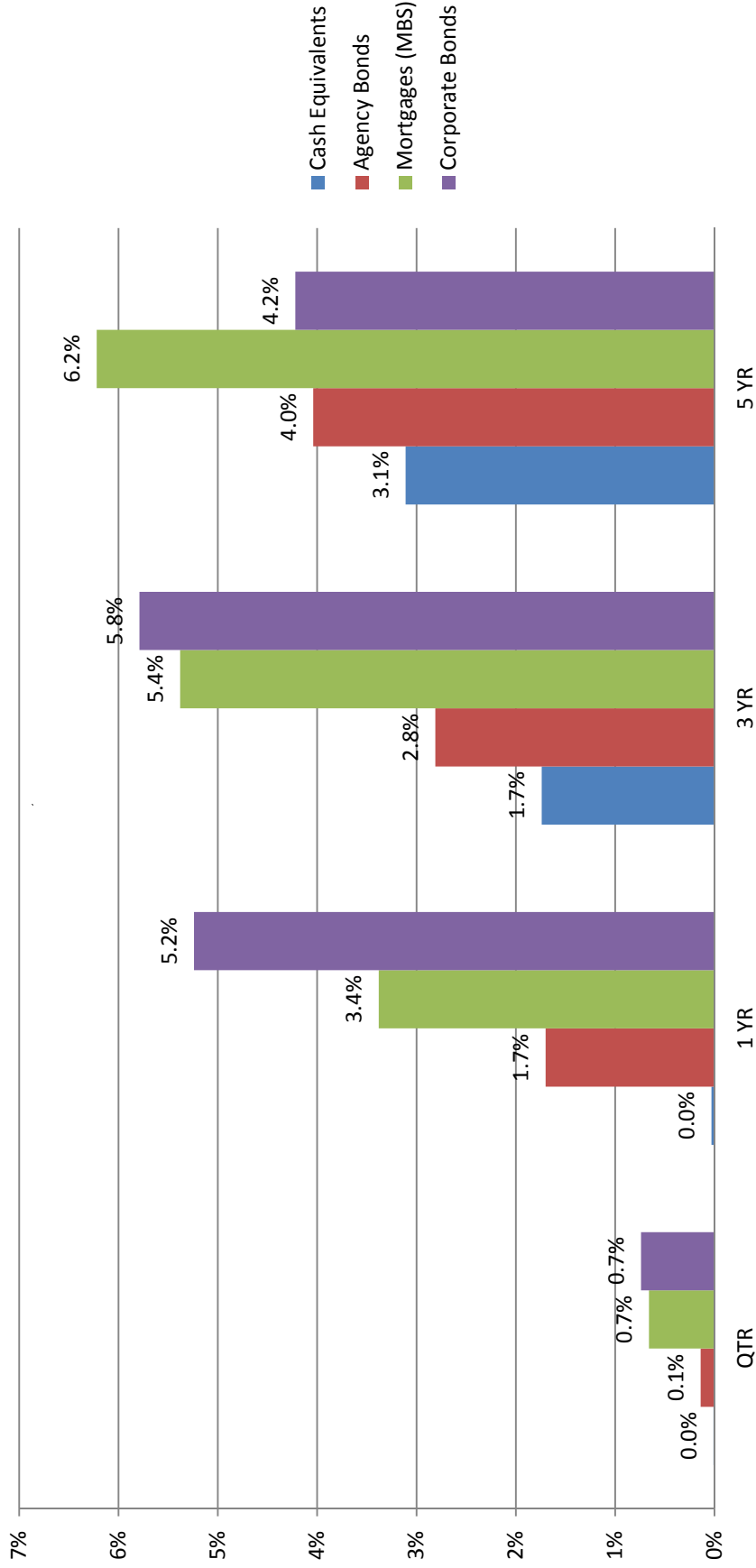
Sector Exposure



TIP Returns

Total Return by Sector*

Market Value: \$794M



* Net of Manager Fees

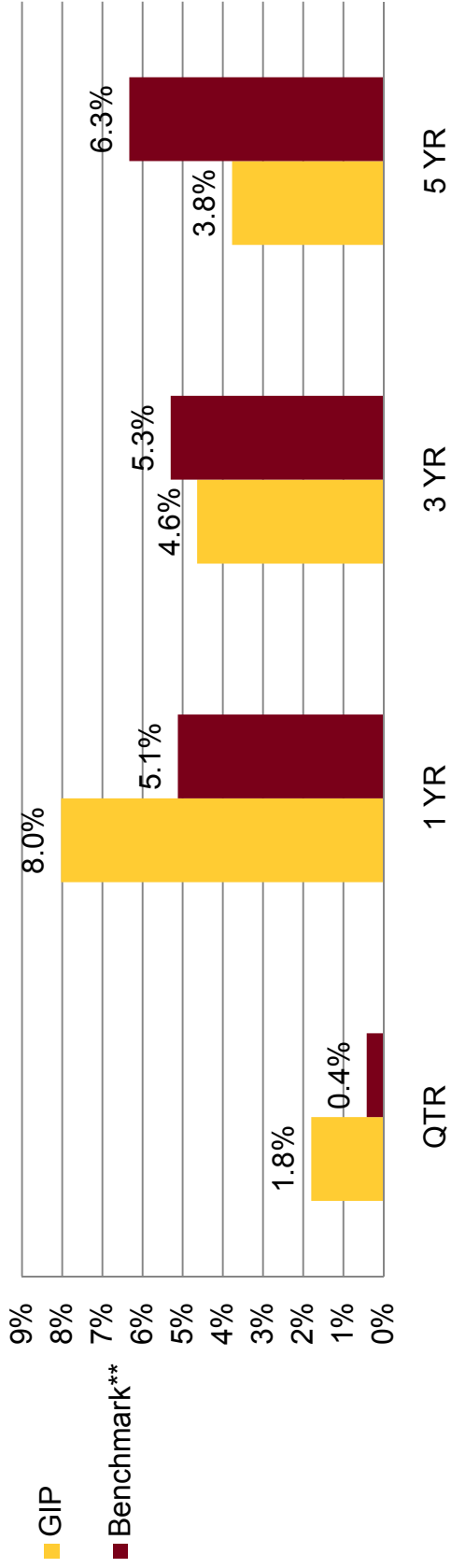
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GIP Analysis

Total Fund Performance*

Market Value: \$54M



\$0.6 million increase over the previous quarter

- Quarterly performance primarily driven by:
 - Strong outperformance relative to benchmark in all sectors except slight underperformance in absolute return

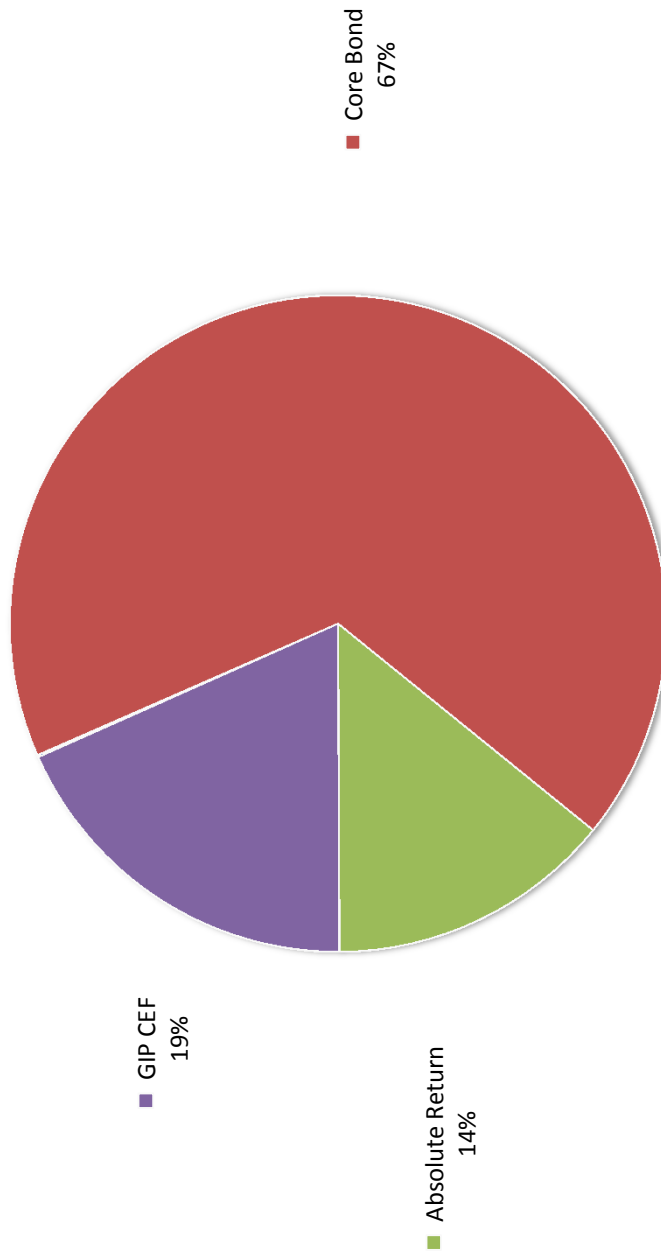
* Net of Manager Fees
 ** Benchmark: 100% Barclays Capital Aggregate
 *** Total GIP market value includes the \$9.9M investment in CEF

GIP Analysis

Asset Allocation

Market Value: \$54M

Portfolio Composition

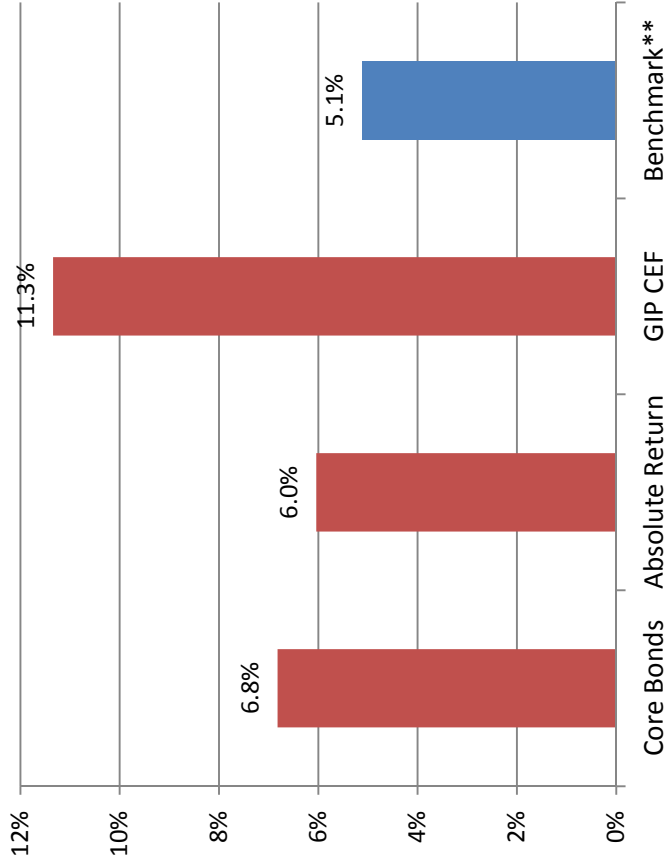


GIP Analysis

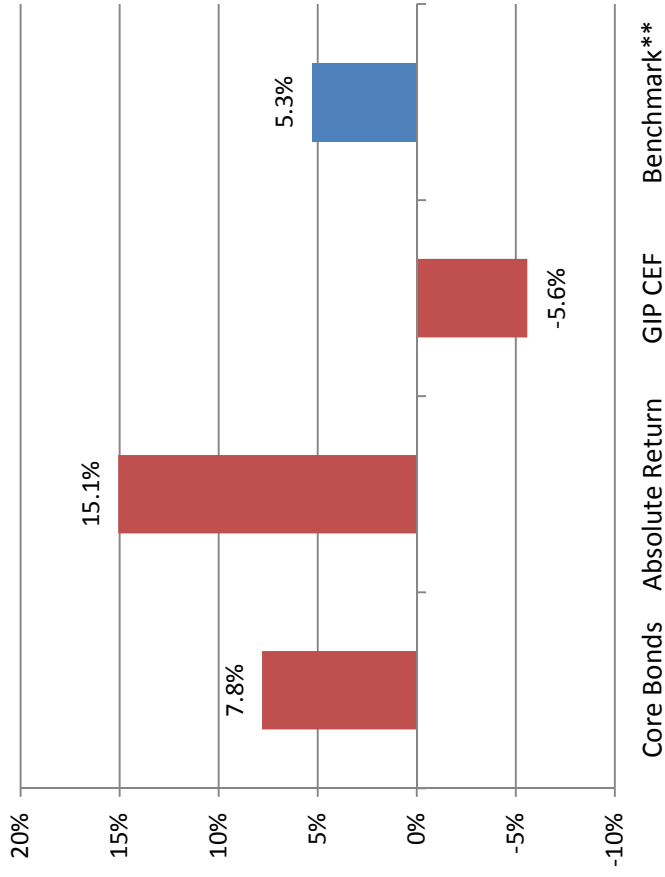
Sector vs. Benchmark Returns* (%)

Market Value: \$54M

1 Year



3 Year



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

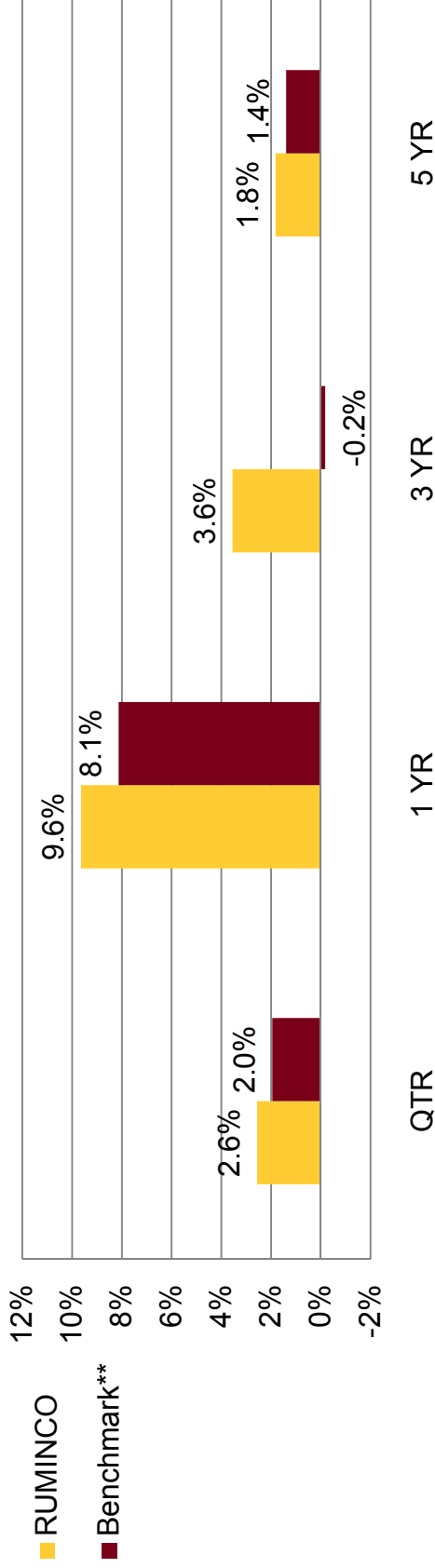
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RUMINCO Analysis

Total Fund Performance*

Market Value: \$33M



\$0.1 million increase over the previous quarter

- Quarterly performance primarily driven by:
 - Strong global equity performance
 - Positive fixed income performance

* Net of Manager Fees

** Benchmark: 40% AC World NET, 30% BC AGG, 30% ML Gov 1-3 Yrs

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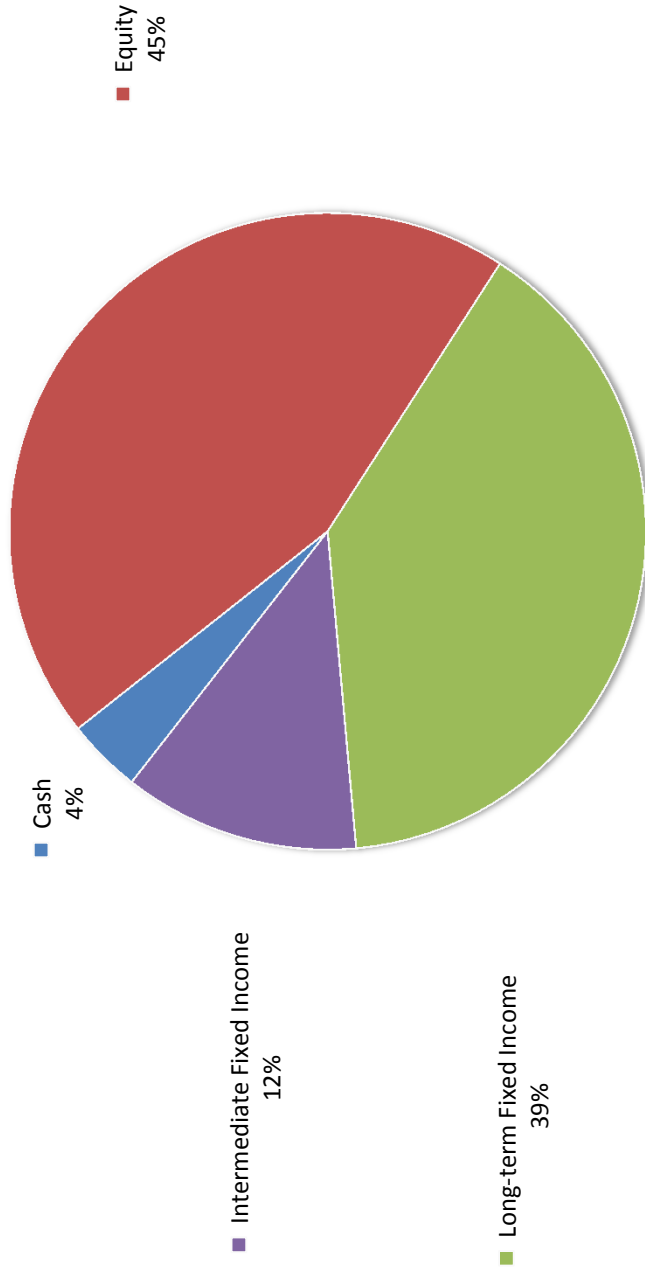
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RUMINCO Analysis

Asset Allocation

Market Value: \$333M

Portfolio Composition



* Benchmark: 40% AC World NET, 30% BC AGG, 30% ML Gov 1-3 Yrs

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Long Term Debt Analysis

Long Term Debt	Nominal Amount	Weighted Avg Rate
University Issued Fixed Rate Debt (Aux, GO, & Taxable)	665.7	4.86
University Issued Variable Rate Debt		
VRDB	0.4	0.24
CP	<u>264.6</u>	<u>0.30</u>
Total University Issued & Supported Debt	\$ 930.7	4.30%
State Issued Infrastructure Development Bonds (IDBs)	<u>37.3</u>	<u>5.06</u>
Total University Supported Debt	\$ 968.0	4.33%
University Issued, State Supported Debt (Revenue Bonds)	<u>122.8</u>	<u>3.82</u>
Total University Debt*	\$ 1,090.8	4.28%
*Weighted avg rate includes impact of net swap rates below		
Swaps		
Non-Integrated	145.0	4.70

Debt Composition with Swaps

