

**UNIVERSITY OF MINNESOTA
BOARD OF REGENTS**

**Finance & Operations Committee
November 8, 2001**

A meeting of the Finance & Operations Committee of the Board of Regents was held on Thursday, November 8, 2001, at 3:20 p.m. in the West Committee Room, 600 McNamara Alumni Center.

Regents present: Michael O'Keefe, presiding; Anthony Baraga, Frank Berman, Jean Keffeler, and H. Bryan Neel.

Staff present: Chancellor Samuel Schuman; Vice President Christine Maziar; Executive Director Ann Cieslak; Associate Vice Presidents Elizabeth Nunnally and Richard Pfitzenreuter.

Student Representatives present: Isaac Dallager and Venora Hung.

SEMI-ANNUAL INVESTMENT CONSULTANT REPORT: CAMBRIDGE ASSOCIATES

Associate Vice President Pfitzenreuter introduced Director of Asset Management Sheila Warness and George Pendergast from Cambridge Associates, Inc., to present the Investment Consultant Report, as found in the materials on file in the Board Office.

Pendergast provided background information regarding Cambridge Associates, Inc., and explained its role as investment consultant to the University.

Pendergast reported that the performance of the University's endowment fund lagged behind those of peer institutions in FY 2001, but that it remains in the top quartile when compared to its peers over longer-term five-year and ten-year periods. He explained that the University's comparative under-performance is due to its greater allocation to both domestic and non-U.S. equities and to its smaller allocation to fixed income assets. The University is less diversified across alternative asset classes than many top-performing institutions, but has increased its diversification in response to the November 10, 2000 revision of the Board of Regents Policy: *Endowment Fund*. The impact of this diversification was minimal during FY2001 because it occurred in the last quarter of the fiscal year, but it should become more apparent in FY2002.

The committee discussed the previous year's report and changes in asset allocation as a result of the revisions to the Board of Regents Policy: *Endowment Fund*.

Pendergast indicated his comfort with the University's current asset allocation plan. Specifically, he recommended that the University continue to gradually adjust its investments within the allocation target ranges by reducing its investment in non-U.S. equities and increasing its investment in fixed income and/or alternative asset classes.

Pendergast stressed the importance of maintaining a long-term investment strategy despite short-term market volatility, cautioning that an investment portfolio that is too conservative would not be able to keep up with inflation and would deplete the endowment fund. Even though the University's portfolio is slightly more aggressive and has more short-term volatility than many of its peer institutions, it should outperform many of these peers in the long term, as it has in the past.

CONSENT REPORT

Review/Action

Associate Vice President Pfitzenreuter presented the Consent Report as found in the docket materials, which included:

Purchases of goods and services over \$250,000:

- \$649,819 to Applied Biosystems for two ESI quadrupole time of flight mass spectrometers for the Department of Biochemistry, Molecular Biology and Biophysics. Vendor selected through competitive process.

- Up to \$730,000 to Buck Consultants for consulting services for the Office of Human Resources, Employee Benefits, for the period of November 1, 2001 through January 30, 2003. Consultants to assist in establishing remaining benefits programs and in data analysis and management for UPlan benefits programs. Vendor originally selected through competitive process in 1999 to assist in development of UPlan; vendor chosen to continue due to extensive knowledge of project.

- An estimated \$1,144,000 to State of Minnesota Department of Administration for network connections between the Twin Cities, Crookston, Duluth, Morris, and Rochester campuses for the period February 2002 through January 2005. Vendor selected through competitive process.

Pfitzenreuter presented the following resolution for review and action approving a \$300,000 no-interest five-year loan agreement between the University and the State of Minnesota's Iron Range Resources and Rehabilitation Board. This loan would complete funding for an iron ore metallization research project grant awarded by the Economic Development Association to the University's Natural Resources Research Institute in Duluth.

RESOLUTION RELATED TO LOAN AGREEMENT

WHEREAS, it has been proposed that the Board of Regents of the University of Minnesota and the state of Minnesota ("State"), a sovereign entity acting by and through its Office of the Commissioner of Iron Range Resources and Rehabilitation Board proceed with a loan agreement (herein called "Loan Agreement"), the proceeds of which will be used for the procurement, installation, and commissioning of laboratory and pilot scale direct reduction and smelting equipment for the iron ore metallization research project ("Project");

WHEREAS, the University has made application to the State for financial assistance ("Loan") of up to three hundred thousand dollars (\$300,000) for the purpose of providing the University with funds which, in combination with other Project funds, will be used to reimburse costs incurred by it to undertake the Project;

WHEREAS, the obligation to repay the Loan shall be evidenced by a promissory note ("Note") in the principal amount of three hundred thousand dollars (\$300,000), payable in five (5) annual payments of sixty thousand dollars (\$60,000) each, commencing on June 1, 2002 and ending on June 1, 2006, and to be executed, dated as of the closing date of the Loan Agreement, with interest on the outstanding principal balance of such loan to be at the rate of zero percent (0%) per annum, from the date loan proceeds are advanced until the payment due date, June 1, 2006;

WHEREAS, the Project is located within the Taconite Tax Relief Area ("TTRA") as defined in Minnesota

Statutes, Section 273.134;

WHEREAS, the Commissioner of Iron Range Resources and Rehabilitation ("Commissioner") has determined that the Project is needed to relieve distress and unemployment caused by the removal or limited use of natural resources and will be for a purpose authorized in Minnesota Statutes, Section 298.22;

WHEREAS, at the July 31, 2000 meeting of the IRRRB, the Commissioner and the IRRRB, each acting on behalf of the State of Minnesota, approved the University's financial assistance application in accordance with the requirements of Minnesota Statutes, Section 298.22, conditioned upon the receipt of certain documents and the fulfillment of certain conditions;

WHEREAS, the administration believes the University's execution and delivery of the Loan Agreement along with the Note and certain other related agreements and instruments (collectively, "Loan Documents") is in the best interests of the University and recommends the Board of Regents approve the Project and the Loan and authorize, empower, and direct the appropriate University officials to execute and deliver the Loan Documents;

NOW, THEREFORE, BE IT RESOLVED, that the Board of Regents of the University of Minnesota:

1. Approves the Project, the Loan, and the Loan Documents, including the Loan Agreement and the Note, all subject to the terms and conditions detailed therein;
2. Authorizes, empowers, and directs the Treasurer to execute and deliver on behalf of the University the Loan Documents in such form and containing such terms as are acceptable to the Treasurer and the General Counsel;
3. Authorizes, empowers, and directs the Treasurer to execute and deliver all other documents and certificates and take such action as may be necessary or appropriate in connection with the consummation of the Loan and the execution and delivery of the Loan Documents;
4. Declares that all certified copies, certificates, and affidavits provided by the Secretary and the Treasurer, including any heretofore furnished, shall constitute representations of the University as to the truth of all statements contained therein; and
5. Declares that 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.

A motion was made, seconded, and the committee voted unanimously to recommend approval of the Consent Report, including the purchases of goods and services.

INFORMATION ITEMS

Associate Vice President Pfitzenreuter presented information regarding new commitments to alternative investment programs and the Semi-Annual Budget Update, as found in the docket materials.

Pfitzenreuter reported that the new \$5 million alternative investment in AIG Private Equity Portfolio II would help the University reach its target asset allocation for alternative investments. The goal of the investment is to earn returns substantially above those available on publicly-traded stocks.

Pfitzenreuter summarized the semi-annual budget status report for all academic and support units, noting that the report only covered first-quarter figures. The second report will be presented closer to the end of the fiscal year. Pfitzenreuter pointed out that the budget for Campus Health & Safety might change due to additional costs for heightened security system-wide.

AMENDMENT OF BONDING RESOLUTION
Review/Action

Vice President Pfitzenreuter presented a resolution to further amend the bonding resolution adopted December 11, 1998, as found on file in the Board Office.

Regent O'Keefe requested that the committee turn its attention back to the proposed resolution distributed at the beginning of the meeting. He commented that the item was added to the committee's agenda to allow the administration to refinance bonds and take advantage of recently-lowered interest rates.

Pfitzenreuter explained that the new amendment would revise Section 1 of the original bonding resolution adopted December 11, 1998 and its amending resolution adopted February 9, 2001. The new amendment would allow issuance of bonds in an amount up to \$71 million more than previously authorized in order to refinance 1993A bonds due in August 2003. Pfitzenreuter added that he expects the term of the loan to be 20 years. The resolution does not increase the total amount of University debt.

A motion was made, seconded, and unanimously approved to recommend adoption of the Resolution Further Amending December 11, 1998 Bonding Resolution.

The meeting adjourned at 4:30 p.m.

ANN D. CIESLAK
Executive Director and
Corporate Secretary

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Last modified on September 7, 2005