UNIVERSITY OF MINNESOTA
BOARD OF REGENTS
Finance Committee
Thursday, December 12, 2013
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
Jesse Jennings
John Reichl

AGENDA

1. Resolution Related to Issuance of Debt - Review/Action - R. Pfutzenreuter/C. Fleck (pp. 2-5)


3. Lease Agreements & Guaranty for Ambulatory Care Center, Twin Cities Campus - Review/Action - R. Pfutzenreuter (pp. 12-20)


5. Challenges Facing Higher Education: Moody’s Report - R. Pfutzenreuter/S. Fitzgerald (pp. 22-23)


7. Information Items - R. Pfutzenreuter (pp. 32-65)
Finance Committee

December 12, 2013

Agenda Item: Resolution Related to Issuance of Debt

☐ 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 is undertaking a project that consists of remodeling the Old Main Plant building to house combined heat and power generating equipment that can produce steam capacity of 250,000 pounds per hour. The project also includes space planning for a future 250,000 pounds per hour capacity steam boiler and a future 5,000 ton chilled water plant.

Total cost of the project is approximately $96,000,000, with $10,000,000 provided by the 2012 Legislative Appropriation and approximately $3,000,000 provided by Facilities Management R&R funding.

The University is requesting approval of the attached financing resolution authorizing the issuance and sale of bonds or commercial paper up to an aggregate principal amount of $83,000,000 to finance the Combined Heat & Power Plant.

Background Information:

Due to the construction of new University buildings requiring steam service and aging boiler equipment on the Twin Cities Minneapolis campus, the University is at risk for a shortage of firm boiler capacity relative to winter-time peak steam demand beginning in 2014.

Funding in the amount of $18,000,000 for the Combined Heat & Power Plant project was included in the FY 2013 Capital Budget approved by the Board of Regents in June 2012.

The balance of the project funding in the amount of $77,881,000 was approved as a Capital Budget Amendment in February 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, commercial paper or such other form of indebtedness as may be designated by the University, the “Debt”), 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 Debt;

WHEREAS, the Debt 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 Debt will be issued will contain the terms of such Debt and agreements and covenants of the University with respect to the payment of the principal of, premium, if any, and interest on such Debt;

WHEREAS, the principal amount of the Debt authorized will be the amount of the Debt 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 (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 Debt in the principal amount of up to $83,000,000. The Debt may be issued in one or more series and shall mature (or if commercial paper, shall have an amortization schedule terminating) not later than the date that is 25 years after the date of issuance of each series. The Treasurer is authorized to determine whether or not the Debt shall be issued as general obligations of the University and whether or not the Debt shall be tax-exempt under Section 103 of the Internal Revenue Code of 1986, as amended.
2. The purchases of land and buildings, construction and remodeling projects, or acquisition of equipment to be financed by the proceeds of the Debt shall be those the source of funding of which is so designated by the Board of Regents or by the Treasurer as part of the University’s capital planning process.

3. The Debt 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 Debt 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 Debt 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 Debt. 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 Debt, 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 Debt is 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 Debt 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 documents evidencing the Debt 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 Debt 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 Debt, 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 Debt in a competitive process, the Treasurer is authorized to approve the Notice of Sale and any amendment 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 Debt.

8. The Secretary and other officials of the University are authorized and directed to prepare and furnish to any purchasers of the Debt 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 Debt 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.

9. 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 Debt may be executed by the Chair or Vice Chair instead of the President and by the Secretary instead of the Treasurer.
Finance Committee

December 12, 2013

Agenda Item: Resolution Related to Real Estate Partnership

☐ review ☒ review/action ☐ action ☐ discussion

Presenters: Vice President/CFO Richard Pfutzenreuter
Susan Carlson Weinberg, Director of Real Estate
Greg Brown, Associate General Counsel

Purpose:

☐ policy ☐ background/context ☒ oversight ☐ strategic positioning

To review and approve a public-private joint venture with United Properties Investment, LLC for acquisition of the property at 2407-2425 University Avenue SE, Minneapolis, and future redevelopment of the property, in accordance with Board of Regents Policy: Reservation and Delegation of Authority.

Outline of Key Points/Policy Issues:

Joint Venture

The University will invest $1.96 million in a newly created, Minneapolis-based limited liability company with two partners: United Properties Investment, LLC as the majority partner with 51% interest, and the University of Minnesota as the minority partner with 49% interest. The source of funding for the University's $1.96 million investment is the Real Estate Acquisition Account for the Twin Cities campus.

The joint venture will purchase the property at 2407-2425 University Avenue SE, Minneapolis, which lies immediately adjacent to the Twin Cities campus. The property includes the 130-room, 54,424-square foot Days Inn Hotel constructed in 1982; a 5,352-square foot Tea House Restaurant constructed in 1992; and 170 surface parking spaces (see attached picture). The joint venture will operate the hotel as a Days Inn with the services of a hotel management company, and assume the landlord’s obligations under the existing lease for the restaurant.

The purchase is expected to be completed on or before January 8, 2014. The purchase price is $12 million, allocated as follows: $10 million, Days Inn Hotel Real Estate; $1 million, Days Inn Hotel Personal Property; and $1 million, Tea House Restaurant Property.

The joint venture partners anticipate redeveloping the property at some time in the future, perhaps in 5 years. The redevelopment plan may include the two University parcels to the north and west of the hotel and restaurant property (see attached graphic). The redevelopment site would then be bounded by the Central Corridor LRT (Green Line) on the west and north, 25th Avenue SE on the east, and University Avenue SE on the south. The
University will, however, reserve the right to develop by itself, rather than through the joint venture, its two adjacent parcels currently used for surface parking. Given its location, the property is both valuable and important for the University to ensure its future redevelopment serves the University’s needs and mission.

United Properties Investment LLC (“United Properties”) is owned by a number of Pohlad family trusts and individuals. United Properties has common ownership with Cushman Wakefield/NorthMarq, NorthMarq Capital, and RJR Construction. The University and United Properties will be the sole members (shareholders) of the joint venture. No other entity may join the joint venture unless the University consents.

The University will participate in the management and governance of the joint venture. The President will appoint two of five joint venture governors (directors). The University also will have the right to veto certain key actions by the joint venture, such as issuing or incurring debt, entering into or amending the terms of a material agreement (hotel management agreement, franchise agreement, etc.), changing the terms of its corporate organizational documents, and redeveloping the property.

**Mortgage Loan**

The University will agree to lend the joint venture $8.75 million for a 15-year term at an interest rate of 4.75% per annum. For the first five years, only interest will be required to be paid under the Promissory Note to be issued in favor of the University. Thereafter, interest and principal must be paid each month, with the principal balance amortized over a 20-year period. This repayment schedule will result in a modest balloon payment being due at the end of the note.

The Promissory Note will be secured by the land and buildings to be purchased, together with the personal property, fixtures and equipment of the hotel, and by an assignment in favor of the University of the leases, rents, contracts, licenses and permits related to the joint venture’s ownership and operation of the hotel and lease of the restaurant.

**Future Redevelopment**

The University and United Properties expect the joint venture will redevelop the land to be purchased. Because of the uncertainties regarding the redevelopment, the joint venture members will agree on a process under which either may sell its interest in the joint venture, first offering to sell to the other member at an established price and then, if the offer is refused, on the open market, with the other member having the right to approve the replacement member.

The University has negotiated certain assurances that give it additional control over redevelopment plans. If they cannot agree on a schedule or terms of the redevelopment, the University and United Properties will agree to cause the joint venture to sell the property. The University will be given the right of first refusal to match any offer to purchase the property that the joint venture intends to accept. Consequently, if it is not comfortable with when, who, and under what conditions the land will be redeveloped, the University may purchase the property.

**Background Information:**

The Board of Regents policy: *Reservation and Delegation of Authority* states that “The Board reserves to itself authority to approve any commercial transaction or matter not otherwise subject to Board approval if the transaction or matter (a) raises unusual questions of public interest or public policy; (b) has significant impact on the University’s mission; or (c) has a value greater than $2 million.”

The Days Inn Hotel and Tea House Restaurant property was offered for sale this past summer. The University attempted to purchase the property, but United Properties Investment, LLC submitted the successful bid.

**President’s Recommendation for Action:**

The President recommends that the Board of Regents approve the attached Resolution.
This map is intended to be used for planning purposes only and should not be relied upon where a survey is required.

Base Data: Real Estate Office MNDNR, MNDOT

11/7/2013
REGENTS OF THE UNIVERSITY OF MINNESOTA

RESOLUTION RELATED TO

UNIVERSITY PARTICIPATION IN AND FINANCING OF THE ACQUISITION, OPERATION AND REDEVELOPMENT OF A COMMERCIAL SITE IN MINNEAPOLIS, MINNESOTA

WHEREAS, a 130-room, 54,424-square foot Days Inn Hotel and a 5,352-square foot Tea House Restaurant are operating at 2407-2425 University Avenue SE, Minneapolis (along with a related 170 space surface parking lot, collectively the “Property”), immediately adjacent to the Twin Cities Campus; and

WHEREAS, the University and United Properties Investments LLC (“United Properties”) propose to create a Minnesota-organized and -based limited liability company (the “Joint Venture Entity”), as a public-private partnership, to purchase and operate the existing Hotel and redevelop the Property (the “Project”) in the future; and

WHEREAS, as part of the Project, the University will invest $1.96 million in the Joint Venture Entity, acquiring in consideration approximately 49% of its total equity, and United Properties will invest $2.04 million, acquiring a majority of the total equity; and

WHEREAS, also as part of the Project, the University will lend the Joint Venture Entity $8.75 million under a Secured Promissory Note that will bear interest of 4.75% fixed and will be repaid in 180 monthly installments, with the first 60 installments paying only interest and the remaining installments paying principal and interest computed with a 20-year amortization with a modest balloon payment at the end of the Note term; and

WHEREAS, as security for the debt, the Joint Venture Entity will grant the University a mortgage on its interest in the Property and its assignment of certain agreements and financial rights; and

WHEREAS, the President and the Vice President and Chief Financial Officer have reviewed and recommend the Board approve the Project.

NOW, THEREFORE, BE IT RESOLVED that on the recommendations of the President and the Vice President and Chief Financial Officer, the Project is hereby approved.
BE IT FURTHER RESOLVED that the President and his designee are hereby authorized, empowered and directed to execute, deliver and enter into, on behalf of the University, all agreements, instruments and other documents necessary or desirable to carry out the Project.
Finance Committee  
December 12, 2013

**Agenda Item:** Lease Agreements & Guaranty for Ambulatory Care Center, Twin Cities Campus

☐ review  ☒ review/action  ☐ action  ☐ discussion

**Presenters:**  
Vice President/CFO Richard Pfutzenreuter  
Vice President Aaron Friedman  
Susan Carlson Weinberg, Director, Real Estate

**Purpose:**

☐ policy  ☐ background/context  ☒ oversight  ☐ strategic positioning

In accordance with Board of Regents Policy: *Reservation and Delegation of Authority*, review the following transaction:

A. Lease Agreements, Guaranties and Master Agreement for Ambulatory Care Center (Twin Cities Campus)

**Outline of Key Points/Policy Issues:**

The University will execute two 30-year leases and a parking facility agreement with two tenants: Fairview Health Services (Fairview) and a new 501(c)(3) entity (Newco) to be created by University of Minnesota Physicians (UMPhysicians) and Fairview, that would collectively cover all building space in the Ambulatory Care Center (ACC) to be constructed by the University on Block 12, Baker’s Addition (bounded by Ontario, Essex, Erie and Fulton Streets SE, Minneapolis), and up to 100 reserved parking spaces in Lot C73, a surface parking lot to be constructed on the University-owned portion (approximately southerly two-thirds) of Block 11, Baker’s Addition (immediately west of Block 12), and up to 400 reserved parking spaces in the Oak Street Parking Ramp.

The two tenants will pay rent on the leases that reflects the cost of debt service for the construction of the ACC, approximately 330,600 gross square feet or 247,000 assignable square feet, as well as all building operating, maintenance and capital costs. The rent to be paid on the parking facility agreement will reflect the monthly parking contract fee per space paid by faculty and staff.

UMPhysicians and Fairview will execute the guaranties to guarantee payment of the debt to be issued by the University for the ACC project.

The Master Agreement among UMPhysicians, Fairview, and the University will establish the overall framework for the management and operations of the ACC, including goals for the ACC, academic commitments, branding, business model and term.
Additional details of this transaction and its financial impact are described in the transaction information pages immediately following this page.

**Background Information:**

Board of Regents Policy: *Reservation and Delegation of Authority* states that “The Board reserves to itself authority to approve leases of real property, easements, and other interests in real property if the initial term amount to be paid by or to the University exceeds $1,250,000, consistent with Board policies” and “the legal structure and scope of any relationship between the University and any associated organization, non-profit corporation, foundation, institute, or similar entity that substantially relies upon University resources or personnel to carry out its mission.”

**President’s Recommendation for Action:**

The President recommends approval of the following transaction:

A. Lease Agreements, Guaranties and Master Agreement for Ambulatory Care Center (Twin Cities Campus)
LEASE AGREEMENTS, GUARANTIES, AND MASTER AGREEMENT
FOR AMBULATORY CARE CENTER
(TWIN CITIES CAMPUS)

1. Recommended Action

**Facilities and Operations Committee**: The President recommends that the appropriate administrative officers receive authorization to execute two thirty-year leases and a parking facility agreement with one six-year renewal option followed by two successive five-year renewal options, with Fairview Health Services (Fairview) and a new 501(c)(3) entity (Newco) that will be created by University of Minnesota Physicians (UMPhysicians) and Fairview, which collectively cover the entire Ambulatory Care Center (ACC) to be constructed by the University on Block 12, Baker’s Addition (block bounded by Essex, Ontario, Fulton and Oak Streets SE, Minneapolis); and up to 100 reserved parking spaces in Lot C73 to be constructed by the University on the block west of Block 12 and up to 400 reserved parking spaces in the Oak Street Parking Ramp.

**Finance Committee**: The President recommends that the appropriate administrative officers receive authorization to execute (i) the ACC Master Agreement, which establishes the framework for the management and operation of the ACC, as described below, and (ii) two corporate guaranties from Fairview and UMPhysicians, also described below, the delivery of which is a condition to the issuance by the University of debt to finance the construction of the ACC.

2. Description of Leased Premises

The lease to Fairview will provide for exclusive use of the hospital-based clinic spaces in the Ambulatory Care Center building, the number of square feet yet to be determined, together with shared use of all non-clinic spaces in the building and the exterior grounds in Block 12, the block bounded by Ontario, Essex, Erie and Fulton Streets SE, Minneapolis.

The lease to Newco will provide for exclusive use of all other clinic spaces in the Ambulatory Care Building Center building, the number of square feet yet to be determined, together with shared use of all non-clinic spaces in the building and the exterior grounds in Block 12, the block bounded by Ontario, Essex, Erie and Fulton Streets SE, Minneapolis.

The two leases together will cover the entire Ambulatory Care Center building, a total of approximately 330,600 gross square feet, or 247,000 assignable square feet.

The parking facility agreement will provide for the use of up to 100 reserved parking spaces in Lot C73, the surface parking lot to be constructed by the University on the University-owned portion of the block west of Block 12, and up to 400 reserved parking spaces in the Oak Street Parking Ramp, by the same two lessees.
3. Basis for Request

The University will construct and own the Ambulatory Care Center building. The $160 million construction project will be financed by approximately $150 million in long-term bonds (excluding any capitalized interest during construction) that will be issued by the University and guaranteed by Fairview and UMPhysicians, with an additional $10 million provided by a gift from the Masons. The occupants of the facility will separately purchase and finance approximately $46 million in medical equipment and other personal property for use in the Ambulatory Care Center building.

The construction of the Ambulatory Care Center will replace outdated clinical spaces in existing University buildings currently in use by Fairview Health Services and University of Minnesota Physicians and provide for the expansion of clinical activities by these two lessees in state-of-the-art clinic facilities, resulting in improved outpatient and health care services and patient access. The Ambulatory Care Center will be used by University of Minnesota Physicians and Fairview Health Services to provide health, medical and outpatient hospital-based services, in addition to serving as an academic teaching facility in which medical, health care, clinical education and research services are provided, consistent with the strategic goals and direction of the Medical School.

The ACC Letter of Intent (LOI) dated May 1, 2012 among Fairview, UMPhysicians and the University provided that as a condition to the issuance by the University of debt to finance the construction of the ACC (Debt), each of Fairview and UMPhysicians would deliver a corporate guaranty of its proportionate share of the Debt.

4. Details of Transaction

Leases

The subject leases for the Ambulatory Care Center building will commence upon completion of construction of the Ambulatory Care Center project on approximately January 1, 2016 and continue for an initial term of thirty years. Both leases will contain a six-year renewal option followed by two successive five-year renewal options, continuing the leases potentially through December 31, 2061.

If the University unilaterally decides not to extend the term of the Academic Affiliation Agreement between the University and Fairview, the leases will automatically terminate as of the date the Academic Affiliation Agreement terminates. In all other circumstances where the Academic Affiliation Agreement expires or otherwise terminates, the University will have the option to terminate the leases within three (3) years after the termination or expiration of the Academic Affiliation Agreement.

The parking facilities agreements will have the same thirty-year term plus renewals as the two leases.
The University will provide, at the cost of the two lessees, utility services to the Ambulatory Care Center, as well as radiation control and food safety services, and building access control services.

**Master Agreement**

The Master ACC Agreement establishes the overall framework for the management and operations of the ACC.

The Agreement provides that Fairview and UMPhysicians, together with the University, are committed to developing and operating the ACC in a manner that is consistent with world-class Academic Medical Center status, and is market-competitive and supportive of the research and education mission of the University.

The Agreement affirms the parties’ commitment to support the education and research mission of the AHC, and provides that the Medical School will have a significant role in the selection of senior management of Newco, and in the oversight of its performance.

Newco will assume the ownership of certain of the outpatient clinics at UMMC. Through a joint management agreement with the Integrated Structure (“IS”), UMPhysicians, and Newco, UMPhysicians will be engaged to manage both the Newco clinics and the hospital-based Fairview Clinics.

All of the shared goals and academic commitments of the University, Fairview, and UMPhysicians agreed to as part of the Integrated Structure will apply to Newco and the ACC operations. If for any reason, the IS is terminated, the shared goals and commitments to the academic enterprise will continue in the ACC.

**Guarantees**

Fairview and UMPhysicians will deliver to the University corporate guaranties as a condition to the issuance of the debt by the University to finance the construction of the building. The respective amounts for which Fairview and UMPhysicians are responsible are allocated in proportion to the portions of the building leased to the parties. In the case of Fairview, its guarantee relates to its ownership of the hospital-based clinics and its proportional share of ownership of Newco. UMPhysicians’ guarantee relates to its proportional share of ownership of Newco.

Fairview and UMPhysicians agree to promptly pay the amount stated on a schedule of debt payments provided by the University (revised if the debt is refinanced or there is a change in the number of clinics owned) if the University has not received the corresponding lease payment. UMPhysicians and Fairview agree that the payment obligation is unconditional and absolute until the Debt has been paid in full.

5. **Lease Rents**

The Base Rent for the subject two leases will reflect the University’s long-term bond financing costs for the Ambulatory Care Center project, $150 million, plus an estimated $12 million in
capitalized interest costs required during the construction period of the project. It is anticipated that long-term bond financing will be completed in late spring of 2014 and Base Rent payments will match debt payments and will paid in semi-annual installments.

The leases are structured on a triple net basis, with the two lessees responsible for all costs, expenses, liabilities and obligations of every kind or nature related to operation, use and upkeep of the Ambulatory Care Center building, including capital projects. During the lease, University approval is required for any project affecting the ACC building structure and/or system as well as projects over $1 million.

The University, at the expense of the lessees, will keep and maintain all exterior areas of the ACC building and exterior grounds.

For the parking, the two lessees will pay the University’s monthly contract fee for faculty and staff parking per space on a quarterly basis.

6. University Use of Funds

The rents received by the University from the two lessees will be used to pay the University’s costs for the debt issued by the University for the Ambulatory Care Center project. Parking and Transportation Services will receive the payments on the parking facility agreement.

7. Recommendations

The above-described real estate transaction is appropriate:

Richard H. Pfitzenreuter, III, Vice President and CFO

Aaron Friedman, Vice President for Health Sciences

Pamela A. Wheelock, Vice President for University Services
Lot C-73
Surface Parking
Up to 100 Spaces

Ambulatory
Care
Center

Oak Street
Parking
Ramp
(Up to
400 Spaces)

This map is intended to be used for planning purposes only and should not be relied upon where a survey is required.

Real Estate Office

University of Minnesota

Lease Agreements, Guaranties and Master Agreement for Ambulatory Care Center Twin Cities Campus

Block 12 - ACC Site
Other University Property
Park

Base Data: Real Estate Office MNDNR, MNDOT
11/26/2013
WHEREAS, the University of Minnesota (University) is party to an Academic Affiliation Agreement with Fairview Health Services, a Minnesota nonprofit corporation (Fairview), pursuant to which the academic mission of the University and its Academic Health Center (AHC) is supported through collaboration in the provision of healthcare services to citizens of the State of Minnesota and others;

WHEREAS, University of Minnesota Physicians, the designated practice organization of the faculty of the University of Minnesota Medical School Twin Cities (UMPhysicians) is party to an affiliation agreement and various other agreements with Fairview pursuant to which the practice of medicine is conducted at Fairview facilities in a manner supportive of the academic mission of the AHC;

WHEREAS, in order to enable greater access to health care within the State and better accommodate patients; ensure the continued financial viability of the State’s sole public medical school; and further the core mission of the University’s Academic Health Center (AHC) by enhancing research and educational opportunities for faculty, students, and residents, on May 11, 2012, the Board of Regents authorized a Letter of Intent (LOI) among Fairview, UMPhysicians, and the University related to the construction and operation of a new ambulatory care center (ACC) on the Twin Cities campus that would enable direct and convenient patient access by physically consolidating outdated outpatient clinics currently existing in multiple locations, and also provide improved space for the conduct of related research and teaching activities; and

WHEREAS, the LOI provided for the creation of a new legal entity (Newco) to be owned by Fairview and UMPhysicians to manage the operations of the clinics located in the ACC; and

WHEREAS, the LOI provided in part that the University would finance and build the ACC and lease it to Fairview and Newco contingent, in part, upon provision by each of
UMPhysicians and Fairview of a corporate guaranty for its relative portion of the debt to be issued to finance the ACC (each, a Guaranty and collectively, the Guaranties); and

WHEREAS, the University, Fairview, UMPhysicians and Newco have negotiated a Master Ambulatory Care Center Agreement (Master Agreement) establishing the framework for the management and operation of the ACC, including commitments to developing and operating the ACC in a manner consistent with world-class medical center status; ensuring that the ACC is market competitive; supporting the research and education missions of the University; issuing debt by the University to finance the construction of the ACC upon Fairview and UMPhysicians delivering corporate guaranties to the University; dividing ownership of the clinics between Fairview and Newco; allowing UMP to manage the clinics through a joint management agreement with the Integrated Structure, LLC, UMPhysicians and Newco; and leasing of the ACC building by the University to Fairview and Newco;

WHEREAS, the University and Fairview have negotiated an Ambulatory Care Center Lease (Fairview Lease) and the University and Newco have negotiated a separate Ambulatory Care Center Lease (Newco Lease, and together with the Fairview Lease, Lease Agreements); the initial term of the Lease Agreements is 30 years and the Lease Agreements collectively cover all building space in the ACC and require Fairview and Newco to pay rent reflecting the cost of the debt service for debt issued by the University to cover the construction costs for the building, plus all operating and maintenance costs for the building; and

WHEREAS, the Guaranties have a term of 30 years, terminable only if the University elects to terminate the Lease in conjunction with a termination of the Academic Affiliation Agreement;

NOW, THEREFORE, BE IT RESOLVED that the President is hereby authorized to execute and deliver each of the Lease Agreements, each of the Guaranties, and the Master Agreement, and the President and all other appropriate University officers are authorized to take such further action as may be necessary or appropriate to carry out their intended purpose, subject to the obtaining of all additional approvals required under the Board Policy: Reservation and Delegation of Authority.
Finance Committee

December 12, 2013

Agenda Item: Annual Financial Report

☐ review  ☐ review/action  ☐ action  ☒ discussion

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

Purpose:

☐ policy  ☐ background/context  ☒ oversight  ☐ strategic positioning

To present an overview of the 2013 Annual Financial Report to the Finance Committee.

Outline of Key Points/Policy Issues:

The annual financial report presents the financial position and results of operations for the University for FY 2013, with comparative data for FY 2012. The presentation will cover:

• Management’s discussion and analysis as reported in the financial statements;
• An overview of assets, liabilities, and net position;
• A discussion of revenues and expenses for FY 2013 with comparative results for FY 2012;
• The statement of cash flows; and
• Component unit reporting.

A copy of the FY 2013 audited financial statements is included in the docket materials.

Background Information:

This report is prepared annually and presented to the Finance Committee in conformance with Board of Regents policy: Board Operations and Agenda Guidelines.
Finance Committee

December 12, 2013

Agenda Item: Challenges Facing Higher Education: Moody's Report

☐ review  ☐ review/action  ☐ action  ☒ discussion

Presenters: Vice President/CFO Richard Pfutzenreuter
Susan Fitzgerald, Senior Vice President, Moody's Investors Service

Purpose:

☐ policy  ☒ background/context  ☐ oversight  ☐ strategic positioning

Susan Fitzgerald, of Moody's Investors Services (“Moody's”), will discuss the current challenges facing higher education. Slowed revenue growth highlights the increasing need for public universities to focus on cost containment, according to Moody's FY 2012 US public college and university medians.

Outline of Key Points/Policy Issues:

Moody's expects continued revenue pressure at public universities, as well as potential for market demand disruption stemming from the growing popularity of new educational delivery models. In light of these ongoing pressures, future expense reductions will need to be more significant and include a reevaluation of existing business models to maintain long-term financial health. While cash flow remained ample at most universities in FY 2012, the developing trend of expense growth outpacing revenue growth is unsustainable.

Background Information:

Moody's is a leading provider of credit ratings, research, and risk analysis. Moody's commitment and expertise contributes to transparent and integrated financial markets, protecting the integrity of credit. The firm's ratings and analysis track debt covering more than 115 countries, 10,000 corporate issuers, 22,000 public finance issuers, and 82,000 structured finance obligations.

Credit ratings and research help investors analyze the credit risks associated with fixed-income securities. Such independent credit ratings and research also contribute to efficiencies in fixed-income markets and other obligations, such as insurance policies and derivative transactions, by providing credible and independent assessments of credit risk.

Susan Fitzgerald is a senior member of Moody's Public Finance Group, specializing in higher education, health care, and other not-for-profit institutions. She joined Moody's in 1994 and has covered all regions of the United States. In addition, she has been the author and editor of a number of Moody’s special comments discussing sector-wide trends.
Prior to joining Moody's, Fitzgerald was an assistant director of corporate and foundation relations at The Johns Hopkins University. She holds a master's degree in Economics and in International Studies from The Johns Hopkins University School of Advanced International Studies. Her undergraduate degree is in Diplomacy and World Affairs, with a minor in Economics, from Occidental College, Los Angeles.
Finance Committee
December 12, 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
There are no items in the General Contingency report requiring Board approval.

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

• To Health Partners Administrators, Inc. for the estimated amount of $1,867,804 for administering self-funded medical insurance coverage and to provide stop loss insurance for Twin Cities and UMD Graduate Assistance for the period of September 1, 2011, through August 31, 2015. The Graduate Assistance Health Benefit Plan is a benefit funded primarily through the fringe benefit recovery pool in addition to graduate students being charged a percentage of the plan cost. Vendor was selected through a competitive process.

• To Medica for the estimated amount of $17,856,000 for administering UPlan medical plan options for the four-year period of January 1, 2014, through December 31, 2017, through the University of Minnesota Office of Human Resources Employee Benefits. The administrative service fees are funded on an annual basis through the fringe pool. Vendor was selected through a competitive process.

• To Staywell for the estimated amount of $5,200,000 for administering UPlan medical plan options for the four-year period of January 1, 2014, through December 31, 2017, through the University of Minnesota Office of Human Resources Employee Benefits. The administrative service fees are funded on an annual basis through the fringe pool. Vendor was selected through a competitive process.
• To U.S. Bank for an estimated rebate of $9,576,000 for purchases on the University Procurement Card for the period of January 1, 2014, through December 31, 2018, with contract extensions through December 31, 2020, for the University of Minnesota Controller’s Office. Purchases made on the Procurement Card are paid with departmental operating funds. Vendor was selected through a competitive process.

• To Voyager Fleet Systems for $4,000,000 in credit card purchases for fuel, emergency roadside assistance, and vehicle related services as needed for the period of February 1, 2014, to January 31, 2017, with contract extensions through January 31, 2020, for Parking and Transportation Services – Fleet Services. Fleet Services will pay for the purchases out of operating funds and user departments are rebilled on a monthly basis according to their usage. 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:

<table>
<thead>
<tr>
<th>Recipient</th>
<th>Allocation</th>
<th>Balance</th>
<th>Purpose</th>
</tr>
</thead>
<tbody>
<tr>
<td>FY2014 General Contingency</td>
<td>$1,000,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Carryforward from FY2013 into FY2014</td>
<td>1,406,141</td>
<td>2,406,141</td>
<td></td>
</tr>
<tr>
<td>1 Dean of the College of Liberal Arts</td>
<td>20,000</td>
<td>2,386,141</td>
<td>Consultant to negotiate Showboat management agreement</td>
</tr>
<tr>
<td>2 Vice President for University Services</td>
<td>* 250,000</td>
<td>2,136,141</td>
<td>U Stores sprinkler upgrade</td>
</tr>
<tr>
<td>3 New items this reporting period:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4 Ex Dir for the Office for Business &amp; Community Economic Dev.</td>
<td>55,000</td>
<td>2,081,141</td>
<td>Awards Incentive &amp; Recognition (AIR) program</td>
</tr>
<tr>
<td>5 FY 2013-14 Ending Balance</td>
<td></td>
<td>2,081,141</td>
<td></td>
</tr>
<tr>
<td>6 * Subject to Board approval</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

26
Purchase of Goods and Services $1,000,000 and over

To HealthPartners Administrators, Inc. for the estimated amount of $1,867,804 for administering self-funded medical insurance coverage and to provide stop loss insurance for Twin Cities and UMD Graduate Assistants for the period of September 1, 2011 through August 31, 2015.

The administrative and stop loss fees are as follows:
- HealthPartners Administrators, Inc. Administrative Services - $1,254,764
- HealthPartners Administrators, Inc. Stop Loss Insurance - $613,040

HealthPartners Administrators, Inc. was selected as the medical plan and stop loss administrator during a request for proposal process conducted in 2009. The initial contract was for a two-year period, with four options to renew the contract. The estimated annual amount of $466,951 is based on administrative service fees submitted as a part of the RFP process and estimated enrollment.

The Twin Cities and UMD Graduate Assistants Plan offer subsidized medical insurance coverage to graduate students with assistantships in research and teaching, if on appointments of at least 25% time or more. The subsidy for “student only” coverage will be 95% for a student with a 50% appointment. The dependent premium subsidy will remain at 65% of the dependent plan’s premium.

The Graduate Assistance Health Benefit Plan is a benefit funded primarily through the fringe benefit recovery pool in addition to graduate students being charged a percentage of the plan cost.

Submitted by: Karen Chapin  
Manager, Health Programs

Approval for this item is requested by:

Kathryn F. Brown  
Vice President, Office of Human Resources  

December 12, 2013
Purchase of Goods and Services $1,000,000 and over

To Medica for the estimated amount of $17,856,000 for administering UPlan medical plan options for the four-year period of January 1, 2014 through December 31, 2017 through the University of Minnesota Office of Human Resources Employee Benefits.

Medica was selected as the medical plan administrator during a request for proposal process conducted from November 2010 through March 2011. The initial contract was for a two-year period, with four options to renew the contract. The estimated annual amount of $4,464,000 is based on administrative service fees submitted as a part of the RFP process and estimated enrollment.

The administrative service fees are funded on an annual basis through the fringe pool.

Submitted by: Karen Chapin
Manager, Health Programs

Approval for this item is requested by:

Kathryn F. Brown
Vice President, Office of Human Resources

December 12, 2013
Purchase of Goods and Services $1,000,000 and over

To Staywell for the estimated amount of $5,200,000 for administering UPlan medical plan options for the four-year period of January 1, 2014 through December 31, 2017 through the University of Minnesota Office of Human Resources Employee Benefits.

Staywell was selected as the medical plan administrator during a request for proposal process conducted from November 2010 through March 2011. The initial contract was for a two-year period, with four options to renew the contract. The estimated annual amount of $1,300,000 is based on administrative service fees submitted as a part of the RFP process and estimated enrollment.

The administrative service fees are funded on an annual basis through the fringe pool.

Submitted by: Karen Chapin
Manager, Health Programs

Approval for this item is requested by:

[Signature]
Kathryn F. Brown
Vice President, Office of Human Resources

December 12, 2013
Purchase of Goods and Services $1,000,000 and over

To U.S. Bank for an estimated rebate of $9,576,000 for purchases on the University Procurement Card for the period of January 1, 2014 through December 31, 2018 with contract extensions through December 31, 2020 for the University of Minnesota Controller’s Office.

The Controller’s Office division of the University of Minnesota provides a Procurement Card program which allows authorized employees (on payroll) to make business-related purchases for goods and standard (not professional) services.

A Request for Proposal was issued in August, 2013 and completed in November 2013. U.S. Bank was selected to be the most qualified supplier based upon the selection criteria established as part of the Request for Proposal.

The initial contract term will commence for the period January 1, 2014 to December 31, 2018. The University has the option to extend the contract for two (2) additional one-year terms. There is an estimated annual spend of $65,000,000 on Procurement Cards.

Purchases made on the Procurement Card are paid with departmental operating funds.

Submitted by: Tim Bray, Director
Purchasing Services
1300 South 2nd Street
Minneapolis, MN 55454
Phone: (612) 624-2095
Fax: (612) 624-3410

Approval for this item requested by:

Richard Pfutzenreuter, Vice President and CFO
Purchase of Goods and Services $1,000,000 and over

To Voyager Fleet Systems for $4,000,000 in credit card purchases for fuel, emergency roadside assistance, and vehicle related services as needed for the period of February 1, 2014 to January 31, 2017 with contract extensions through January 31, 2020 for Parking and Transportation Services – Fleet Services.

The Fleet Services division of the University of Minnesota supports a diverse research, outreach, and service environment at the University of Minnesota. This is primarily to the Minneapolis and St. Paul, Duluth, Morris, and Crookston campuses, as well as to outstate outreach programs. Due to the needs of these varied set of customers, there is a requirement for a credit card product to purchase fuel and vehicle related services in addition to providing emergency roadside assistance when access to Fleet Services’ shop and fuel tanks is not convenient.

A request for proposal was issued in September, 2013. Voyager Fleet Systems (a part of U.S. Bank) offered the best rebate pricing, payment terms, flexibility of card restrictions, and experience with Fleet Services’ billing system. Voyager is the incumbent provider of the University’s fuel card.

The initial contract term is for the period February 1, 2014 to July 31, 2017. The University has the option to extend the contract for one additional three-year term. A rebate will be paid annually based on total credit card purchases. It is estimated that a total rebate of approximately $30,000 is to be paid to the University over the six years.

Fleet Services will pay for the purchases out of operating funds and user departments are rebilled on a monthly basis according to their usage.

Submitted by: William Stahlmann, Assistant Director
Parking and Transportation Services, Fleet Services Division
901 29th Avenue SE
Minneapolis, MN 55414
Phone: (612) 625-8020
Fax: (612) 624-5587

Approval for this item requested by:

Pam Wheelock, Vice President, University Services
Finance Committee

Agenda Item: Information Items

☐ review ☐ review/action ☐ action ☒ discussion

Presenters: Vice President/CFO Richard Pfutzenreuter

Purpose:

☐ policy ☐ background/context ☒ oversight ☐ strategic positioning

Quarterly Purchasing Report
To provide a quarterly report of purchasing activity as required by Board of Regents policies: Purchasing and Board Operations and Agenda Guidelines.

Quarterly Investment Advisory Committee (IAC) Update
To provide the Board of Regents with a summary of the quarterly IAC meeting held on November 13, 2013.

Quarterly Asset Management Report
To report on the quarterly performance results for assets managed by the Office of Investments & Banking (OIB) for the quarter ended September 30, 2013. OIB prepares this report, as required by Board policy, for review by the IAC and the Board.

Debt Management Advisory Committee Update
To provide a report on the semi-annual meeting of the Debt Management Advisory Committee (DMAC) to be held on December 11, 2013.

Outline of Key Points/Policy Issues:

Quarterly Purchasing Report
Detailed reports with brief discussion on the following activity:

• Summary of Purchasing Activity;
• Purchases made as Approved Exceptions to Competitive Process;
• Purchases made as Preapproved Exceptions to Competitive Process; and
• Violations of Board of Regents Policy: Purchasing.

Quarterly IAC Update
Regent McMillan introduced himself to the committee as the new Chair of the Finance Committee. He asked members to introduce themselves.
Stuart Mason, Chief Investment Officer, reviewed the investment performance for the Consolidated Endowment Fund (CEF) for the quarter and the 12 months ending September
The overall portfolio value rose in the quarter by $30.2 million, or 3.77%, versus the custom benchmark, which was 3.93% and the passive benchmark of 70/30, which was 5.97%. For the last 12 months, CEF investment performance was 12.39% versus the custom benchmark of 10.13% and the passive benchmark of 12.55%. The neutral performance relative to the custom benchmark for the quarter and the strong performance for the year was driven primarily by two factors: a) the risk mitigating fixed income sub-portfolio was up 1.02% for the quarter and 1.63% for the 12-month period, exceeding its one-year benchmark by 593 basis points, and b) the private capital portfolio continued its strong relative performance, up 19.29% over the past 12 months.

Liquidity continued to improve as private partnerships made net cash distributions totaling $83.6 million through October, “on plan” to exceed $100 million for the year. This improving liquidity is being used to rebalance the portfolio closer to strategic asset allocation ranges in accordance with the three-year rebalancing plan. Mason shared the details of a recent event in the venture capital portfolio where a small health care informatics company that was allocated $325,000 through a venture commitment went public at a valuation that would return between $50-60 million to the University when distributions are received in 2014.

Benchmarks for the CEF and TIP portfolios were reviewed and approved for the current fiscal year with only slight modifications to the long-term passive benchmark.

Committee members discussed the characteristics of the Private Capital portfolio and the need to resume making private partnership commitments if the policy allocation targets are going to be maintained. Significant distributions over the last two years have reduced the balances and the resulting cash has been used to rebalance the overall CEF portfolio into other liquid equities and fixed income. The specific focus was on the distressed debt-for-control sub-portfolio, where Mason presented materials supporting a proposed new commitment of up to $25 million to MHR Fund Management, one of the “core” managers in the group. The recommendation was approved.

A subsequent meeting was held with President Kaler and Richard Pfutzenreuter, Chief Financial Officer, on November 20, 2013 to discuss the committee’s recommendation. President Kaler approved making the new commitment to MHR of up to $25 million.

Mason reviewed highlights of the quarterly report for CEF, and other managed assets including RUMINCO, TIP, and GIP.

**Quarterly Asset Management Report**

- The invested assets of the University totaled approximately $2.4 billion on September 30, 2013.
- The Consolidated Endowment Fund (CEF) value as of September 30, 2013, was $1,109.9 million, an increase of $30.2 million over the last quarter after net distributions of $7.7 million. The total investment return for CEF was 3.8% for the quarter and 12.4% for the last 12 months compared to custom benchmarks of 3.9% and 10.1% respectively.
- The strong performance is attributed primarily to the strength of public equity and private capital performance over the quarter and the last 12 months. The public equity portfolio was up over 8.2% for the quarter and over 19.2% for the 12-month period (both exceeding their passive benchmarks) and the private capital portfolio was up 4.0% for the quarter and 19.3% for the last 12 months (also exceeding its benchmarks for each period). In addition, both portfolios were somewhat over-weight policy target asset allocations.
- The market value of the short-term reserves (TIP) was $1171.5 million as of September 30, 2013. This was a increase of $140.1 million over the last quarter. The investment return on the portfolio over the quarter was 0.5% compared to a benchmark return of 0.3% due largely to the out-performance of the mortgage and government agency bond sub-portfolios. The performance for the last 12 months was -0.2% vs the benchmark of 0.4%. The under-performance was due largely to the sharp increase in interest rates (and corresponding decrease in bond prices) in May and June due to the anticipated tapering activity by the Fed. These securities have largely rebounded as rates have declined and stabilized. The yield on the overall portfolio has increased slightly to .96% annually at the end of the quarter, a 73 basis point spread over the benchmark.

**Debt Management Advisory Committee Update**

The agenda for the meeting to be held on December 11, 2013, includes:

- Issuance of Debt – Series 2013C&D
- Issuance of Debt – Combined Heat & Power
- Issuance of Debt – Ambulatory Care Center
Challenges Facing Higher Education: Moody's Report
December 12, 2013

The Honorable David McMillan, Chair, Finance Committee
The Honorable John Frobenius, Vice Chair
The Honorable Clyde Allen
The Honorable Richard Beeson
The Honorable Laura Brod
The Honorable Dean Johnson

Committee Members:

Enclosed is Purchasing Services’ report on purchasing activity for the first quarter, fiscal year ‘14. Regents policy requires that a quarterly purchasing report, including violations of Regents purchasing policy, be submitted to the Finance Committee of the Board of Regents. This letter provides explanatory background and brief analysis of the report and attachments that follow.

**Background**
The enclosed report and attachments provide statistics, graphics and some detail on four categories of purchasing activity for the quarter:

- Summary of Purchasing Activity
- Purchases made as Approved Exceptions to the competitive purchasing process
- Purchases made as Preapproved Exceptions to the competitive purchasing process
- Regents Purchasing Policy Violations

“Quarterly Purchasing Activity” represents the total amount of goods and services purchased for the quarter and year-to-date across all funding sources, including construction projects.

“Quarterly Approved Exceptions” refers to purchases where, following proper protocol, the vendor was not selected through a Request for Bid or Request for Proposal process. All of the approved exceptions were justified in writing by the requisitioning department, with the justification reviewed and approved by the Director of Purchasing before the purchase took place. Additionally, the appropriate Vice President and the University Controller approved all exceptions of $250,000 and over, except pre-approved exceptions. Section II provides a listing of the transactions that followed this process and were approved as exceptions.

“Quarterly Pre-approved Exceptions” are also purchases where the vendor has not been selected through a competitive process. However, they are exceptions that occur routinely with consistent reasons, so that the approval of the justification has become standardized. Refer to Section III of the report for a listing of transactions processed as pre-approved exceptions during the quarter.
“Regents Purchasing Policy Violations” refers to transactions that were processed which bypassed the competitive process without following proper protocol and without the necessary approvals. Section IV provides a listing of purchasing violations.

The first quarter report compares dollars spent on purchases in the first quarter of the current year to dollars spent on purchases in first quarter of the two previous years. The same quarter-to-quarter comparison is made for approved exceptions and for pre-approved exceptions. With that in mind, the following observations are worth noting:

- The quarterly pre-approved exception total dollars spent was significantly higher than in the previous fiscal year because of an $18,500,000 exception for the purchase of U Pass/Metro Pass products from the Metropolitan Council.

- There were two Regents Purchasing Policy Violations in the first quarter of FY14.

If you have any questions on the report, please do not hesitate to contact Tim Bray, Director of Purchasing, or me.

Sincerely,

Michael D. Volna
Associate Vice President-Finance & Controller

Cc: Richard Pfutzenreuter, CFO, Treasurer and Vice President for Budget & Finance
Brian Steeves, Executive Director and Corporate Secretary, Board of Regents
Tim Bray, Director, Purchasing Services
I. Summary of Purchasing Activity

### Total Quarterly Purchasing Activity

<table>
<thead>
<tr>
<th></th>
<th>Q1 FY12</th>
<th>Q1 FY13</th>
<th>Q1 FY14</th>
</tr>
</thead>
<tbody>
<tr>
<td># of Transactions</td>
<td>126,842</td>
<td>197,220</td>
<td>136,091</td>
</tr>
<tr>
<td>Total Dollars Spent</td>
<td>$225,441,411</td>
<td>$233,145,360</td>
<td>$230,021,338</td>
</tr>
</tbody>
</table>

### Quarterly Approved Exceptions

<table>
<thead>
<tr>
<th></th>
<th>Q1 FY12</th>
<th>Q1 FY13</th>
<th>Q1 FY14</th>
</tr>
</thead>
<tbody>
<tr>
<td># of Exceptions</td>
<td>46</td>
<td>71</td>
<td>77</td>
</tr>
<tr>
<td>Total Dollars Spent</td>
<td>$8,940,153</td>
<td>$16,246,725</td>
<td>$15,403,622</td>
</tr>
</tbody>
</table>

### Quarterly Pre-Approved Exceptions

<table>
<thead>
<tr>
<th></th>
<th>Q1 FY12</th>
<th>Q1 FY13</th>
<th>Q1 FY14</th>
</tr>
</thead>
<tbody>
<tr>
<td># of Exceptions</td>
<td>29</td>
<td>40</td>
<td>41</td>
</tr>
<tr>
<td>Total Dollars Spent</td>
<td>$5,557,621</td>
<td>$6,727,013</td>
<td>$25,734,400</td>
</tr>
</tbody>
</table>

| Q1 Exceptions | 75            | 111           | 118           |
| Q1 Exception Dollars | $14,497,774 | $22,973,738   | $41,138,022   |
### II. Purchases made as Approved Exceptions to Competitive Purchasing Process

<table>
<thead>
<tr>
<th>Exception #1:</th>
<th>Total # of Exceptions</th>
<th>Total Dollars</th>
</tr>
</thead>
<tbody>
<tr>
<td>Purchasing of research products (animal feed, serum, test equip/supplies) for clinical trials. Also purchasing from a previous supplier to ensure consistency of research results.</td>
<td>11</td>
<td>$5,430,258</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Exception #2:</th>
<th>Total # of Exceptions</th>
<th>Total Dollars</th>
</tr>
</thead>
<tbody>
<tr>
<td>Equipment that requires brand compatibility with existing equipment and is available only from manufacturer or sole source authorized distributor.</td>
<td>23</td>
<td>$3,344,141</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Exception #3:</th>
<th>Total # of Exceptions</th>
<th>Total Dollars</th>
</tr>
</thead>
<tbody>
<tr>
<td>Funding source or granting agency specified a single supplier.</td>
<td>5</td>
<td>$668,773</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Exception #4:</th>
<th>Total # of Exceptions</th>
<th>Total Dollars</th>
</tr>
</thead>
<tbody>
<tr>
<td>Other</td>
<td>37</td>
<td>$5,310,450</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Emergency Exception #1:</th>
<th>Total # of Exceptions</th>
<th>Total Dollars</th>
</tr>
</thead>
<tbody>
<tr>
<td>A threat to health, welfare, safety.</td>
<td>0</td>
<td>$0</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Emergency Exception #2:</th>
<th>Total # of Exceptions</th>
<th>Total Dollars</th>
</tr>
</thead>
<tbody>
<tr>
<td>A significant loss to the University.</td>
<td>1</td>
<td>$650,000</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Emergency Exception #3:</th>
<th>Total # of Exceptions</th>
<th>Total Dollars</th>
</tr>
</thead>
<tbody>
<tr>
<td>A failure to provide core services to University students/faculty/staff.</td>
<td>0</td>
<td>$0</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Emergency Exception #4:</th>
<th>Total # of Exceptions</th>
<th>Total Dollars</th>
</tr>
</thead>
<tbody>
<tr>
<td>Emergency equipment repairs and parts or emergency facility repairs and parts under $100,000.</td>
<td>0</td>
<td>$0</td>
</tr>
</tbody>
</table>

**TOTAL Approved Exceptions** | **77** | **$15,403,622**
<table>
<thead>
<tr>
<th>Exception</th>
<th>Total # of Exceptions</th>
<th>Total Dollars</th>
</tr>
</thead>
<tbody>
<tr>
<td>Exception #1:</td>
<td>1</td>
<td>$145,000</td>
</tr>
<tr>
<td>Lodging, travel (does not include group airfare or charter air).</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Exception #2:</td>
<td>2</td>
<td>$254,500</td>
</tr>
<tr>
<td>Media advertising, purchase or access to uniquely compiled database information.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Exception #4:</td>
<td>2</td>
<td>$209,750</td>
</tr>
<tr>
<td>Closeout of used items which requestor or Purchasing has verified to be at least 30% below comparable new equipment (does not include refurbished or remanufactured furniture).</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Exception #5:</td>
<td>4</td>
<td>$360,000</td>
</tr>
<tr>
<td>Subcontractors previously arranged by Sponsored Projects Administration (SPA).</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Exception #6:</td>
<td>6</td>
<td>$19,371,792</td>
</tr>
<tr>
<td>Service (1) available only from another governmental agency or public entity or (2) required by law to be provided by another governmental entity.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Exception #7:</td>
<td>7</td>
<td>$2,723,920</td>
</tr>
<tr>
<td>Service/maintenance agreements with the original manufacturer/developer for equipment and software.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Exception #9:</td>
<td>5</td>
<td>$701,014</td>
</tr>
<tr>
<td>Software license renewals and software upgrades available only from developer. This includes adding licenses to an existing license agreement.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Exception #11:</td>
<td>2</td>
<td>$276,253</td>
</tr>
<tr>
<td>Fairview purchases related to research projects.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Exception #12:</td>
<td>6</td>
<td>$1,157,390</td>
</tr>
<tr>
<td>Entertainers, lecturers, speakers and honoraria.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Exception #13:</td>
<td>2</td>
<td>$184,441</td>
</tr>
<tr>
<td>Purchases from University Physicians that are not part of sponsored research activities.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Exception #14:</td>
<td>4</td>
<td>$350,340</td>
</tr>
<tr>
<td>Study Abroad Administrators (Does not include group airfares).</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

TOTAL Pre-Approved Exceptions 41 $25,734,400
IV. Regents Policy Violations

There were two Regents Policy Violations to report.

<table>
<thead>
<tr>
<th>Department Name</th>
<th>Vendor Name</th>
<th>Total Dollar</th>
</tr>
</thead>
<tbody>
<tr>
<td>Electrical &amp; Computer Engineering</td>
<td>RHK Technology</td>
<td>$82,000</td>
</tr>
</tbody>
</table>

**Product/Service Description**

Nano-Optical Shear-Force AFM/STM Head

**Explanation for Violation**

A purchase order was promised to the vendor before Purchasing Services was able to conduct a competitive bidding process. Vendor ordered the raw materials and completed the customized system for the University.

**Action Taken by Department to Prevent Further Violations**

Department personnel have reviewed relevant policies and Purchasing Services has advised the department personnel to attend additional training classes.

<table>
<thead>
<tr>
<th>Department Name</th>
<th>Vendor Name</th>
<th>Total Dollar</th>
</tr>
</thead>
<tbody>
<tr>
<td>Natural Resources Research Institute</td>
<td>Lakehead Trucking, Inc.</td>
<td>$84,117</td>
</tr>
</tbody>
</table>

**Product/Service Description**

Loading, hauling and delivery of fine grained dredge material from Erie Pier in Duluth, Minnesota to Kleffman's Borrow Pit near Hibbing, Minnesota.

**Explanation for Violation**

Department secured four bids from vendors then filled out the paperwork to send to Purchasing Services thinking they were in compliance because they selected the lowest bidder. Department instructed vendor to complete work before a purchase order was issued.

**Action Taken by Department to Prevent Further Violations**

Department personnel have reviewed relevant policies and Purchasing Services has advised the department personnel to attend additional training classes.
Table of Contents

1. Overview – All Funds
2. Highlights and Commentary
   a. Consolidated Endowment Fund (CEF)
   b. Temporary Investment Pool (TIP)
   c. Group Income Pool (GIP)
   d. RUMINCO
Overview – All Funds

<table>
<thead>
<tr>
<th>OIB Managed Funds ($ millions)</th>
<th>Sept. ’13</th>
<th>June ’13</th>
<th>June ’12</th>
<th>June ’11</th>
</tr>
</thead>
<tbody>
<tr>
<td>Consolidated Endowment Fund (CEF) ¹</td>
<td>$1,109.9</td>
<td>$1,079.7</td>
<td>$977.6</td>
<td>$956.8</td>
</tr>
<tr>
<td>Long-Term Reserves (GIP) ²</td>
<td>46.5</td>
<td>46.4</td>
<td>44.7</td>
<td>44.3</td>
</tr>
<tr>
<td>Short-Term Reserves (TIP)</td>
<td>1,171.5</td>
<td>1,031.4</td>
<td>972.2</td>
<td>824.9</td>
</tr>
<tr>
<td>RUMINCO Ltd.</td>
<td>39.7</td>
<td>35.8</td>
<td>32.6</td>
<td>32.3</td>
</tr>
<tr>
<td>Invested Assets Related to Indebtedness</td>
<td>53.0</td>
<td>87.0</td>
<td>189.7</td>
<td>181.9</td>
</tr>
<tr>
<td><strong>Total Managed Assets</strong></td>
<td><strong>2,420.6</strong></td>
<td><strong>2,280.3</strong></td>
<td><strong>2,216.8</strong></td>
<td><strong>1,963.5</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Other Funds ($ millions)</th>
<th>Sept. ’13</th>
<th>June ’13</th>
<th>June ’12</th>
<th>June ’11</th>
</tr>
</thead>
<tbody>
<tr>
<td>U of M Foundation Fund</td>
<td>1,782.6</td>
<td>1,610.0</td>
<td>1,560.1</td>
<td>1,564.4</td>
</tr>
<tr>
<td>Faculty Retirement Plans</td>
<td>4,361.6</td>
<td>4,199.8</td>
<td>3,807.9</td>
<td>3,709.3</td>
</tr>
</tbody>
</table>

¹ Includes TIP, GIP and PUF investments, which as of 9/30/13 were $126.8, $12.2, and $459.7 respectively.
² Market value excludes $12.2 currently invested in CEF. This value is included in the remainder of the report, for purposes of performance calculation.
University of Minnesota
Consolidated Endowment Fund Summary
September 30, 2013

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>$ 975.4</td>
<td>$ 852.5</td>
<td>$ 887.2</td>
<td>$ 925.0</td>
<td>$ 1,032.6</td>
<td>$ 1,079.7</td>
<td>$ 1,109.9</td>
<td></td>
</tr>
<tr>
<td>-22.3%</td>
<td>-2.0%</td>
<td>7.8%</td>
<td>5.3%</td>
<td>13.8%</td>
<td>12.8%</td>
<td>3.8%</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>$ 45.5</td>
<td>$ 48.7</td>
<td>$ 48.6</td>
<td>$ 47.8</td>
<td>$ 46.1</td>
<td>$ 45.2</td>
<td>$ 11.1</td>
<td></td>
</tr>
<tr>
<td>4.7%</td>
<td>5.7%</td>
<td>5.5%</td>
<td>5.2%</td>
<td>4.5%</td>
<td>4.2%</td>
<td>1.0%</td>
<td></td>
</tr>
</tbody>
</table>

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

Investment Objective*  CEF Actual

$5.47  $7.90
Endowment Performance

CEF Performance vs. Benchmarks

Q3 underperformance driven primarily by the following:

- Strategic overweight and significant outperformance by private capital managers, especially in venture and distressed debt
- Tactical overweight to MBS and other non-US Treasury securities in risk mitigating fixed income
- Outperformance (89 bps) by public equity managers
- Underperformance (-211 bps) by return generating fixed income managers
- Fund Value $1,109.9M****

* Net of Manager Fees
** Benchmark: CEF Custom Index
*** Benchmark: 70% MSCI ACWI IMI / 30% Barclay’s Capital Aggregate
**** Total CEF Market Value includes $126.8 of TIP and $12.2 of GIP investments
Endowment Annual Performance

Fiscal Year Performance* Comparison

Current OIB management hired and began actively diversifying portfolio into venture capital, energy, private equity, and private real estate designed to enable the fund to outperform.

Portfolio illiquidity and focus on a safety net of fixed income reserves limited upside capture.

Public equity declined significantly, shifting allocation toward illiquid alternatives and restricted ability to rebalance when stocks rallied. Private real estate valuations declined significantly.

Private portfolios are positioned for continued strong performance. Increased distributions facilitate rebalancing to policy asset allocation guidelines.

* Net of Manager Fees
** Benchmark: CEF Custom Index
*** Benchmark: 70% MSCI ACWI IMI / 30% Barclays Capital Aggregate
### University of Minnesota
Consolidated Endowment Fund Summary
September 30, 2013

<table>
<thead>
<tr>
<th>Category</th>
<th>Market Value (in thousands)</th>
<th>% Total</th>
<th>% Target</th>
<th>Quarter 1</th>
<th>YTD</th>
<th>Performance 1 Year</th>
<th>Performance 3 Year</th>
<th>Performance 5 Year</th>
<th>Performance 10 Year</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Risk Mitigating Fixed Income</strong></td>
<td></td>
<td></td>
<td></td>
<td>1.02</td>
<td>0.10</td>
<td>1.63</td>
<td>-3.30</td>
<td>4.15</td>
<td>4.39</td>
</tr>
<tr>
<td>33% ML 1-3 yr Treas / 67% BC US TIPS</td>
<td>102,059</td>
<td>9.2</td>
<td>12.0</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Public Equity</strong></td>
<td></td>
<td></td>
<td></td>
<td>8.19</td>
<td>15.83</td>
<td>19.21</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>MSCI ACWI IMI Index</td>
<td>322,319</td>
<td>29.0</td>
<td>30.0</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Private Capital</strong></td>
<td></td>
<td></td>
<td></td>
<td>4.02</td>
<td>14.94</td>
<td>19.29</td>
<td>17.11</td>
<td>9.31</td>
<td>22.72</td>
</tr>
<tr>
<td>State Street PE Qtr Lag</td>
<td>336,708</td>
<td>30.3</td>
<td>20.0</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Inflation Hedges</strong></td>
<td></td>
<td></td>
<td></td>
<td>0.28</td>
<td>3.36</td>
<td>4.57</td>
<td>8.15</td>
<td>-3.36</td>
<td>3.53</td>
</tr>
<tr>
<td>60% Real Estate, 20% Timber, 20% Energy</td>
<td>206,566</td>
<td>18.6</td>
<td>15.0</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Return Generating Fixed Income</strong></td>
<td></td>
<td></td>
<td></td>
<td>-0.54</td>
<td>1.18</td>
<td>6.49</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>50% EMBI Global / 50% US HY</td>
<td>97,094</td>
<td>8.7</td>
<td>12.0</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Absolute Return</strong></td>
<td></td>
<td></td>
<td></td>
<td>1.35</td>
<td>8.32</td>
<td>9.37</td>
<td>6.02</td>
<td>3.68</td>
<td>3.85</td>
</tr>
<tr>
<td>CSFB / Tremont Hedge Fund Index</td>
<td>9,249</td>
<td>0.8</td>
<td>11.0</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Clifton Pios + Cash</td>
<td>32,520</td>
<td>2.9</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Liquidation Account</td>
<td>3,351</td>
<td>0.3</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Consolidated Endowment Fund</strong></td>
<td>1,109,867</td>
<td></td>
<td></td>
<td>3.77</td>
<td>9.36</td>
<td>12.39</td>
<td>10.90</td>
<td>3.73</td>
<td>7.13</td>
</tr>
<tr>
<td>CEF Custom Index</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>70% MSCI ACWI IMI / 30% BCA</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Category</th>
<th>Market Value (in thousands)</th>
<th>% Total</th>
<th>% Target</th>
<th>FY 2013</th>
<th>FY 2012</th>
<th>FY 2011</th>
<th>FY 2010</th>
<th>FY 2009</th>
<th>FY 2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>Liquid Assets</td>
<td>547,065</td>
<td>49.3</td>
<td>49.0</td>
<td>44.2%</td>
<td>36.2%</td>
<td>30.6%</td>
<td>33.5%</td>
<td>30.7%</td>
<td>33.1%</td>
</tr>
<tr>
<td>Semi-Liquid Assets</td>
<td>19,527</td>
<td>1.8</td>
<td>16.0</td>
<td>1.4%</td>
<td>2.8%</td>
<td>4.0%</td>
<td>6.4%</td>
<td>9.3%</td>
<td>14.2%</td>
</tr>
<tr>
<td>Illiquid Assets</td>
<td>543,274</td>
<td>48.9</td>
<td>35.0</td>
<td>54.4%</td>
<td>61.0%</td>
<td>65.4%</td>
<td>60.1%</td>
<td>60.0%</td>
<td>52.7%</td>
</tr>
</tbody>
</table>
**Venture Capital Performance**

**Emergence Capital Partners recent transaction history**

Venture capital investor in early stage SaaS and cloud-based enterprise software companies.

- Emergence I (2004) | $5 million commitment
- Emergence II (2007) | $10 million commitment

**Veeva Systems Inc. (VEEV)**

Provider of industry-specific, cloud-based software solutions for the life sciences industry

- Financed in 2008 and 2009
- 1,750,000 shares purchased
- Paid $0.19 / share
- $325,000 total investment

<table>
<thead>
<tr>
<th>Year</th>
<th>December 2011</th>
<th>December 2012</th>
<th>October 2013 IPO</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>$1.26 / share</td>
<td>$4.96 / share</td>
<td>$20.00 / share</td>
</tr>
<tr>
<td></td>
<td>$2,205,000</td>
<td>$8,680,000</td>
<td>$35,000,000</td>
</tr>
<tr>
<td>Current Valuation</td>
<td></td>
<td></td>
<td>$40.00 / share</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>$70,000,000</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>- 20% fee</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>$56,000,000</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>5.0% of CEF</td>
</tr>
</tbody>
</table>
Endowment Liquidity

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

<table>
<thead>
<tr>
<th>Exposure</th>
<th>2012 Portfolio</th>
<th>9/30/2013 Portfolio</th>
<th>Long-Term Policy</th>
<th>Ranges</th>
</tr>
</thead>
<tbody>
<tr>
<td>Risk Mitigating Fixed Income</td>
<td>7.1</td>
<td>9.2</td>
<td>12.0</td>
<td>8 - 15</td>
</tr>
<tr>
<td>Public Equity</td>
<td>23.4</td>
<td>29.0</td>
<td>30.0</td>
<td>25 - 35</td>
</tr>
<tr>
<td>Private Capital</td>
<td>36.0</td>
<td>30.3</td>
<td>20.0</td>
<td>15 - 25</td>
</tr>
<tr>
<td>Inflation Hedges</td>
<td>23.2</td>
<td>18.6</td>
<td>15.0</td>
<td>10 - 20</td>
</tr>
<tr>
<td>Return Generating Fixed Income</td>
<td>7.5</td>
<td>8.7</td>
<td>12.0</td>
<td>10 - 15</td>
</tr>
<tr>
<td>Absolute Return</td>
<td>2.8</td>
<td>0.8</td>
<td>11.0</td>
<td>8 - 15</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>100.0</strong></td>
<td><strong>100.0</strong></td>
<td><strong>100.0</strong></td>
<td></td>
</tr>
</tbody>
</table>
Endowment Liquidity

Net Cash Flows from Illiquid Portfolio

Actual vs. Forecast

2014 Forecast
2013 Forecast
December
November
October
September
August
July
June
May
April
March
February
January

Forecast

OIB Forecast (Cumulative)

Millions ($)

140.0
120.0
100.0
80.0
60.0
40.0
20.0
0.0

5.3
13.5
24.1
53.9
47.3
37.3
33.4
83.9
74.2
65.6
53.9
47.3
37.3
33.4
83.9
74.2
65.6
53.9
47.3
37.3
33.4
83.9
74.2
65.6
53.9
47.3
37.3
33.4
83.9
74.2
65.6

# Investment Manager Diversification

## Top 10 Managers

<table>
<thead>
<tr>
<th>Manager</th>
<th>Total Market Value ($M)</th>
<th>% of Total Fund</th>
</tr>
</thead>
<tbody>
<tr>
<td>Blackrock*</td>
<td>195.5</td>
<td>17.6</td>
</tr>
<tr>
<td>TCW</td>
<td>86.2</td>
<td>7.8</td>
</tr>
<tr>
<td>Goldman Sachs</td>
<td>47.8</td>
<td>4.3</td>
</tr>
<tr>
<td>Acadian</td>
<td>45.8</td>
<td>4.1</td>
</tr>
<tr>
<td>PineBridge</td>
<td>35.5</td>
<td>3.3</td>
</tr>
<tr>
<td>Reams</td>
<td>35.2</td>
<td>3.2</td>
</tr>
<tr>
<td>MHR</td>
<td>32.2</td>
<td>2.9</td>
</tr>
<tr>
<td>Pembroke</td>
<td>30.6</td>
<td>2.8</td>
</tr>
<tr>
<td>Insight</td>
<td>28.8</td>
<td>2.7</td>
</tr>
<tr>
<td>Lazard</td>
<td>27.8</td>
<td>2.5</td>
</tr>
</tbody>
</table>

**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 10.2% of the endowment
Distribution Stability

Actual CEF Distribution (gross of reinvestment)

Change in Calculation Methodology
TIP Review
TIP – Fund Performance*
Market Value: $1,171.5M***

Q3 outperformance driven primarily by:
- Spread tightening in the US agency sector
- 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 $126.8 investment in CEF
TIP – Asset Allocation
Market Value: $1,171.5M

Credit Quality

<table>
<thead>
<tr>
<th>Statistic</th>
<th>Portfolio</th>
<th>Benchmark</th>
</tr>
</thead>
<tbody>
<tr>
<td>Average Duration</td>
<td>1.90</td>
<td>1.40</td>
</tr>
<tr>
<td>Average Credit Rating</td>
<td>Govt/Agency</td>
<td>Govt/Agency</td>
</tr>
<tr>
<td>Current Yield</td>
<td>0.71%</td>
<td>0.23%</td>
</tr>
</tbody>
</table>

Sector Exposure

<table>
<thead>
<tr>
<th>Money Market &amp; Cash</th>
<th>40%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Treasury Notes</td>
<td>8%</td>
</tr>
<tr>
<td>Mortgages</td>
<td>8%</td>
</tr>
<tr>
<td>Agency Bonds</td>
<td>44%</td>
</tr>
</tbody>
</table>
TIP – Performance* by Sector
Market Value: $1,171.5M

* Performance is net of manager fees
** Performance excludes balances at Wells Fargo and US Bank used to offset banking fees
TIP – Yield History
Market Value: $1,171.5M
GIP Review
**GIP – Fund Performance***

**Market Value:** $58.7M***

Q3 outperformance driven primarily by:

- Investment in CEF (21% allocation) underperformed the GIP benchmark by 77 bps
- Underweight to US Treasuries relative to the benchmark
- EM debt underperformed the GIP benchmark by 179 bps
- TCW and PIMCO Total Return Funds both outperformed the GIP benchmark by 60 bps

* Performance is net of manager fees
** Benchmark: 100% Barclays Capital Aggregate
*** Total GIP market value and investment performance includes the $12.2 investment in CEF
GIP – Asset Allocation
Market Value: $58.7M

Portfolio Composition

- Core Fixed Income: 71%
- GIP CEF: 21%
- EM Debt: 8%
GIP – Performance* by Sector

Market Value: $58.7M

* Performance is net of manager fees
** Benchmark: 100% Barclays Capital Aggregate
RUMINCO – Fund Performance*
Market Value: $39.7M

Q3 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

Portfolio Composition

- Global Equity: 42%
- Long-Term Fixed Income: 26%
- Intermediate Fixed Income: 32%

Market Value: $39.7M