AGENDA

2. Debt Capacity Forecast Model for Six-Year Capital Improvement Plan - R. Pfutzenreuter (p. 3)
5. Information Items - R. Pfutzenreuter (pp. 12-44)

Board Members
John Frobenius, Chair
Venora Hung, Vice Chair
Clyde Allen
Richard Beeson
Linda Cohen
Steve Sviggum

Student Representatives
James Rook
Madeleine Hammerlund
Finance and Operations Committee

Agenda Item:  Issues Related to: 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 2011 Annual Financial Report to the Finance and Operations Committee.

Outline of Key Points/Policy Issues:

The annual financial report presents the financial position and results of operations for the University for fiscal year 2011, with comparative data for fiscal year 2010. The presentation will focus on:

• Management’s discussion and analysis as reported in the financial statements;
• An overview of assets, liabilities, and net assets;
• A discussion of revenues and expenses for FY 2011, with comparative results for FY 2010;
• The statement of cash flows; and
• Component unit reporting.

A copy of the FY 2011 audited financial statements is included in the docket materials for the Board of Regents.

Background Information:

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

December 8, 2011

**Agenda Item:** Debt Capacity Forecast Model for Six-Year Capital Improvement Plan

- review
- review/action
- action
- discussion

**Presenters:** Vice President/CFO Richard Pfutzenreuter

**Purpose:**

- policy
- background/context
- oversight
- strategic positioning

The Board of Regents annually reviews the impact of existing and planned bonded indebtedness relating to capital projects and the impact of those plans on the current and future debt capacity of the University.

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

The debt capacity forecast is a key financial planning component to the development of a long range financial plan for the University of Minnesota. The debt capacity forecast also provides a framework for the development of a six-year capital plan. The six-year capital plan is a required element for the development of a long range financial plan for the University.

The presentation will outline future debt capacity in the context of key financial ratios taking into consideration current authorized debt levels and any near term plans for additional debt issuances relating to capital projects.

**Background Information:**

Board of Regents Policy: *Board Operations and Agenda Guidelines* directs the administration to conduct capital planning with a six year time horizon, updated annually. This annual capital planning process is completed in two parts.

Part I, approved by the Board in June 2011, is the annual capital improvement budget for the coming fiscal year in which projects with completed pre-designs and financing plans are approved to proceed with design and construction.

Part II is a capital improvement plan that established the University’s capital priorities and financial plans for an additional 5 years. This plan becomes the basis for continued capital and financing planning for the included projects.
UNIVERSITY OF MINNESOTA
BOARD OF REGENTS

Finance and Operations Committee December 8, 2011

Agenda Item: Long Term Financial Planning: Fully Allocated Cost of Mission Activities, Part I

☐ review ☐ review/action ☐ action ☑ discussion

Presenters: Vice President/CFO Richard Pfutzenreuter
Associate Vice President Julie Tonneson
Lincoln Kallsen, University Budget and Finance

Purpose:

☐ policy ☐ background/context ☑ oversight ☐ strategic positioning

The University recently developed a full methodology for allocating both direct and indirect expenditures on a fiscal year basis to the mission activities of instruction, research, and public service, as well as to auxiliary operations and student aid. In addition, a methodology has also been created to allocate revenue sources on a fiscal year basis to those same categories of spending. This information will allow for enhanced analysis and understanding of the current patterns in spending by mission activity and the resources that support that spending. Decisions on future budgetary allocations and resource goals can be influenced by an understanding of the University budget from this perspective.

Outline of Key Points/Policy Issues:

This analysis serves to inform future discussions on resource and spending plans for the University. Although the University completed instructional cost studies in the past for comparison with other institutions and for the provision of information to the state legislature, this type of analysis has not been conducted for many years. It was never done across all the mission activities, nor did it attempt to attach revenue sources to spending. The materials to be presented at this time outline the definitions and concepts contained in the overall analysis; the major deliverables related to communicating spending and resource allocation at the University level; descriptions of the specific methodologies developed; illustrative mathematical examples of those methodologies; the purpose of the analysis, and proposed next steps. There will be no direct financial impact related to this overview.

Background Information:

This type of analysis has not been presented to the Board of Regents in the past.
Finance and Operations Committee

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 FEI Company for $2,810,000 for Model Titan G2 60-300 Analytical Scanning and Transmission Electron Microscope for Department of Chemical Engineering and Materials Science and Characterization Facility in the College of Science and Engineering. This purchase will be made with funds from the College of Science and Engineering and instrumentation grant awarded through the University of Minnesota Infrastructure Investment Initiative (I-3) competition. Vendor was selected through a competitive process.

- To Iceberg Technology for an estimated $3,350,000 for contractor and consultant services for the period of January 1, 2011, through September 30, 2012. This work is jointly sponsored by the Office of Information Technology (OIT) and the Controllers Office. Cost will be paid for through a combination of departmental resources and centrally allocated one-time resources. Vendor was selected from a list of firms on the State of Minnesota’s Professional and Technical Services Master Contracts list.

- To Illumina, Inc. for $2,500,000 for manufactured reagents as needed for the period of December 1, 2011 through June 30, 2012 for the Genomics Department core facility, Biomedical Genomics Center (BMGC). The reagents from Illumina will be purchased with
departmental funds. As an ISO, the Biomedical Genomics Center will order reagents as needed for expression, genotyping, and next-generation sequencing projects provided to University researchers. See enclosed documentation regarding basis for vendor selection.

Background Information:

Approvals are sought in compliance with Board of Regents Policy as follows:

• **General Contingency**: Reservation and Delegation of Authority, Sec.VII, Subd. 1.
• **Purchase of Goods and Services $1,000,000 and Over**: Reservation and Delegation of Authority, Sec.VII, Subd. 6

President's Recommendation for Action:

The President recommends approval of the Consent Report.
## General Contingency

### 2011-12 General Contingency:

<table>
<thead>
<tr>
<th>Recipient</th>
<th>Allocation</th>
<th>Balance</th>
<th>Purpose</th>
</tr>
</thead>
<tbody>
<tr>
<td>FY2012 General Contingency</td>
<td>$1,000,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Carryforward from FY2011 into FY2012</td>
<td>91,986</td>
<td>1,091,986</td>
<td></td>
</tr>
</tbody>
</table>

1. New items this reporting period:

2. 

3. Exec Dir Office for Business & Community Economic Dev | 55,000      | $1,036,986   | Awards, Incentive & Recognition Program   |

4. 

5. Balance as of November 30, 2011              |            | 1,036,986    |                                              |
Purchase of Goods and Services $1,000,000 and over

To Iceberg Technology for an estimated $3,350,000, for contractor and consultant services for the period of January 1, 2011, through September 30, 2012. This work is jointly sponsored by the Office of Information Technology (OIT) and the Controllers Office.

Based on feedback from the user community and at the direction of the President, a team has been organizing, developing and implementing specific remedies to persistent problems with EFS and reporting that have eroded the system's effectiveness. The goal is to provide a more user-friendly, efficient and reliable system. These improvements have been organized into three categories: Financial Reporting Enhancements, Ongoing System Technical Improvements, and Complex System Architecture Design Considerations. Additionally, a Business Intelligence pilot project has been underway, with the goal of evaluating Oracle's Business Intelligence software as a possible replacement for the University's existing internally-developed reporting and data warehouse software. Iceberg has been providing business analysis and technical support to OIT and the Controller's Office EFS Module Support Team in support of this effort, and we are projecting to utilize them through September 30, 2012.

Contracted firm has been selected from a list of firms on the State of Minnesota's Professional and Technical Services Master Contracts list. Vendors on the State list were selected by the State through a competitive process and are approved for use by the University.

The cost of these contracts will be paid for through a combination of departmental resources and centrally allocated one-time resources.

Submitted by: Michael D. Volna
Associate Vice President, Finance and Controller
205 West Bank Office Building
Mpls. Campus
Phone: (612) 625-9529
Fax: (612) 625-7384

Approval of this item is requested by:

[Signature]
Vice President/CFO

11/22/11
Date
Purchase of Goods and Services over $1,000,000

To Illumina, Inc. for $2,500,000.00 for manufacturer reagents as needed for the period of December 1, 2011 through June 30, 2012 for the Genomics Department core facility, Biomedical Genomics Center (BMGC).

Due to the increase in expression, genotyping, and next-generation sequencing projects provided by the BMGC, a quote with negotiated pricing has been obtained from Illumina. Manufacturer specific reagents are needed to process samples using Illumina's HiSeq2000, GAIIx, iScan, cBot, and Tecan instruments. To provide consistent results and maintain manufacturer warranty, the instruments require reagents manufactured solely by Illumina. In order to provide core services to University of Minnesota researchers through the BMGC, a blanket award is needed for the fiscal year, 2011-2012.

The reagents from Illumina will be purchased with departmental funds. As an ISO, the Biomedical Genomics Center will order reagents as needed for expression, genotyping, and next-generation sequencing projects provided to University researchers.

Submitted by: Karina Bunjer Sartorio, Scientist, Biomedical Genomics Center
MMC 613 Mayo
420 Delaware Street SE
Minneapolis, MN 55455
Phone (612) 626-5341
FAX (612) 626-8232

Approval for this item requested by:

[Signature]
VP or Exec. VP Signature

[Signature]
Date

10/21/11
Rationale for Exception to Competitive Bidding

This purchase has not been competitively bid because the Biomedical Genomics Center requires reagents from Genomics for Illumina HiSeq2000, GAIIx, iScan, cBot, and Tecan instruments to provide consistent research results for the University of Minnesota researchers.

Prices or discounts for this request are reasonable and represent a good value to the University of Minnesota. This judgment is based on discounts negotiated with Genomics for all reagents. Discounts range from 3% to 30% from Academic Research Pricing depending on the item and volume.

The Director of Purchasing and the University Controller concluded that the process used resulted in a fair and reasonable price to the University.
Purchase of Goods and Services over $1,000,000

To FEI Company for $2,810,000 for Model Titan G2 60-300 Analytical Scanning and Transmission Electron Microscope for Department of Chemical Engineering and Materials Science and Characterization Facility in the College of Science and Engineering.

The acquisition of a new generation, state-of-the-art, aberration-corrected, analytical high-resolution scanning and transmission electron microscope (HR-(S)TEM) will fill a critical need for a first-class electron microscopy facility at the University of Minnesota.

This aberration-corrected HR-(S)TEM is a cutting-edge instrument that will allow students, researchers and faculty to push the limits of our understanding of the fundamentals of nano-scale materials via atomic, and even sub-atomic level imaging and spectroscopy.

Through a competitive process, FEI Company provided the best overall solution for the research and characterization needs of the University of Minnesota.

This purchase will be made with funds from the College of Science and Engineering and instrumentation grant awarded through the University of Minnesota Infrastructure Investment Initiative (I-3) competition.

Submitted by: K. Andre Mkhoyan,
Department of Chemical Engineering and Materials Science
34 Amundson Hall
Phone: (612) 625-2059
Fax: (612) 626-7246

Approval for this item requested by:

[Signature]
VP or Exec. VP Signature

[Date]

Finance and Operations Committee                December 8, 2011

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.

Report on Special Meeting of the Investment Advisory Committee
To provide the Board of Regents with a summary of the special meeting of the Investment Advisory Committee (IAC) held on November 10, 2011.

Quarterly Asset Management Report
To report on the quarterly performance results for assets managed by the Office of Investments and Banking (OIB) for the period ended September 30, 2011. The OIB prepares this report, as required by Board policy, for review by the Investment Advisory Committee and the Board of Regents.

Debt Management Advisory Committee Update
To provide a report on the semi-annual meeting of the Debt Management Advisory Committee (DMAC) held on December 7, 2011.

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
Regents Purchasing Policy Violations

Report on Special Meeting of the Investment Advisory Committee

The purpose of the special meeting of the IAC was to discuss in detail the analytical work, portfolio modeling, and consulting that the OIB staff had done throughout the summer months with the Assistance of the Global Portfolio Solutions Group (GPS) at Goldman Sachs. This was done in anticipation of a regularly scheduled meeting on November 30, 2011, to discuss the output from the model and a recommendation for new asset allocation target ranges. Two representatives of the GPS group were in attendance in addition to the entire IAC, and other participants representing the University administration and the Board office.

Mr. Mason provided the committee with background information regarding previous asset allocation work done with other consultants and the reason that Goldman's GPS group had been selected to assist in the project. He then reviewed the Regents policy for the Endowment highlighting the portfolio investment objectives as the basis for a model portfolio.

The GPS representatives then led the discussion about specific, very detailed assumptions or calculations that supported each of the model's input values. The conversation then broadened to include the criteria or limitations placed on the modeling process to account for risk mitigating strategies such as an allocation to treasury securities and TIPS that may not produce substantial returns, but provide a margin of safety during adverse market conditions. A diversified mix of return generating assets was discussed and the various assumptions of return contribution, relative risks, and other factors that go into the model portfolio construction.

Quarterly Asset Management Report

- The invested assets of the University totaled approximately $2.1 billion on September 30, 2011.

- The Consolidated Endowment Fund (CEF) value as of September 30, 2011, was $931.8 million, a decrease of $25.0 million over the last quarter after distributions of $12.1 million. The total investment return for CEF was up 9.3% over the last 12 months compared to a benchmark return of 7.4%.

- The investment return for CEF outperformed the benchmark due to an underweight in public equity which greatly declined during the quarter.

- The market value of the short term reserves (TIP) was $934.4 million as of September 30, 2011. This was an increase of $109.5 million over the last quarter. The investment return on the portfolio over the last 12 months was 1.5% compared to a benchmark return of 0.9%.

Debt Management Advisory Committee Update

The DMAC agenda included a review of the debt capacity ratios based on the forecast model for the six-year capital improvement plan and the slides to be presented at the Finance & Operations committee on December 8, and a discussion of the pricing results for the Series 2011B&C bonds that closed on October 13, 2011, and for the Series 2011D that is to be priced on December 7, 2011.

Background Information:
December 8, 2011

The Honorable John Frobenius, Chair, Finance and Operations Committee
The Honorable Venora Hung, Vice Chair
The Honorable Clyde Allen
The Honorable Richard Beeson
The Honorable Linda Cohen
The Honorable Steve Sviggum

Committee Members:

Enclosed is Purchasing Services' report on purchasing activity for the first quarter, fiscal year ‘12. Regents policy requires that a quarterly purchasing report, including violations of Regents purchasing policy, be submitted to the Finance and Operations 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 preapproved exceptions. With that in mind, the following observations are worth noting:

- First quarter spending for FY12 compares very closely to the first quarter of FY11. We remain down almost $100 million from the comparable FY10 total, primarily because of lower construction spending.

- The total number of exceptions (Approved and Pre-Approved combined) are down in the first quarter of FY12 compared to the first quarter of FY11, and the total value of exceptions is down 34% from FY11 value.

- There were no Regents Purchasing Policy Violations in the first quarter of FY12.

If you have any questions on the report, please do not hesitate to contact Tim Bray, Interim 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
Ann Cieslak, Executive Director and Corporate Secretary, Board of Regents
Tim Bray, Associate Director, Purchasing Services
I. Summary of Purchasing Activity

### Total Quarterly Purchasing Activity

- **Q1 FY10**: # of Transactions: 282,855, Total Dollars Spent: $312,698,142
- **Q1 FY11**: # of Transactions: 213,309, Total Dollars Spent: $212,034,993
- **Q1 FY12**: # of Transactions: 126,842, Total Dollars Spent: $225,441,411

### Quarterly Approved Exceptions

- **Q1 FY10**: # of Exceptions: 31, Total Dollars Spent: $6,164,358
- **Q1 FY11**: # of Exceptions: 54, Total Dollars Spent: $6,968,324
- **Q1 FY12**: # of Exceptions: 43, Total Dollars Spent: $5,460,732

### Quarterly Pre-Approved Exceptions

- **Q1 FY10**: # of Exceptions: 28, Total Dollars Spent: $3,880,723
- **Q1 FY11**: # of Exceptions: 36, Total Dollars Spent: $9,833,252
- **Q1 FY12**: # of Exceptions: 29, Total Dollars Spent: $5,557,621
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>6</td>
<td>$659,240</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>12</td>
<td>$1,751,457</td>
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</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>6</td>
<td>$570,988</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>17</td>
<td>$2,057,447</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>1</td>
<td>$361,600</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>0</td>
<td>$0</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>1</td>
<td>$60,000</td>
</tr>
</tbody>
</table>

TOTAL Approved Exceptions

| 43 PURCHASES | $5,460,732 |
### III. Pre-Approved Exceptions to Competitive Purchasing

<table>
<thead>
<tr>
<th>Exception</th>
<th>Total # of Exceptions</th>
<th>Total Dollars</th>
</tr>
</thead>
<tbody>
<tr>
<td>Exception #1: Lodging, travel (does not include group airfares or charter air.)</td>
<td>1</td>
<td>$140,000</td>
</tr>
<tr>
<td>Exception #2: Media advertising, purchase of or access to uniquely compiled database information.</td>
<td>1</td>
<td>$100,000</td>
</tr>
<tr>
<td>Exception #4: Closeout or 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>4</td>
<td>$467,518</td>
</tr>
<tr>
<td>Exception #7: Service/maintenance agreements with the original manufacturer/developer for equipment and software.</td>
<td>10</td>
<td>$3,418,438</td>
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<tr>
<td>Exception #11: Software license renewals and software upgrades purchased from original developer. This includes adding licenses to an existing license agreement.</td>
<td>3</td>
<td>$230,500</td>
</tr>
<tr>
<td>Exception #12: Original Artwork.</td>
<td>2</td>
<td>$400,000</td>
</tr>
<tr>
<td>Exception #19: Service (1) available only from another governmental agency or public entity or (2) required by law to be provided by another governmental agency.</td>
<td>2</td>
<td>$153,979</td>
</tr>
<tr>
<td>Exception #21: Entertainers, lecturers, speakers and honoraria.</td>
<td>3</td>
<td>$236,500</td>
</tr>
<tr>
<td>Exception #24: Study Abroad Program Administrators (Does not include group airfares).</td>
<td>3</td>
<td>$410,686</td>
</tr>
</tbody>
</table>

**TOTAL Pre-Approved Exceptions**

29 PURCHASES  $5,557,621

There are 25 categories of Pre-Approved Exceptions. Only those categories which had qualifying transactions are reported above.
IV. Regents Policy Violations

There are no Regents Policy Violations to report.
Quarterly Asset Management Report
September 30, 2011
Table of Contents

• Overview – All Funds
• Highlights and Commentary
  – Consolidated Endowment Fund (CEF)
  – Temporary Investment Pool (TIP)
  – Group Income Pool (GIP)
  – RUMINCO
• New/Terminated Managers
## Overview – All Funds

<table>
<thead>
<tr>
<th>OIB Managed Funds ($ millions)</th>
<th>Sept-11</th>
<th>June-11</th>
<th>Jun-10</th>
</tr>
</thead>
<tbody>
<tr>
<td>Consolidated Endowment Fund (CEF) *</td>
<td>$ 931.8</td>
<td>$ 956.8</td>
<td>$ 861.5</td>
</tr>
<tr>
<td>Long-Term Reserves (GIP)**</td>
<td>42.9</td>
<td>44.3</td>
<td>41.9</td>
</tr>
<tr>
<td>Short-Term Reserves (TIP)</td>
<td>934.4</td>
<td>824.9</td>
<td>697.6</td>
</tr>
<tr>
<td>RUMINCO Ltd.</td>
<td>29.4</td>
<td>32.3</td>
<td>31.2</td>
</tr>
<tr>
<td>Invested Assets Related to Indebtedness</td>
<td>153.5</td>
<td>181.9</td>
<td>45.5</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>2,092.0</td>
<td>1,963.5</td>
<td>1,677.7</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Other Funds Not Managed by OIB</th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>U of M Foundation Fund</td>
<td>$ 1,274.6</td>
<td>$ 1,328.0</td>
<td>$ 1,133.4</td>
</tr>
<tr>
<td>MN Medical Foundation Fund</td>
<td>202.3</td>
<td>236.4</td>
<td>189.4</td>
</tr>
<tr>
<td>Basic Faculty Retirement Plan</td>
<td>$ 2,807.1</td>
<td>$ 3,012.2</td>
<td>$ 2,629.9</td>
</tr>
</tbody>
</table>

* Includes TIP, GIP and PUF investments, which as of 9/30/11 were $105.3M, $10.2M, and $379.9M, respectively

** GIP market value excludes the $10.2M invested in CEF. Elsewhere in the presentation this value is included for purposes of calculating total fund performance
CEF Review

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

CEF Endowment Performance Growth of $1 since December 31, 1989

Investment Objective vs. CEF Actual Performance Growth

Office of Investments & Banking
Maintain Inflation-Adj. Endowment Value

CEF Performance vs. Benchmarks

- One quarter outperformance driven primarily by:
  - Underweight to public equity and overweight to private equity protected the fund from the steep public stock market declines in the quarter
  - Real assets had a strong quarter driven mainly by write-ups on currently held assets
  - Three and five year performance negatively impacted by significant decline in private real estate values
- Fund Value $932MM****

* Net of Manager Fees
** Benchmark: CEF Custom Index – 20% Russell 3000, 20% MSCI AC World ex US (NET), 20% State Street PE One QTR Lag, 20% NCREIF Property One QTR Lag and 20% Barclays Capital Aggregate
*** Benchmark: 70% Russell 3000, 30% Barclays Capital Aggregate
**** Total CEF Market Value includes $105.3M in TIP and $10.2M in GIP investments
Contribution to Return by Asset Class

Fiscal Year-To-Date 2012

<table>
<thead>
<tr>
<th>Asset Allocation Decisions</th>
<th>Effect (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Underweight to public equity</td>
<td>3.7</td>
</tr>
<tr>
<td>Overweight to private equity</td>
<td>0.5</td>
</tr>
<tr>
<td>Other</td>
<td>(0.1)</td>
</tr>
<tr>
<td><strong>Total Asset Allocation Effect</strong></td>
<td><strong>4.1</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Individual Manager Performance</th>
<th>Effect (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Underperformance by int'l public equity managers</td>
<td>(0.4)</td>
</tr>
<tr>
<td>Underperformance by fixed income managers</td>
<td>(0.7)</td>
</tr>
<tr>
<td>Outperformance by domestic public equity</td>
<td>0.4</td>
</tr>
<tr>
<td>Underperformance by private equity</td>
<td>(0.3)</td>
</tr>
<tr>
<td>Other</td>
<td>0.0</td>
</tr>
<tr>
<td><strong>Total Manager Performance Effect</strong></td>
<td><strong>(1.0)</strong></td>
</tr>
<tr>
<td><strong>Total</strong>*</td>
<td><strong>3.1</strong></td>
</tr>
</tbody>
</table>

* Excludes the affect of cash and assets in the process of liquidation, which for FY2011 was 0.25%
Maintain Inflation-Adj. Endowment Value

Sector vs. Benchmark Returns

1 Quarter

<table>
<thead>
<tr>
<th>Sector</th>
<th>CEF</th>
<th>Benchmark**</th>
</tr>
</thead>
<tbody>
<tr>
<td>Domestic Equities</td>
<td>-16.8%</td>
<td>-15.3%</td>
</tr>
<tr>
<td>International Equities</td>
<td>-19.9%</td>
<td>-18.6%</td>
</tr>
<tr>
<td>Private Capital</td>
<td>3.1%</td>
<td>4.0%</td>
</tr>
<tr>
<td>Real Assets</td>
<td>4.5%</td>
<td>3.9%</td>
</tr>
<tr>
<td>Fixed Income</td>
<td>-0.9%</td>
<td>3.8%</td>
</tr>
</tbody>
</table>

1 Year

<table>
<thead>
<tr>
<th>Sector</th>
<th>CEF</th>
<th>Benchmark**</th>
</tr>
</thead>
<tbody>
<tr>
<td>Domestic Equities</td>
<td>-0.2%</td>
<td>-8.3%</td>
</tr>
<tr>
<td>International Equities</td>
<td>-10.8%</td>
<td>-10.8%</td>
</tr>
<tr>
<td>Private Capital</td>
<td>0.6%</td>
<td>22.5%</td>
</tr>
<tr>
<td>Real Assets</td>
<td>26.5%</td>
<td>16.7%</td>
</tr>
<tr>
<td>Fixed Income</td>
<td>6.3%</td>
<td>5.3%</td>
</tr>
</tbody>
</table>

* Net of Manager Fees
** Benchmark: Domestic Equity = Russell 3000; Int’l Equity = MSCI AC World ex US (NET); Private Capital = State Street PE One QTR Lag; Real Assets = NCREIF Property One QTR Lag; Fixed Income = Barclays Capital Aggregate
Acceptable Risk Parameters

Standard Deviation vs. Benchmark

**Definition:** Standard Deviation is a measure of the volatility of returns

**Target:** 10-12% when measured over an entire market cycle

**Strategy:** Reduce risk, as measured by Standard Deviation, through diversification and hedging strategies

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**Target:** 10-12% when measured over an entire market cycle

**Strategy:** Reduce risk, as measured by Standard Deviation, through diversification and hedging strategies
Acceptable Risk Parameters

### Asset Allocation vs. Policy Targets

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Public Equity</td>
<td>34.5</td>
<td>17.6</td>
<td>18.1</td>
<td>20.5</td>
<td>16.9</td>
<td>40.0</td>
</tr>
<tr>
<td>Private Capital</td>
<td>24.1</td>
<td>30.5</td>
<td>34.9</td>
<td>38.9</td>
<td>40.8</td>
<td>20.0</td>
</tr>
<tr>
<td>Real Assets</td>
<td>21.0</td>
<td>21.7</td>
<td>20.5</td>
<td>22.2</td>
<td>24.2</td>
<td>20.0</td>
</tr>
<tr>
<td>Fixed Income</td>
<td>20.4</td>
<td>30.2</td>
<td>26.6</td>
<td>18.4</td>
<td>18.1</td>
<td>20.0</td>
</tr>
</tbody>
</table>

### Definition:
Movements away from Policy Asset Allocation Targets increase the risk of over/underperformance relative to the benchmark.

### Target:
Maintain asset allocation within a reasonable range of policy targets.

### Strategy:
Use increasing liquidity to aggressively rebalance to policy targets. Re-evaluate the appropriateness of current asset allocation targets.
Acceptable Risk Parameters

3 year Plan - Liquidity

**Definition:** Appropriate levels of liquid and semi-liquid, those assets that can be sold at reasonable prices within one year, enables timely rebalancing and responses to new opportunities.

**Target:** No more than 35% 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 3 years.
Acceptable Risk Parameters

Net Cash Flows from Illiquid Portfolio Actual vs. Forecast

OIB Forecast (Cumulative)
Forecast
Actual Cashflow (Cumulative)
## Acceptable Risk Parameters

### 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>81.4</td>
<td>8.8</td>
</tr>
<tr>
<td>PIMCO</td>
<td>60.3</td>
<td>6.5</td>
</tr>
<tr>
<td>Goldman Sachs</td>
<td>61.3</td>
<td>6.5</td>
</tr>
<tr>
<td>Pinebridge</td>
<td>46.4</td>
<td>5</td>
</tr>
<tr>
<td>State Street</td>
<td>44.9</td>
<td>4.8</td>
</tr>
<tr>
<td>Oaktree Capital</td>
<td>39.8</td>
<td>4.2</td>
</tr>
<tr>
<td>Varde</td>
<td>35.2</td>
<td>3.8</td>
</tr>
<tr>
<td>Lasalle</td>
<td>35.7</td>
<td>3.8</td>
</tr>
<tr>
<td>Kayne Anderson</td>
<td>32.7</td>
<td>3.4</td>
</tr>
<tr>
<td>TCW</td>
<td>31.5</td>
<td>3.3</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.
Stable Distributions

Actual CEF Distribution (gross of reinvestment)

- Actual Payout
- Trendline

Change in Calculation Methodology
TIP Review
TIP – Total Fund Performance*
Market Value: $934M

- One quarter outperformance driven primarily by:
  - Agency bonds outperformed as longer-term rates declined
  - MBS outperformed as rates declined. However, outperformance was reduced as spreads widened over the quarter due to concerns over credit exposure

* Net of Manager Fees
** Benchmark: 70% BofAML U.S. Treasuries 1-3 Yr / 30% 91 Day T-Bill
*** Total TIP Market value excludes the $105.3M investment in CEF
TIP – Asset Allocation
Market Value: $934M

Credit Quality

<table>
<thead>
<tr>
<th>Statistic</th>
<th>Portfolio</th>
<th>Benchmark</th>
</tr>
</thead>
<tbody>
<tr>
<td>Average Duration</td>
<td>0.96</td>
<td>1.38</td>
</tr>
<tr>
<td>Average Credit Rating</td>
<td>AA+</td>
<td>AA+</td>
</tr>
<tr>
<td>Current Yield</td>
<td>0.69%</td>
<td>0.23%</td>
</tr>
</tbody>
</table>
TIP – Performance* by Sector
Market Value: $934M

* Net of Manager Fees
GIP – Total Fund Performance*
Market Value***: $53M

- One quarter underperformance driven primarily by:
  - GIP investment in CEF (19% allocation) performance was negative
  - All fixed income underperformed the benchmark due to an underweight to US Treasuries and negative return on emerging markets debt

* Net of Manager Fees
** Benchmark: 100% Barclays Capital Aggregate
*** Total GIP market value and investment performance includes the $10.2M investment in CEF
GIP – Asset Allocation
Market Value: $53M

Portfolio Composition

- Core Bond: 47%
- GIP CEF: 19%
- Absolute Return: 15%
- EM Debt: 19%
GIP – Performance* by Sector
Market Value: $53M

1 Quarter

1 Year

* Net of Manager Fees
** Benchmark: 100% Barclays Capital Aggregate
RUMINCO Review
One quarter underperformance primarily driven by:
- Overweight to global equities during a period of negative equity market returns
- Managers were underweight to US Treasuries during a “flight to quality” period in the market

* Net of Manager Fees
** Benchmark: 40% MSCI AC World Net, 30% Barclays Capital Aggregate, 30% BofAML U.S. Corp & Govt 1-3 Yr
RUMINCO – Asset Allocation
Market Value: $29M

Portfolio Composition

- Global Equity: 42%
- Long-Term Fixed Income: 45%
- Intermediate Fixed Income: 13%

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

New:
• None

Terminated:
• None

Significant Changes in Allocation:
• Blackrock Floating Rate Securities Fund – Tactical Allocation (CEF)

Additional Changes:
• None