UNIVERSITY OF MINNESOTA

BOARD OF REGENTS POLICY

ENDOWMENT FUND
Adopted: September 8, 1989
Amended: May 11, 1990; July 10, 1992; November 10, 1993; January 14, 1994; April 9, 1998; November 10, 2000; December 13, 2002; March 12, 2004; February 11, 2005; May 13, 2005; July 12, 2006; May 14, 2010; June 10, 2011; May 9, 2014; May 11, 2018
Supersedes: (see end of policy)

ENDOWMENT FUND

SECTION I. SCOPE.

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

SECTION II. INVESTMENT OBJECTIVES.

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

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

SECTION III. COMPREHENSIVE PROGRAM REVIEW.

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

SECTION IV. ASSET ALLOCATION GUIDELINES.

Consistent with Board of Regents Policy: *Reservation and Delegation of Authority*, the Board reserves to itself authority to approve asset allocation ranges. Those ranges shall be:

- The long-term allocation for Stability assets shall be 5-15 percent and include Liquid Reserves (5-15 percent) and High Quality Credit (0-6 percent).
- The long-term allocation for Diversifier assets shall be 20-40 percent and include Enhanced Stability assets (5-20 percent), Idiosyncratic assets (0-15 percent), and Growth Diversifiers (5-20 percent).
- The long-term allocation for Growth assets shall be 50-70 percent and include Equity (45-70 percent) and Extended Credit (0-10 percent). Within Growth assets, the Equity allocation shall have long-term geographic target exposures of United States markets (45 percent), Developed Markets (30 percent), and Emerging Markets (25 percent).

SECTION V. REPORTING.

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

(a) a quarterly report regarding the status of the endowment containing the following information:
   (1) the total market value and investment performance relative to selected benchmarks for each asset class and the total portfolio;
   (2) an attribution analysis of investment performance;
   (3) an analysis of investment performance relative to investment objectives;
   (4) a summary of portfolio risk;
   (5) deviations from asset allocation ranges, if any; and
   (6) new managers, manager terminations, and any significant changes in investment strategy or allocation.
(b) an annual report containing the following information:
   (1) a comparison of relative performance and asset allocation to peer institutions;
   (2) steps taken to provide opportunities to emerging, minority-owned, and woman-owned investment management firms; and
   (3) a description of current investments related to sustainability and renewable energy.
(c) at the next regularly scheduled meeting of the Board a report containing the following information:
   (1) any significant change in investment strategy and any internal or external event that has materially affected the performance of the fund; and
   (2) any other information requested by the Board.

SECTION VI. INVESTMENT MANAGEMENT GUIDELINES.

Subd. 1. Use of Investment Managers. Except as provided in Subds. 3 and/or 4 of this section, endowment funds shall be invested only through investment managers. The president or delegate shall choose investment managers with demonstrated expertise and engage them by written agreement to execute transactions in their discretion within stated parameters and in accordance with applicable policy. No investment manager may manage more than 20 percent of the endowment for a period of more than 12 months.

Subd. 2. Liquidity. Illiquid investments shall be defined as those incapable of being converted to cash or cash equivalents within 12 months without material loss of market value. The sum of illiquid investments by net asset value shall not exceed 50 percent of total endowment assets in normal market environments and 75 percent in stressed market environments. Additionally, the sum of (a) the net asset value of illiquid investments, and (b) total unfunded commitments to illiquid investments shall not exceed 75 percent of total endowment assets in normal market environments and 90 percent in stressed market environments.

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

(a) futures contracts, only on a net unleveraged basis;

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

Subd. 4 Permissible Activities and Limitations.

(a) Economic leverage, defined as the portion of an exposure obtained through the derivatives market that is not fully collateralized by cash, may be utilized subject to the constraint that gross leverage of the total endowment fund shall not exceed 110 percent. Derivative positions utilized in implementing the rebalancing program, as described in Subd. 3(a) of this section, will not be included in the calculation of gross leverage.
(b) Co-investments are permissible subject to the following constraints: 1) co-investment commitments shall not exceed 3 percent of total endowment assets at time of commitment, and 2) co-investments may only be executed when sponsored by investment managers with whom the endowment has invested.
(c) No individual investment may be made for the purpose of achieving management control in any company. This provision is not intended to prohibit the use by investment managers of control strategies with respect to portfolio companies.
(d) A maximum of ten percent of the endowment may be invested in any single fund or account.
(e) The investment of endowment funds shall comply at all times with the restrictions on investment of amounts comprising the Permanent University Fund that are set forth in Minnesota Statutes Section 11A.24 or its successor.

Subd. 5. Environmental, Social, and Governance Responsibilities. The University shall consider environmental, social, and governance responsibilities in its investment decisions.

SECTION VII. PAYOUT RATE.

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

Supersedes: Investment Social Concerns Dated September 13, 1991.