



UNIVERSITY OF MINNESOTA
BOARD OF REGENTS POLICY

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Financial

INVESTMENT OF RESERVES

Adopted: September 8, 1989

Amended: March 11, 1994; June 10, 1994; April 11, 2003; March 12, 2004; June 9, 2006; May 14, 2010; September 9, 2016

INVESTMENT OF RESERVES

SECTION I. SCOPE.

This policy governs the investment of short-term and long-term reserves of the University of Minnesota (University).

SECTION II. SHORT-TERM RESERVES.

Subd. 1. Investment Objective. The primary investment objective for the University's short-term reserves, known throughout Section II of this policy as the Temporary Investment Pool (TIP), is current income and capital preservation. In addition, the following are priorities for the investment of short-term reserves:

- (a) maintaining sufficient liquidity to meet the near term funding and operations requirements of the University;
- (b) maximizing current income and investment returns on these reserves; and
- (c) providing backup liquidity for certain of the University's short-term or variable rate debt obligations.

Subd. 2. Overall Portfolio Characteristics. A majority of TIP funds are to be invested in high quality, relatively short-term interest bearing securities not exposed to significant market risk while a portion may be invested in the University's Consolidated Endowment Fund (CEF). The following percentages of annual operating revenues, as measured at the completion of each fiscal year, shall be retained in TIP:

- (a) at least 8% for the purpose of debt service reserves and related liquidity requirements;
- (b) at least 6% for the purpose of providing cash flow for operations; and
- (c) at least 5% for the purpose of providing core operating reserves.

A portion of the remaining balance of TIP may be invested in CEF. The investment in CEF, combined with private and/or illiquid securities, should not exceed 30% of total TIP funds at time of investment. Annually, when determining the amount of TIP to be invested in CEF, consideration shall be given to market conditions and other financial circumstances. TIP investments in CEF shall be reported periodically to the Board of Regents (Board).

The interest bearing portion of TIP investments shall be guided by the following:

- (a) Average duration shall be four years or less for the entire portfolio with a maximum duration of seven years for any individual holding.
- (b) Average credit quality shall be A1/A+ or better.
- (c) Individual securities owned shall maintain a rating of investment grade (defined as Baa3/BBB-rating or better by Moody's or Standard & Poor's) unless the president or delegate specifically approves retention of a lower rated security. The Board must be notified of such approvals.



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Subd. 3. Investment Managers. While TIP funds may be invested directly by University personnel, the use of investment managers also is permissible. Investment managers shall not be subject to the prohibitions described in parts (3), (4), (5), (6), (7), and (8) of Section II, Subd. 5(b) as long as overall portfolio averages are in compliance with the guidelines described in this section.

Subd. 4. Investment Guidelines for Specific Types of Securities. The following investment guidelines shall apply to investments made directly by the University:

- (a) Federal Government Securities - Investments in federal government securities shall be limited to U.S. Treasury obligations, federal agency securities, and obligations guaranteed or insured by an agency of the federal government, with no limitation on amount per agency or percent of overall portfolio.
- (b) Money Market Investments - Investments in money market instruments shall be limited to money market funds or fixed income mutual funds designed to maintain a stable unit value, with no limitation on percent of overall portfolio.
- (c) Corporate Obligations - Investments in corporate obligations shall be limited to commercial paper, intermediate or long-term bonds, bank paper, and master notes. In aggregate, corporate obligations shall not exceed 50% of the portfolio, with a maximum limitation of 5% for any single issuer, and shall be guided by the following:
 - (1) Commercial Paper - Investments in commercial paper shall be limited to U.S. dollar denominated obligations of U.S.-based or foreign issuers whose commercial paper is rated A-1+, A-1, or A-2 by Standard & Poor's or P-1 or P-2 by Moody's.
 - (2) Intermediate or Long-Term Bonds — Investments in intermediate or long-term bonds shall be limited to bonds and flexible rate securities that are U.S. dollar denominated.
 - (3) Bank Paper - Investments in bank paper shall be limited to U.S. dollar denominated certificates of deposit, time deposits, bankers acceptances, letters of credit, and documented discount notes from U.S. or foreign issuers.
 - (4) Master Notes - Investments in master notes shall be limited to notes issued by U.S. corporations, with a maximum limitation of 10% of the portfolio.

Subd. 5. Prohibitions. Except for investments made in CEF or by investment managers in accordance with Section II, Subd. 3 of this policy:

- (a) leverage shall not be used in investing TIP funds; and
- (b) the following investments are prohibited:
 - (1) equity and equity related alternatives;
 - (2) securities convertible into equity;
 - (3) non-investment grade high yield securities;
 - (4) unrated securities;
 - (5) private and/or illiquid securities;
 - (6) securities not traded on a major exchange;
 - (7) any securities issued by a foreign government or corporation domiciled in a country that is not part of the Europe, Australasia, and Far East (EAFE) Index, or Canada; and
 - (8) derivative securities.



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SECTION III. LONG-TERM RESERVES.

Subd. 1. Investment Objective. The primary investment objective for the University's long-term reserves, known throughout Section III of this policy as the Group Income Pool (GIP), is to maximize the total investment return while preserving capital balances until such time as the principal is required to fund the intended use. Because of the potential for higher levels of volatility, the GIP portfolio shall be invested by investment managers or in CEF.

Subd. 2. Investment Guidelines. GIP funds shall be invested on a total return basis. The following investment guidelines shall apply for GIP:

- (a) Interest Bearing Securities - Up to 100% of the portfolio may be invested in interest bearing securities that may include:
 - (1) bonds, convertible bonds, mortgage-backed and/or asset-backed securities that are issued by governments, government agencies, or corporations in developed market countries;
 - (2) securities, denominated in foreign currencies or U.S. dollars;
 - (3) securities rated below investment grade up to a maximum 20% allocation; and
 - (4) emerging market debt, up to a maximum 10% allocation.
- (b) Equity - Up to 50% of the overall portfolio may be invested in diversified equity and equity-related securities and/or in CEF.
- (c) Mutual Funds - Consistent in quality with these investment guidelines.
- (d) Money Market Funds - To the extent that money market funds are used in the portfolio, underlying assets in the fund shall have a minimum commercial paper rating of A2/P2 as rated by Standard & Poor's and Moody's.

Subd. 3. Prohibitions. Except for investments made in CEF:

- (a) leverage shall not be used in investing GIP funds; and
- (b) investments in derivative securities are prohibited.