



BOARD OF REGENTS 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. ASSET ALLOCATION GUIDELINES.

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

- The long-term allocation for Stability assets shall be 2-12 percent.
- The long-term allocation for Diversifiers assets shall be 20-40 percent and include Credit assets (5-25 percent), Idiosyncratic assets (3-20 percent), and Growth Diversifiers (3-12 percent).
- The long-term allocation for Growth assets shall be 55-75 percent. The Growth allocation shall have long-term geographic target exposures aligned with the Morgan Stanley Capital International All Country World Investable Market Index (MSCI ACWI IMI).

SECTION IV. 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 not capable of being converted to cash or cash equivalents within 12 months without the risk of material loss of market value. The target sum of illiquid investments by net asset value shall be 55 percent of total endowment assets and shall not exceed 75 percent for a period of more than 12 months. Additionally, the target sum of (a) the net asset value of illiquid investments and (b) two-thirds of the total unfunded commitments to illiquid investments shall be 75 percent of total endowment assets and shall not exceed 95 percent for a period of more than 12 months.

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 leveraged 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) The 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) the cost basis of co-investment commitments shall not exceed 6 percent of total endowment assets at time of commitment, and 2) the cost basis of co-investments executed when sponsored by investment managers with whom the endowment has not invested shall not exceed 1 percent of total endowment assets at time of commitment.
- (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 Principles.

The University shall integrate environmental, social, and governance principles in its investment decisions, consistent with the University's mission and values. The president or delegate shall maintain a statement defining those principles and the statement shall be included as part of the annual asset management report as defined by Section VI (a) of this policy.

SECTION V. 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.

SECTION VI. REPORTING.

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

- (a) an annual report which includes a comprehensive review of the investment program and the status of the endowment containing the following information:
 - (1) a summary of both short- and long-term results of investment strategies employed to achieve the investment objectives;
 - (2) the total market value and investment performance relative to selected benchmarks for each asset class and the total portfolio;
 - (3) an attribution analysis of investment performance;
 - (4) an analysis of investment performance relative to investment objectives;
 - (5) a summary of portfolio risk;
 - (6) a summary of activities and investments related emerging, minority-owned, and woman-owned investment management firms;
 - (7) a summary of activities and investments related to Section IV, Subd. 5. Environmental, Social, and Governance Principles;
 - (8) deviations from asset allocation ranges, if any; and
 - (9) any significant changes in investment strategy or allocation.
- (b) 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.

REVISION HISTORY

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