



Board of Regents Work Session

June 2024

June 13, 2024

1:00 p.m.

Boardroom, McNamara Alumni Center

BOR - JUN 2024 - Work Session

1. Understanding the University's Centrally Held Endowment

Docket Item Summary - 3

Presentation Materials - 4



BOARD OF REGENTS DOCKET ITEM SUMMARY

Board of Regents Work Session

June 13, 2024

AGENDA ITEM: Understanding the University’s Centrally Held Endowment

Review **Review + Action** **Action** **Discussion**

This is a report required by Board policy.

PRESENTERS: Andrew Parks, Chief Investment Officer, Office of Investments & Banking
Jason Langworthy, Associate Secretary, Office of the Board of Regents

PURPOSE & KEY POINTS

The purpose of this item is to provide the Board with an overview of the University’s centrally held endowment—the Consolidated Endowment Fund (CEF). The University’s CEF includes funds from the Permanent University Fund (revenues from the University’s land grants), gifts made to the University before the founding of the University of Minnesota Foundation in 1962, royalties & department income, and investment earnings thereon. The current balance of the CEF is \$2.27 billion. CEF is used to provide critical support to the University’s mission and operations, including distributions to support scholarships, research, endowed chairs, and professorships and fellowships.

Today’s discussion will highlight the relevant Board policies that govern the CEF and trace the evolving history of the Board’s reserved and delegated authority in this area. The presentation will define key aspects of the CEF’s objectives, sources and uses of capital, risk tolerance, investment strategy, asset allocation, approach to implementation, and long-term performance. The presentation will describe how Office of Investments and Banking (OIB) manages the CEF to achieve the fund’s objectives and integrates environmental, social & governance (ESG) practices into its investment decisions.

BACKGROUND INFORMATION

The Board previously discussed the University’s centrally held endowment at the following meetings:

- October 2023: *Information Items – Annual Asset Management Report*, Finance & Operations
- June 2023: *Board of Regents Policy: Endowment Fund – Action*, Finance & Operations
- May 2023: *Board of Regents Policy: Endowment Fund – Review*, Finance & Operations

UNDERSTANDING THE UNIVERSITY'S CENTRALLY HELD ENDOWMENT

Board of Regents Working Session

Andrew Parks, Chief Investment Officer, Office of Investments
& Banking (OIB)

Jason Langworthy, Associate Secretary, Office of the Board of
Regents

June 13, 2024

PRESENTATION OUTLINE

INTRODUCTION

(5-10 MINUTES)

- **OUTLINE**
- **KEY TAKEAWAYS**

ENDOWMENT 101

(20-25 MINUTES)

- **OBJECTIVES**
- **SOURCES AND USES**
- **RISK TOLERANCE**
- **INVESTMENT STRATEGY & ASSET ALLOCATION**
- **IMPLEMENTATION & HOLDINGS**
- **PERFORMANCE**

GOVERNANCE MODEL & MISSION-ALIGNED INVESTING

(30-35 MINUTES)

- **UNDERSTANDING TERMINOLOGY & TOOLKITS**
- **MISSION-ALIGNED INVESTING FRAMEWORKS**
- **GOVERNANCE STRUCTURE & POLICY OVERVIEW**
- **ESG INTEGRATION IN PRACTICE**
- **INDUSTRY TRENDS**
- **HISTORY OF DIVESTMENT CAMPAIGNS AT UMN**

4 KEY TAKEAWAYS – ENDOWMENT 101

OBJECTIVES & RISK

- **ENDOWMENT: POOL OF CAPITAL THAT EXISTS TO HELP SUPPORT THE FUNDING NEEDS OF THE UNIVERSITY INTO PERPETUITY** - preserving intergenerational neutrality & providing stable distributions.
- **>80% OF PAYOUTS SUPPORT UNIVERSITY'S CORE MISSION.**
- Endowment has unique **STRUCTURAL CHARACTERISTICS THAT SUPPORT (EVEN NECESSITATE) SIGNIFICANT RISK-TAKING.**

INVESTMENT STRATEGY

- The **INVESTMENT STRATEGY IS EQUITY-CENTRIC** and focused primarily on the **PRIVATE MARKETS** (private equity and venture capital).

IMPLEMENTATION

- Process chronologically involves selecting asset classes, regions/geographies, & strategies, then external fund managers. Those external **FUND MANAGERS SELECT THE COMPANIES** the endowment ultimately obtains exposure to.

PERFORMANCE

- The **PERFORMANCE HAS BEEN STRONG OVER THE PAST DECADE**, generating 10.6% annualized returns (vs. 6.4% for the passive benchmark and 7.8% for the CPI+5% return objective), which is top decile vs. peers.

4 KEY TAKEAWAYS – GOVERNANCE MODEL & MISSION-ALIGNED INVESTING

GOVERNANCE	<ul style="list-style-type: none">• BOARD RETAINS OVERSIGHT OF THE ENDOWMENT’S INVESTMENT POLICY with delegated authority for implementation given to the administration (President, SVP, and CIO).
MISSION-ALIGNED INVESTING FRAMEWORK	<ul style="list-style-type: none">• BOARD POLICY ENDORSES AN ‘ESG AWARE’ FRAMEWORK, whereby the University shall <u>‘integrate’</u> ESG principles.• OIB is proud of its track record: investing in the energy transition, supporting emerging, minority & woman-owned funds and actively engaging in our managers’ governance processes.
ESG INDUSTRY TRENDS	<ul style="list-style-type: none">• Only ~1/4 OF SURVEYED COLLEGES AND UNIVERSITIES REPORTED INCORPORATING RESPONSIBLE INVESTING/ESG practices.• Often cited trade-offs involve conflicts with mission alignment, operational complexity, expense and return impacts, lack of standardization, and skepticism about impact & efficacy.
MISSION-ALIGNED INVESTING PRECEDENTS	<ul style="list-style-type: none">• PRECEDENTS FOR BOARD AND ADMINISTRATIVE ACTIONS RELATED TO MISSION ALIGNED INVESTING - specifically involving divestment - have included South Africa, Burma (Myanmar), Sudan, and the fossil fuels industry.

ENDOWMENT 101

FIRST PRINCIPLES: DEFINING THE 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**
 - d) **Provide stable distributions** for annual spending purposes.”



BOARD OF REGENTS POLICY: *Endowment Fund*

CONSOLIDATED ENDOWMENT FUND (CEF)

OVERVIEW

CURRENT VALUE

(as of March 31, 2024)

\$2.27 billion

RETURN OBJECTIVE

CPI+5% = Payout Rate + Inflation + Expenses

PAYOUT RATE

4.5% of average endowment value over a 5-year period

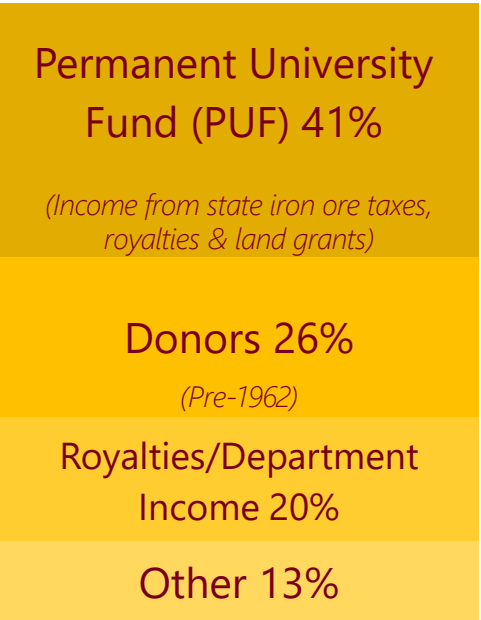
BUDGET IMPACT

~2% of University Operating Expenses
(~\$90 million / year)

ENDOWMENT FUND – WHERE THE MONEY CAME FROM & HOW IT GETS SPENT

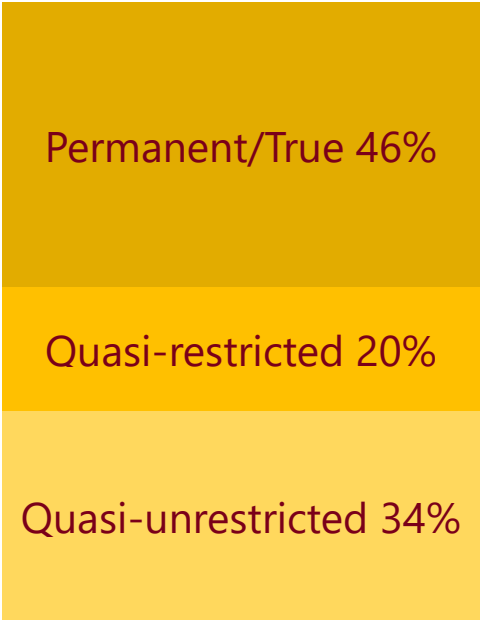
SOURCES

2/3 of the endowment has come from PUF and donors. State appropriations, tuition & other misc. sources cannot fund an endowment.



TYPES

There are > 1,500 individual endowments, 2/3 of which have no – or limited – ability to withdraw principal



USES

\$632M has been paid out of the endowment this past decade, providing critical support to the University's core mission and operations

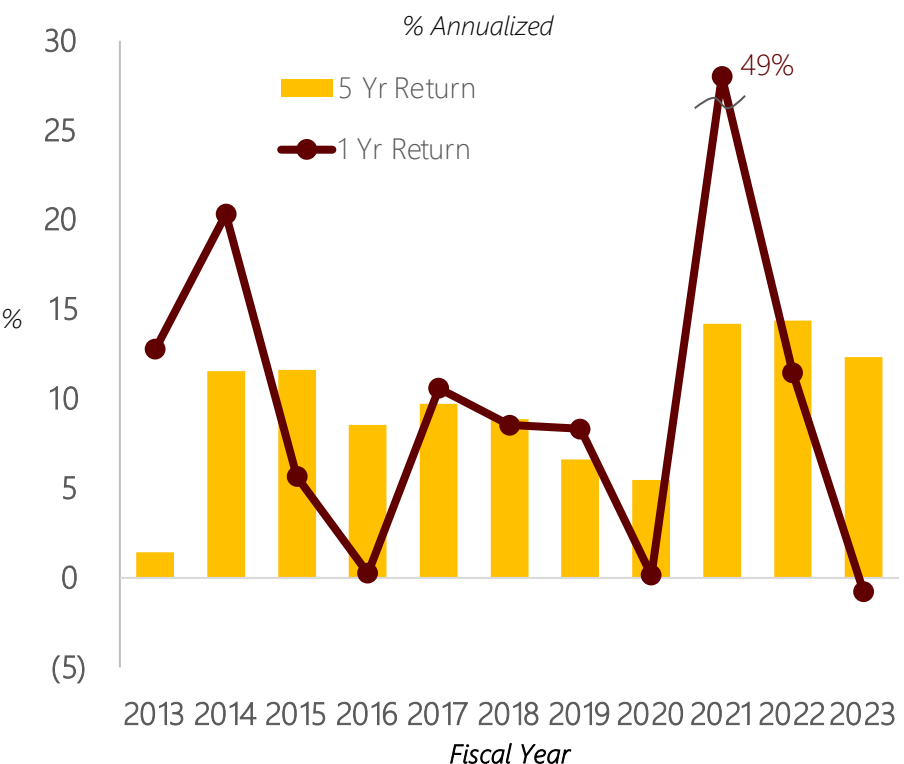


UMN ENDOWMENT HAS UNIQUE STRUCTURAL CHARACTERISTICS THAT SUPPORT (EVEN NECESSITATE) SIGNIFICANT RISK TAKING

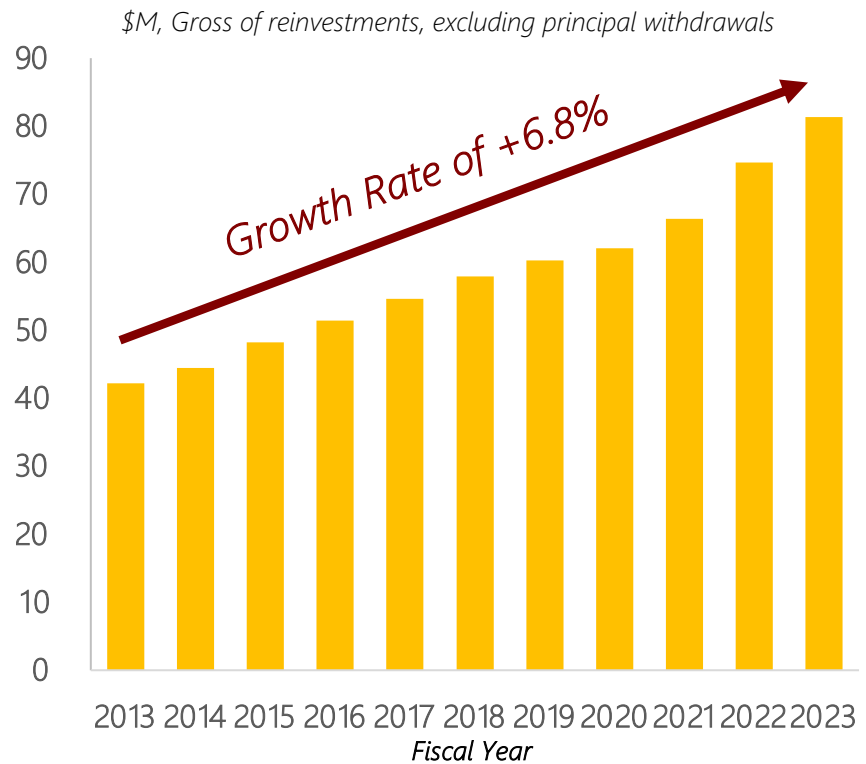
FACTOR	METRIC	ABILITY TO TAKE RISK	
		LOW	HIGH
RETURN OBJECTIVE	CPI+5%		
PERMANENCY OF CAPITAL	2/3 True/Quasi Restricted 1/3 Quasi Unrestricted		
PAYOUT RATE	4.5% Based on 5-Year Average		
PAYOUTS AS % OF OPERATING BUDGET	<2%		
NEW INFLOWS	De Minimis (<\$10M/year)		

STABILITY OF RETURNS VIS-À-VIS STABILITY OF PAYOUTS

Endowment Returns



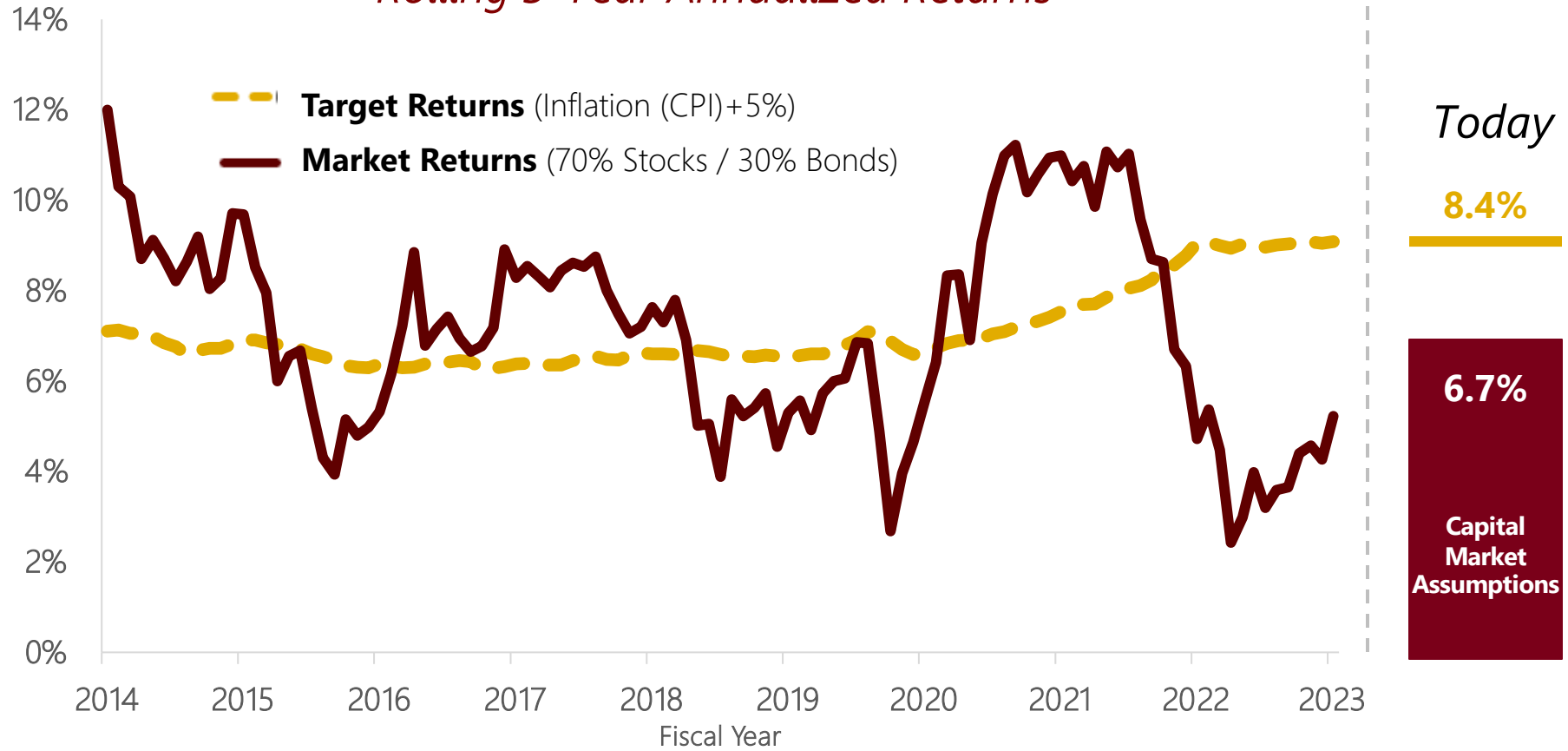
Endowment Distributions



Payout rate formula (5-year average) acts as a shock absorber to smooth out what might otherwise be a bumpy ride

MARKET LEVEL RETURNS OFTEN FAIL TO GENERATE CPI+5%, FORCING UMN TO DETERMINE WHICH LEVERS TO PULL TO ACHIEVE OBJECTIVES

Rolling 5-Year Annualized Returns



PULL MULTIPLE LEVERS TO ADDRESS LOW EXPECTED RETURN ENVIRONMENT & CREATE MULTIPLE WAYS TO WIN



AVOID

- **ACCEPT LOWER RETURNS**
- Add value through **MARKET TIMING** / heavy tactical positioning



EMPLOY SELECTIVELY

- **CONCENTRATION**
- Increase cash reserves
- **PUBLIC MARKET ACTIVE** management alpha
- **MODEST LEVERAGE** (manager and/or fund level)
- **ADDITIONAL RISK** (equity beta)

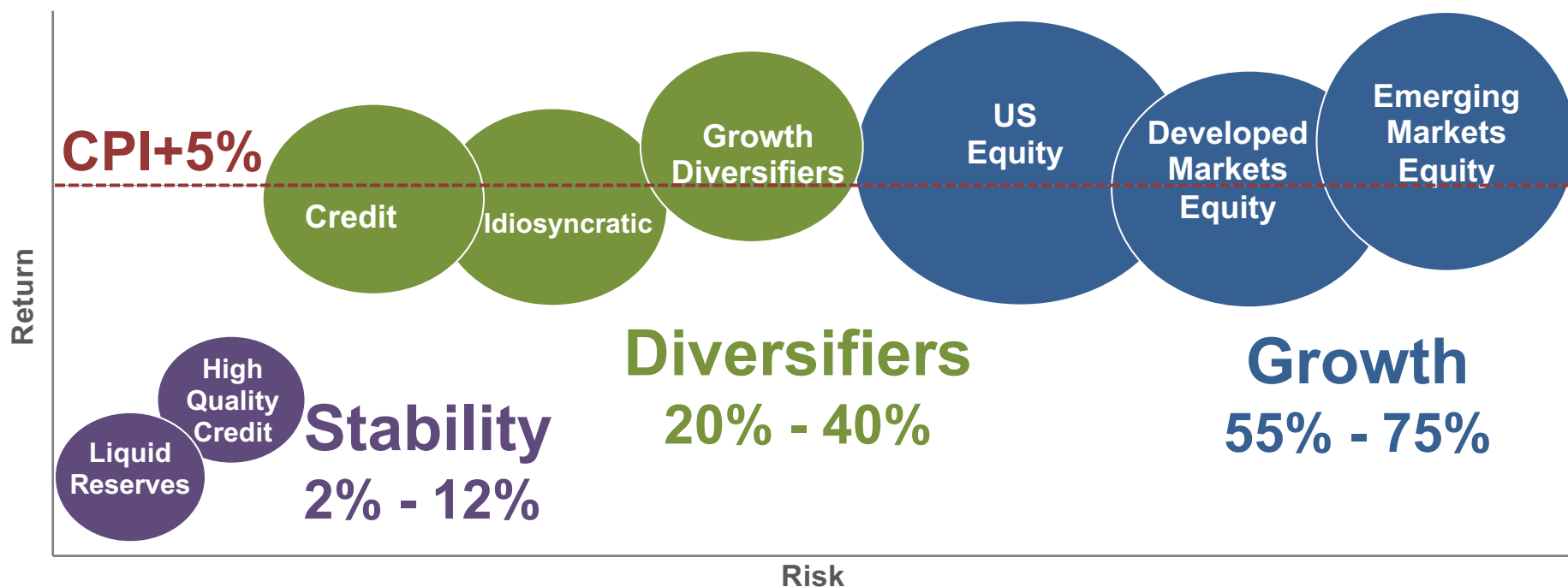


PURSUE

- **ILLIQUIDITY PREMIUM** excess return
- **COMPLEXITY PREMIUM** excess return
- **STRATEGY SELECTION** excess return
- **MANAGER SELECTION** excess return
- Additional **HIGH-OCTANE DIVERSIFIERS**

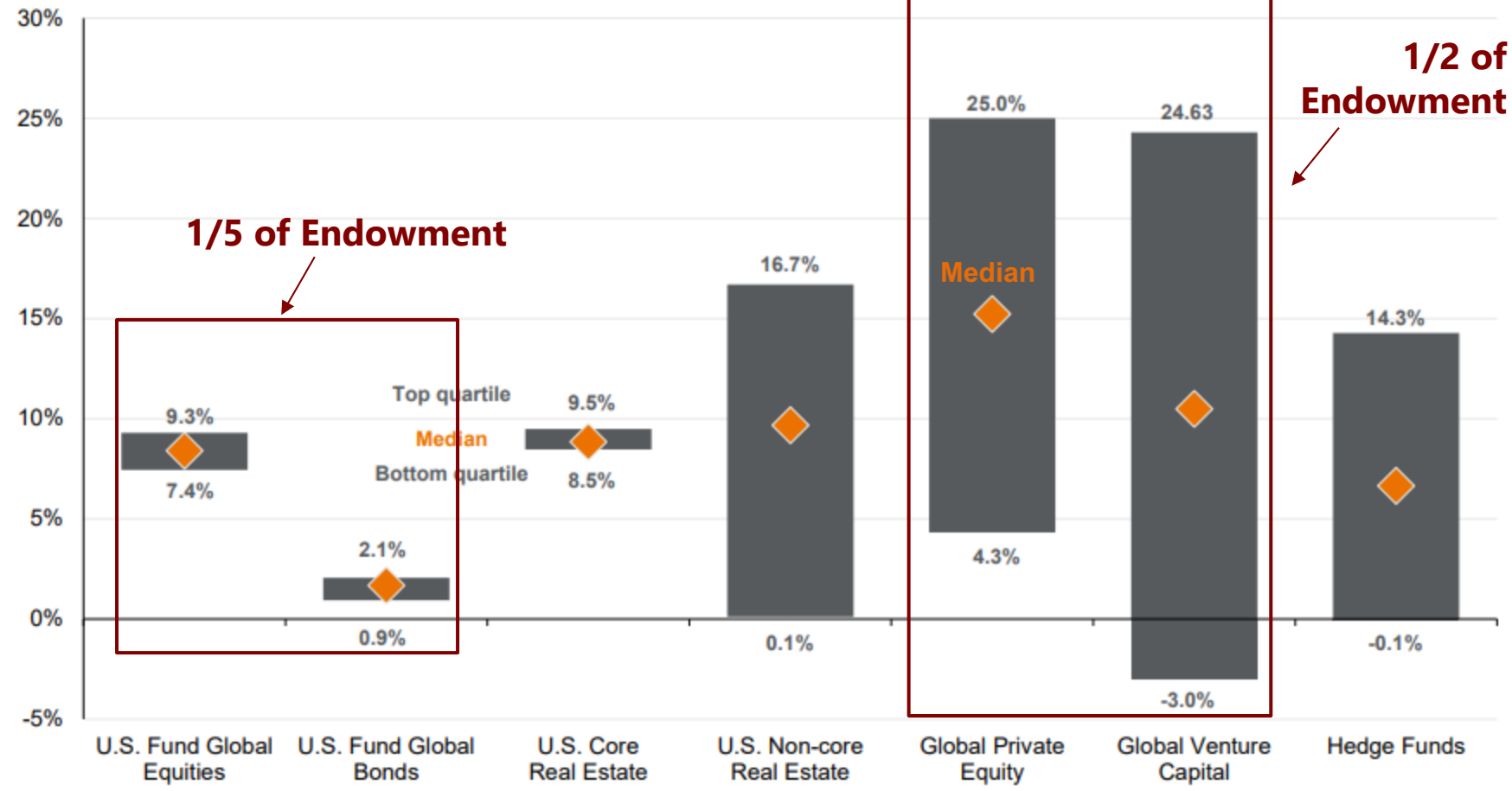
ASSET ALLOCATION – ALIGNING PORTFOLIO DESIGN WITH UMN-SPECIFIC OBJECTIVES & CONSTRAINTS

- Maintain **LONG-TERM FOCUS** (emphasis on the destination more so than the journey)
- Pursue **GROWTH AND INNOVATION BIAS**
- Seek to harvest **ILLIQUIDITY/COMPLEXITY PREMIUM**
- **MAINTAIN DIVERSIFICATION** (geographic, strategy, business cycle)
- Implement **FLEXIBLE STRATEGY**



PICKING THE RIGHT PONDS TO FISH IN IMPROVES UPSIDE POTENTIAL AND 'RETURN ON TIME'

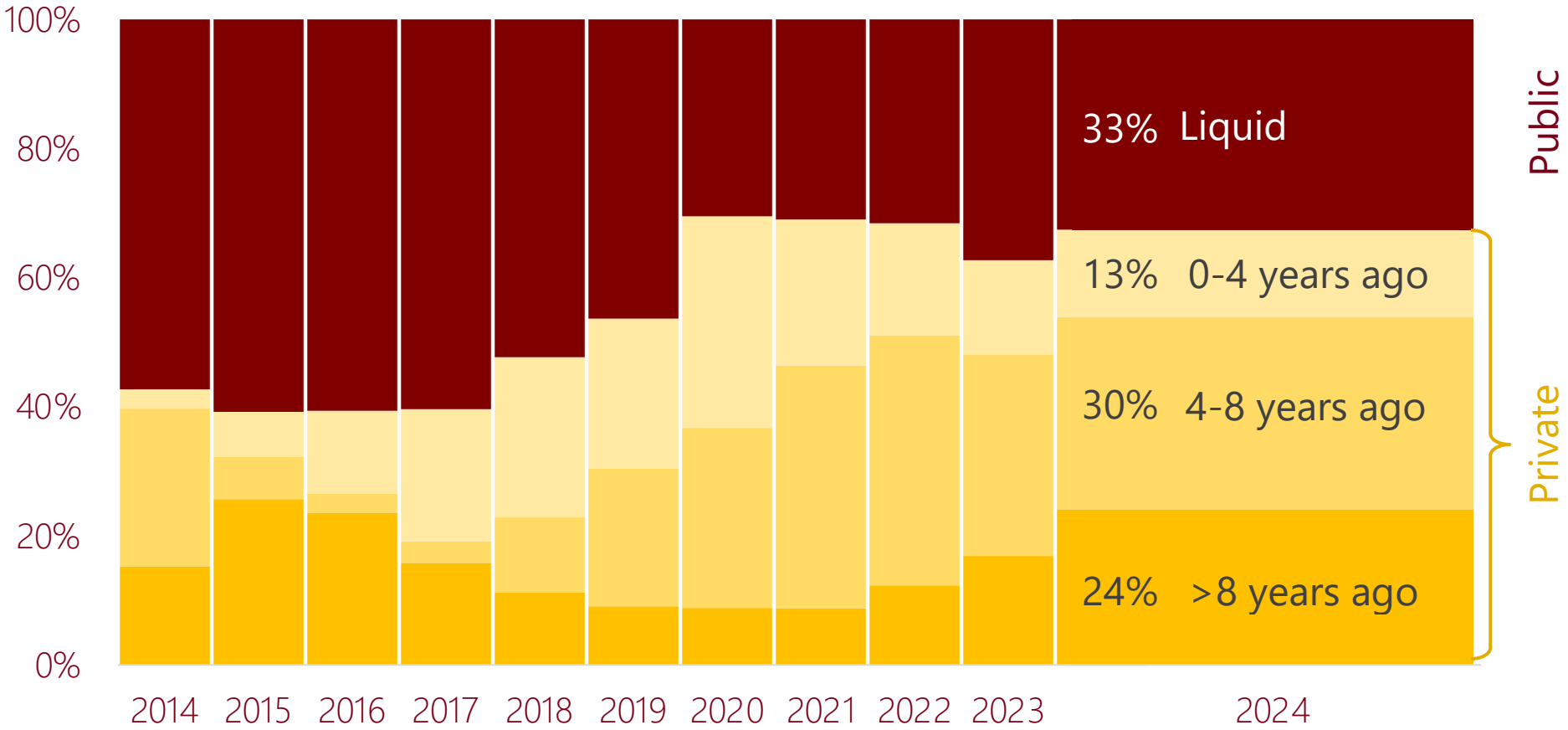
Public and private manager dispersion
Based on returns over a 10-year window*



Source: Burgiss, NCREIF, Morningstar, PivotalPath, J.P. Morgan Asset Management.

PRIVATE MARKET INVESTING - SOWING AND REAPING ACROSS UNPREDICTABLE MARKET SEASONS

% of the Endowment based on when initial seeds were planted...



BASICS OF INSTITUTIONAL PORTFOLIO IMPLEMENTATION – FROM STRATEGY TO EXECUTION

A MOSAIC VIEW INTO PORTFOLIO CONSTRUCTION & INVESTMENT DECISION-MAKING 'ORDER OF OPERATIONS'

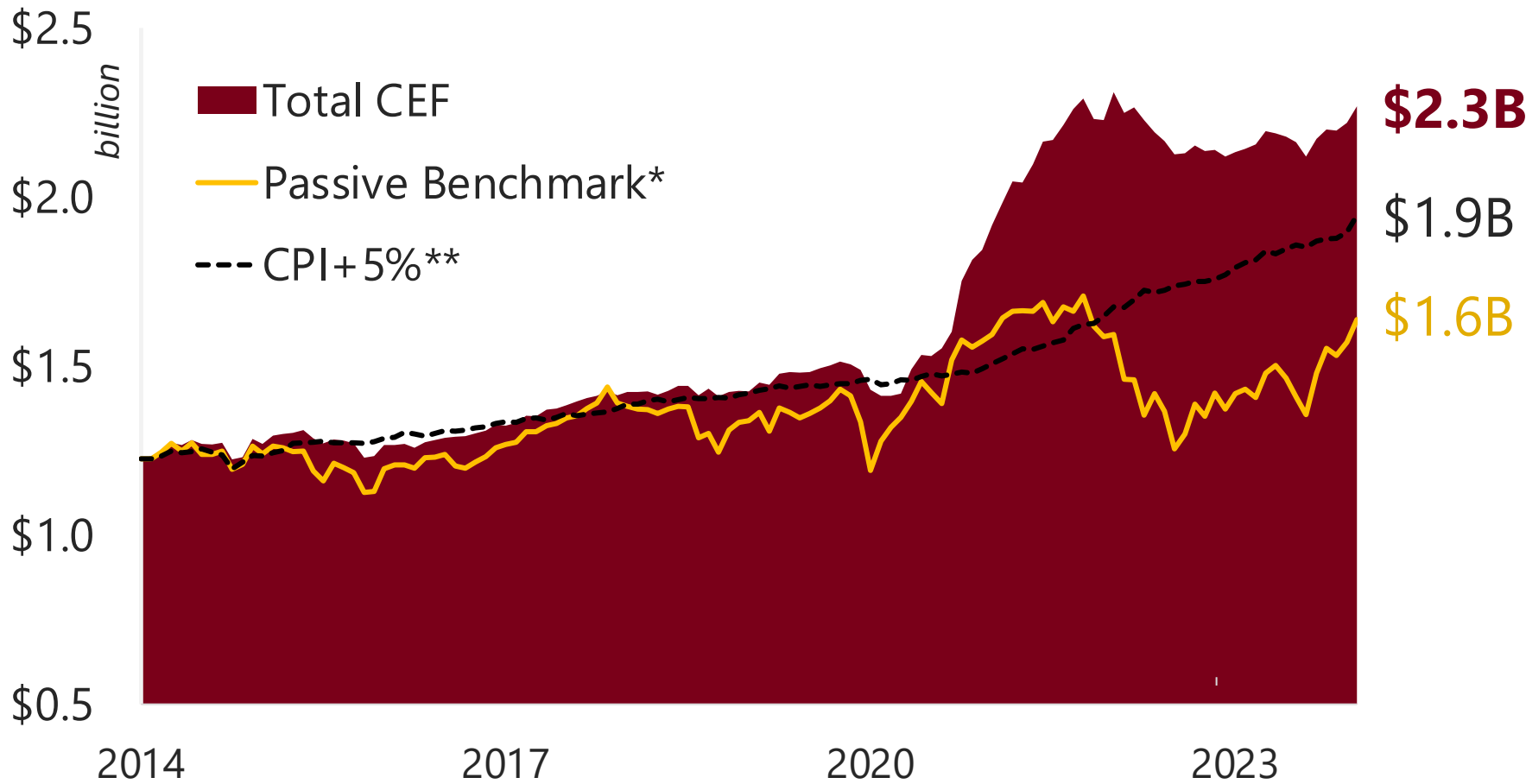
Decision Owner	UNIVERSITY OF MINNESOTA				FUND MANAGERS
Decision Order	ASSET CLASSES	REGIONS / COUNTRIES	STRATEGIES	FUND MANAGERS	COMPANIES
Count	6	3 / 71	41	103	10k+
Examples	<ul style="list-style-type: none"> • Public equity • Private equity/venture capital • Hedge funds • Real assets • Private credit • Fixed income 	<ul style="list-style-type: none"> • Global, U.S., Developed Markets & Emerging Markets • Countries: UK, India, Brazil, Canada, South Korea, etc. 	<ul style="list-style-type: none"> • Japanese activism • Middle market direct lending • Multi-strategy hedge funds • U.S. corporate carve-outs 	<ul style="list-style-type: none"> • BlackRock • Acadian • Northern Lakes • Index Ventures • Y Combinator 	<ul style="list-style-type: none"> • Doximity • Veeva Systems • Shimano Inc. • Alphabet • Airbus SE • US Treasury 4.625% 10/26
CASE STUDY	PUBLIC EQUITY	GLOBAL	PASSIVE INDEX, ESG-ALIGNED	\$50M TO ISHARES LOW CARBON ETF	1,192

UNDERSTANDING THE DIFFERENCE BETWEEN INVESTING IN A COMPANY DIRECTLY VS. INDIRECTLY

DIRECT HOLDINGS		INDIRECT HOLDINGS
Stocks/bonds directly purchased/sold by UMN	DESCRIPTION	Stocks/bonds directly purchased/sold by a fund UMN invests in
1.7%	% OF ENDOWMENT	98.3%
University of Minnesota	OWNERSHIP & CONTROL	Fund Manager (retained by University of Minnesota)
	VOTING RIGHTS	
	DIVIDENDS & RETURNS	
	MANAGEMENT & TRADING	
<p>The endowment purchases shares of Apple in the open market worth \$1M.</p> <p>Apple is a <u>direct</u> holding.</p>	EXAMPLE	<p>The endowment invests \$50M in a large-cap US fund manager which has a 30-stock portfolio, including \$1M worth of Apple.</p> <p>Apple is an <u>indirect</u> holding.</p>

PERFORMANCE TRACK RECORD

LONG-TERM PERFORMANCE VS. OBJECTIVES



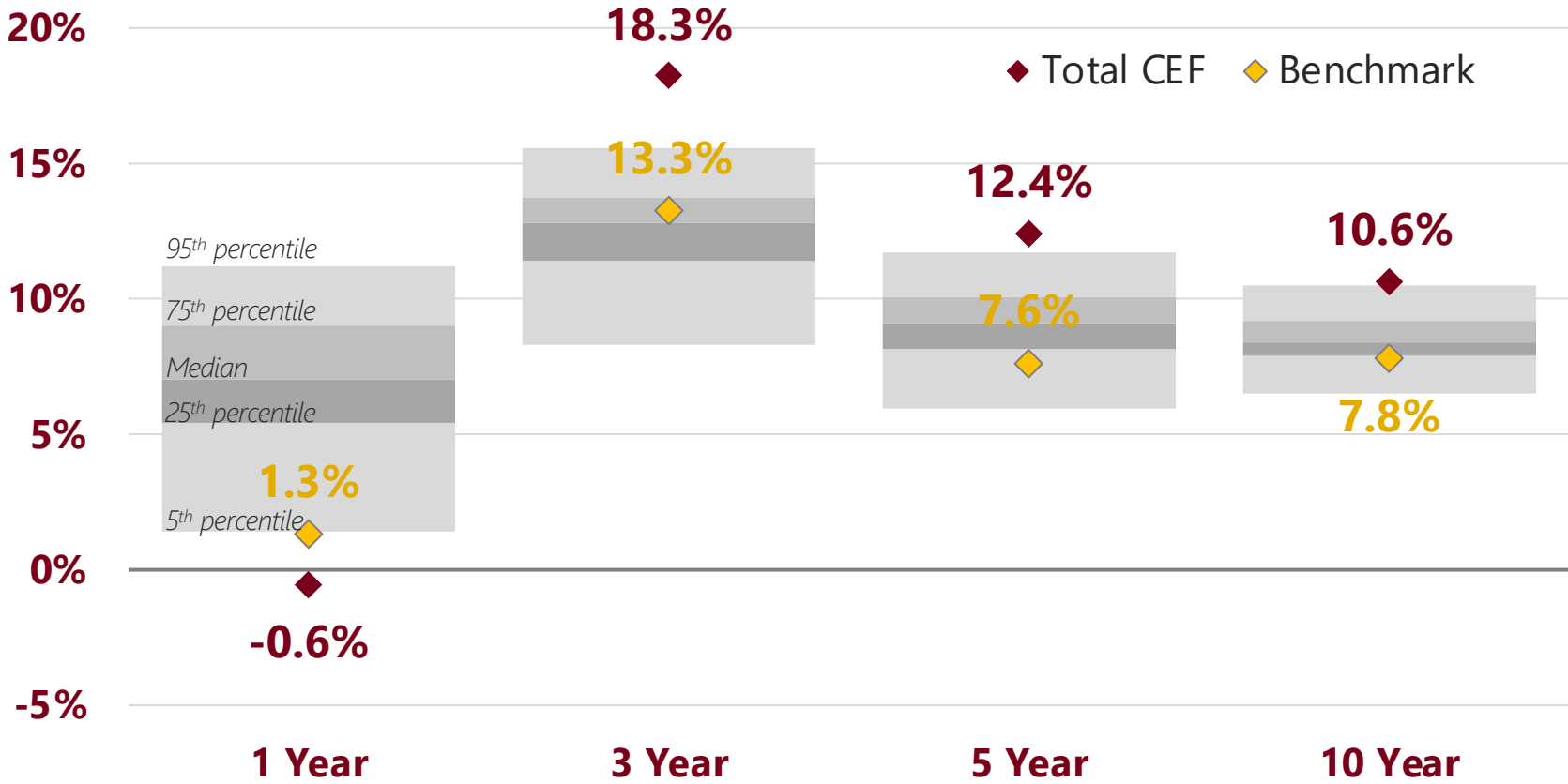
* Measures efficacy of long-term strategy vs. passive mix of stocks and bonds. 7/2015-current: 70% MSCI ACWI, 30% Barclays Global Aggregate; 1/1990-6/2015: 70% MSCI ACWI, 30% Barclays Global Aggregate. Source: State Street

** Measures ability to preserve inflation-adjusted corpus of endowment. Index Return: US CPI Urban Consumers MoM SA. Source: Bloomberg

PERFORMANCE VS. PEERS

Annualized Returns vs. \$1-5B University Endowments & Foundations

(as of June 30, 2023)



* Source: NACUBO-Commonfund 2023 Study of Endowments. Quartile returns comprise 104 endowments & foundations with between \$1B and \$5B of AUM.

GOVERNANCE MODEL & MISSION-ALIGNED INVESTING

UNDERSTANDING TERMINOLOGY AND TOOLKIT

Environmental, Social & Governance (ESG)

aims to create a more complete picture of potential investment risks and opportunities by factoring environmental, social, and governance criteria into investment decisions.

Socially Responsible Investing (SRI)

can use both positive and negative investment criteria to align investments with an individual or institution's mission or values. However, many use this term to refer only to the strategy of negative screening

Divestment

refers to selling holdings in a company or sector for social, moral or political reasons in order to reduce risk, to avoid being complicit, or to make a statement (e.g., divesting from fossil fuel companies).

Negative Screening

is the strategy of excluding companies, industries, or countries that the investor considers irresponsible from an investment portfolio (e.g., avoiding investing in gambling, alcohol, or tobacco companies).

Positive Screening

is a strategy that involves investing in companies that meet certain ESG criteria as determined by the investor, often looking to find "best-in-class" companies within a sector (e.g., identifying the most energy-efficient or least carbon-intensive companies in a sector).

Shareholder Advocacy / Engagement

is a tactic of using ownership in a company to improve its social responsibility practices by voting at shareholder meetings (or by proxy), filing shareholder resolutions, and/or establishing ongoing dialogues with companies

* Source: Intentional Endowment Network (IEN)

GOVERNANCE STRUCTURE

BOARD OF REGENTS

- With the President, defines mission and values
- Provides policy framework
- Delegates authority to President
- Maintains oversight

PRESIDENT

- Recommends policy changes to the Board
- Approves investment manager recommendations
- Delegates authority to the Senior Vice President

SENIOR VICE PRESIDENT

- Oversees the Office of Investments and Banking
- Delegates authority to the Chief Investment Officer/Office of Investments & Banking

CHIEF INVESTMENT OFFICER/OFFICE OF INVESTMENTS & BANKING (OIB)

- Implements investment portfolio strategy and design within delegated authority and policy framework
- Develops recommendations for changes to policy, retention of investment managers, benchmark design, and significant changes in investment strategy

Investment Advisory Committee

- Appointed by the President
- Provides advice to OIB as they implement the portfolio strategy
- Establishes benchmarks to measure performance
- Provides advice to the Board and President as needed

EVOLUTION OF GOVERNANCE FRAMEWORK

Before
1991

- Board reserves to itself authority to approve investment transactions recommended within an overall investment framework.
- Policy framework includes investment objectives, asset allocation guidelines, and payout rate.

1991

- Adoption of Board of Regents Policy: *Investment Policy Relating to Social Concerns*. States that the University has a responsibility to be socially responsible in investing and uses the University Senate Social Concerns Committee as an advisory group to define issues of social concern.

1994

- Board delegates authority to trade in securities without a threshold.
- Regent added as ex-officio to the Asset and Debt Management Advisory Committee.

1998

- Investment Advisory Committee is established as a part of a revised investment oversight process and reporting. It replaces the Asset and Debt Management Advisory Committee and is advisory to the president, senior vice president, and chief investment officer.

EVOLUTION OF GOVERNANCE FRAMEWORK

2004

- Delegates to the president the authority to terminate an engagement with an investment advisor or manager without Board approval or reporting.

2006

- Repealed Board of Regents Policy: *Investment Policy Relating to Social Concerns* and added a guiding principle to consider social responsibility in its investment decisions to Board of Regents Policy: *Endowment Fund*.
- Added reporting requirements regarding endowment status and performance.

2011

- Board delegates authority to the president to engage investment advisors and managers.

EVOLUTION OF GOVERNANCE FRAMEWORK

2014

- Added to the annual report is a summary of steps taken to provide opportunities to emerging, minority-owned, and woman-owned investment management firms along with an evaluation of investments related to sustainability and renewable energy.

2018


- Social responsibility language is modified to consider environmental, social, and governance responsibilities in investment decisions.

2023

- Amended Board policy to require that the president integrate environmental, social, and governance principles in investment decisions and maintain a statement defining those principles.

GOVERNANCE & POLICY OVERVIEW

Endowment Fund



**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:

- ✓ Investment objectives
- ✓ Distribution rate
- ✓ Asset allocation
- ✓ Liquidity ranges
- ✓ Use of leverage
- ✓ **Environmental, Social & Governance (ESG) Principles** →

Investment Functions



**BOARD OF REGENTS POLICY:
Investment Functions**

SECTION I. SCOPE.
This policy governs all investment functions conducted by the University of Minnesota (University).

SECTION II. GUIDING PRINCIPLES.

Subd. 1. Standard of Care.
The standard applicable to all investment functions shall be the "prudent person standard," which provides that investment activities, both transactional and otherwise, shall be undertaken, under circumstances then prevailing, in the following manner:

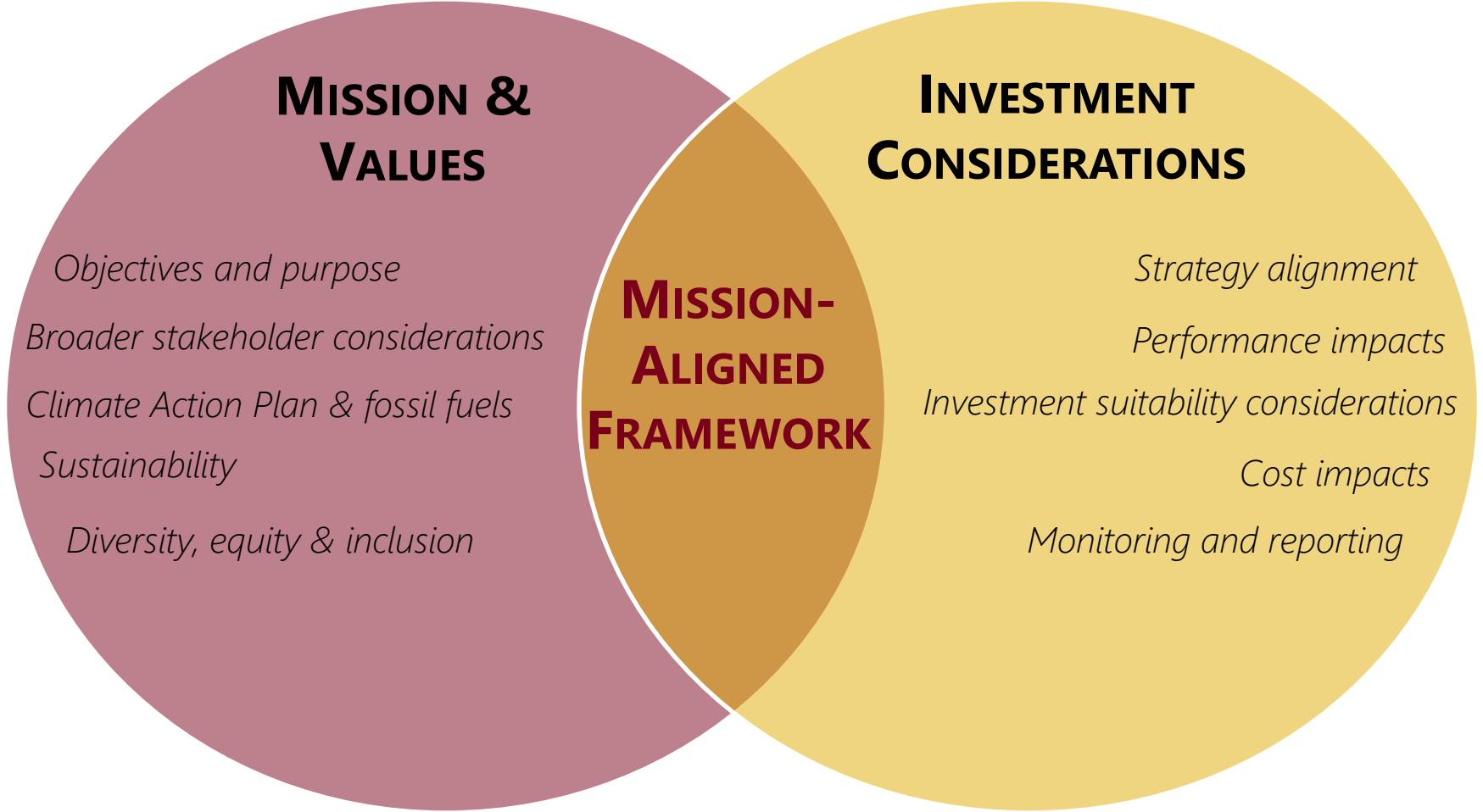
- (a) with the judgment and care that persons of prudence, discretion, and intelligence would exercise under similar circumstances;
- (b) for investment purposes rather than speculation; and
- (c) taking into account the importance of capital preservation and the risk that will be incurred and managed in light of the expected return to be derived.

Subd. 2. Emerging and Minority- or Woman-Owned Investment Managers.
The use of emerging investment management firms and investment management firms that are minority-owned or woman-owned is encouraged, as well as steps in this regard consistent with the financial and fiduciary responsibility of the University.

- ✓ Standard of care
- ✓ Emerging and/or Minority and Woman Owned Managers
- ✓ Delegation of Authority

"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..."

PRUDENT MISSION-ALIGNED INVESTING REQUIRES ALIGNMENT OF TOP-DOWN (GOVERNANCE) AND BOTTOM- UP (INVESTMENT PHILOSOPHY & IMPLEMENTATION) PERSPECTIVES



SPECTRUM OF MISSION-ALIGNED & ESG IMPLEMENTATION FRAMEWORKS

Current Framework

FRAME- WORK	ANTAGONISTIC	AGNOSTIC	AWARE	ACTIVELY MANDATED	AGGRESSIVELY ALL-IN
DESCRIPTION ESG SENTIMENT	Opposed to	Indifferent to	Embed into process	Explicitly mandate	Primary driver
OBJECTIVE	Make money		Make money while doing good	Do good	
INVESTMENT CRITERIA	Primary / Must-Have	Primary / Must-Have	Primary / Must-Have	Secondary / Important-to- Have	Tertiary / Nice-to-Have
ESG CRITERIA	N/A	Secondary / Nice-to-Have	Secondary / Important-to- Have	Primary / Must-Have	Primary / Must-Have
TOOLKIT / EXAMPLES	Profit motive, indifferent to social / ethical implications	Minimal / no prohibitions re; e.g., dirty coal, 'sin' stocks, etc.	ESG index funds & positive screening	Divestments & diversity mandates	Impact & sustainability funding

INAUGURAL ESG POLICY STATEMENT

- “integrate environmental, social, and governance (ESG) responsibilities”

Environmental

- “phased reduction plan regarding its investments in fossil fuels.”
- “prioritized allocating capital into innovative technologies.”

Social

- “identify new and emerging managers, many of them owned and led by women or minority professionals.”







ENVIRONMENTAL, SOCIAL AND GOVERNANCE (ESG) - ENDOWMENT INVESTING

Leading the way towards sustainable growth

The Office of Investments & Banking (OIB) closely aligns the investment portfolios it oversees with the University's mission-based objectives and priorities. The Board of Regents has provided a policy directive that requires the investment process to “integrate environmental, social, and governance principles in its investment decisions” and to provide transparency to the process in the form of regular reporting to the Board.

Environmental

The University recognizes that preserving and enhancing the quality of the environment is one of the most important challenges facing current and future generations. As a result, we have prioritized allocating capital to innovative technologies that are transforming industry sectors which are addressing greenhouse gas emissions, clean energy production, responsible water utilization and recovery, clean transportation and industrial efficiencies that reduce power usage.

Understanding that carbon-based fossil fuels will remain part of the power generation and energy supply for decades to come, the University's Endowment has adopted a phased reduction plan regarding overall exposure to fossil fuels. It has made a commitment to make no new investments in funds whose primary focus is on exploration and production of fossil fuels, and we expect that the existing private investments will be liquidated as fund managers deem appropriate over the next 3-7 years. The University has also committed to no new direct investments in any of the Carbon Underground 200 companies that hold fossil fuel assets. A majority of the public equity exposure has been shifted to “ESG Aware” index funds which further reduces the exposure to fossil fuel companies.

ongoing monitoring and diligence process regarding all of the external investment managers requires those managers to disclose information regarding firm ownership, key individual compensation criteria, and the inclusiveness of the decision-making processes within the firm. Other socially responsible factors that enter into the investment selection and retention processes include: social benefits, human capital management approaches, and consumer health and safety records of the companies into which the managers invest capital.

Social

The University's investment professionals are recognized leaders in the effort to identify new and emerging managers, many of them owned and led by women or minority professionals who are attempting to raise capital for the first time. The

Governance

Factors of good governance play an important role in evaluating the likely success of a potential new investment. Our selection criteria for investment firms includes success around diversity in the composition and tenure of their Board of Directors or Advisors. It also includes the composition of the workforce and especially the diversity among the leadership group, policies regarding human resources, auditing and investment reporting, and other criteria used for selecting specific new investments.

Reporting and Disclosure

The University is a reporting member of the United Nations Principles for Responsible Investing (UNPRI) organization, a United Nations sponsored entity that promotes the concept of fiduciaries across the globe integrating ESG priorities into their investment processes and transparency in their reporting. In addition, an *ESG Dashboard* is produced annually by OIB to provide further transparency to University stakeholders and the public.

UNIVERSITY OF MINNESOTA

Driven to Discover®

Croftston Duluth Morris Rochester Twin Cities

Social

- “Other socially responsible factors include social benefits”

Governance

- “diversity in composition and tenure of their Board of Directors or Advisors”

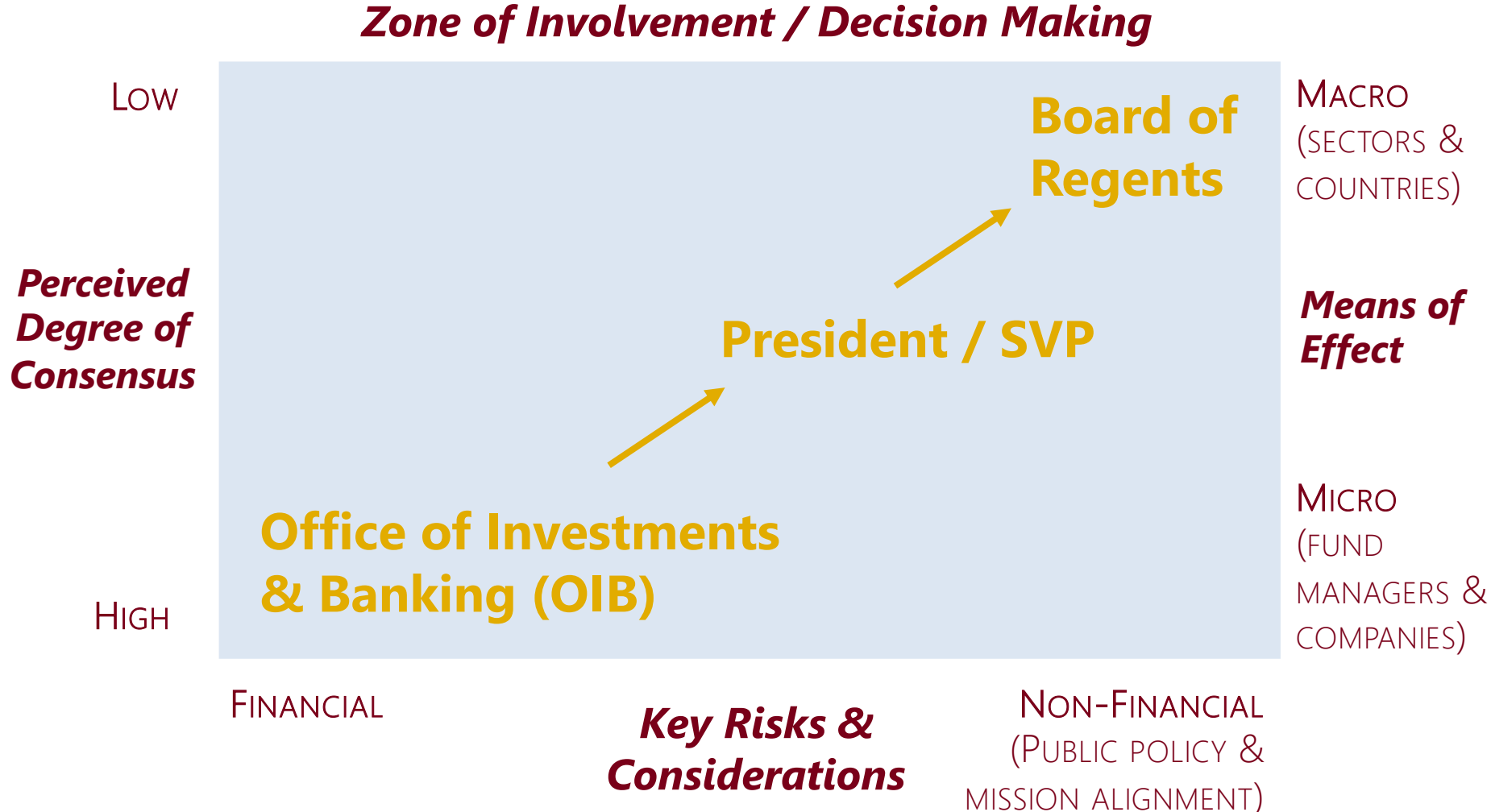
Reporting and Disclosure

- “ESG Dashboard is produced annually”

ESG INTEGRATION IN PRACTICE – SATISFYING BOTH INVESTMENT AND ESG CRITERIA

	ENVIRONMENTAL	SOCIAL	GOVERNANCE
<u>POSITIVE</u> SELECTION & SCREENING	<ul style="list-style-type: none"> Invested \$3M into DCVC Climate Select Invested \$150+M in iShares ESG Aware Index funds Invested \$30M into LS Power, a private fund that focuses on the energy transition 	<ul style="list-style-type: none"> Invested \$6M into Genoa and \$7.5M into Operator Collective, both emerging, minority and woman-owned venture capital firms 	<ul style="list-style-type: none"> OIB team members serve on 14 Limited Partner Advisory Committees Evaluated proxy voting history and approach when diligencing ESG-Aware index funds
<u>NEGATIVE</u> SELECTION & SCREENING	<ul style="list-style-type: none"> Declined private upstream oil and gas partnerships Declined economically attractive Canadian thermal coal investment opportunity 	<ul style="list-style-type: none"> Ceased diligence into an international strategy that had invested in companies with questionable labor and human rights practices 	<ul style="list-style-type: none"> Ceased diligence into a compelling fund manager that had a recent SEC violation

CONCEPTUAL GOVERNANCE FRAMEWORK RE: DIVESTMENT & NEGATIVE SCREENING



INDUSTRY TRENDS: U.S. HIGHER ED ENDOWMENTS

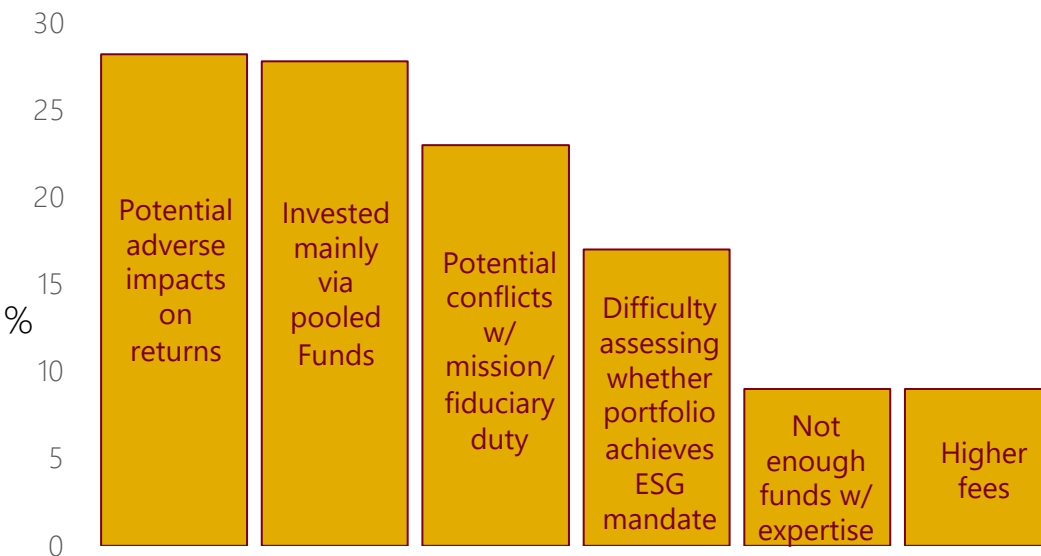
Higher Education Endowment Peers		UMN
65%	Reported <u>not</u> adopting responsible investing at their institution	<ul style="list-style-type: none"> ✓ Dating back to 2011, Board policy has consistently included language that the University should consider social responsibility in its investment decisions.
27%	Reported incorporating responsible investing / ESG into policy statement	<ul style="list-style-type: none"> ✓ In 2023, Board policy was amended to require integration of ESG principles and the maintaining of a statement defining those principles
9%	Reported signing on to at least one major commitment on sustainable investing	<ul style="list-style-type: none"> ✓ Became signatories to the United Nations Principles for Responsible Investing (UNPRI) in 2022
14%	Reported employing negative screening	<ul style="list-style-type: none"> ✓ Utilize negative screening in private natural resources portfolio. Also, heavily utilize ESG-aware public equity index funds.

Source: 2023 NACUBO-Commonfund Study of Endowments, which surveyed 688 U.S. colleges and universities.

INDUSTRY TRENDS: U.S. HIGHER ED ENDOWMENTS

Barriers to ESG Implementation

Percent of endowments reporting that the following factors were reasons for not pursuing ESG investing, negative screening, or impact investing



Source: 2023 NACUBO-Commonfund Study of Endowments, which surveyed 688 U.S. colleges and universities.

- **Strategic mission alignment** – merits of institutional neutrality vs. selective involvement in social and/or political topics
- Operational **complexity**
- **Cost impacts**
- **Performance / return impacts**
- **Optics vs. impact**
- **Engagement vs. divestment** / negative screening
- **Lack of standardization** and consistency re: divestment / negative screening criteria
- Federal and state **legal considerations**
- **Reputational risk** / potential harm to support

PRECEDENT FOR BOARD AND ADMINISTRATIVE ACTIONS RE: MISSION-ALIGNED INVESTING

1979-1994

South Africa

- Initially rejected full divestment but directed the administration to create a plan to address ('79).
- Board then moved to prohibit future investments ('82), then companies that were not signatories of the Sullivan Principles ('83), then selective divestment (Jun '85) and finally full divestment (Oct '85)
- Removed once free elections were held ('94)

1998

Burma (Myanmar)

- Board adopted resolution to ban investment in Total Oil Company

2007

Sudan

- Administration approved position statement passed by U Senate to divest from Sudan. No Board action was needed.

2011-present

Fossil Fuels

- 2014-2018 – Board added disclosure requirement re: sustainability & renewable energy
- 2021 – President Gabel indicated a phased divestment out of fossil fuels
- 2023 – Board requires integration of ESG principles and statement outlining those principles

APPENDIX

GLOSSARY OF TERMS – LAYMAN’S EDITION

Glossary

Active Management - Strategy involving frequent buying and selling to outperform the market.	Hedge Funds - Investment funds using various strategies to generate returns, often with higher risk and less broad market exposure.
Alpha - Measure of active investment performance relative to a market index, indicating manager skill.	Illiquidity Premium - Extra potential return from investing in assets not easily sold like private equity and venture capital.
Annualized Returns - Average yearly investment gains or losses across multiple years.	Investment Policy Statement - Document outlining investment objectives, strategies, and constraints.
Asset Allocation - Spreading investments across different asset types to balance the risk and reward of the portfolio.	Private Credit - Non-bank lending to private companies, offering higher returns than traditional fixed income.
Asset Classes - Different types of investments like stocks or bonds, grouped based on similarities.	Private Equity - Investment in private companies not traded publicly, aiming for long-term growth.
Benchmark - Standard used for comparing investment performance, often a market index or peer group.	Public Equity - Stocks traded on public exchanges, representing ownership in companies.
CAGR (Compound Annual Growth Rate) - Average annual growth rate over a specific period of time.	Quasi-Restricted Endowment - Funds with limitations on use but more freedom than true restricted endowments.
Complexity Premium - Extra potential return from investing in complex financial products or structures.	Quasi-Unrestricted Endowment - Funds with some use restrictions but more flexibility for the institution.
CPI (Consumer Price Index) - Measure of average price changes over time, reflecting inflation.	Real Assets – Physical assets such as real estate, infrastructure, energy, and natural resources.
Direct Lending - Providing loans directly to private companies, bypassing traditional banks.	Rolling Returns - Average returns over overlapping periods, useful for evaluating investment performance.
Diversification - Spreading investments across different assets to reduce risk.	True Endowment - Funds with permanent use restrictions, often for charitable purposes.
Fixed Income - Investments like bonds providing regular income, often with lower risk than stocks.	Venture Capital - Investment in new or rapidly growing businesses, seeking profit and often taking ownership stakes.
Fund Manager – Entity which manages capital/investments on behalf of an outside client or investor.	Volatility - Measure of investment price fluctuation over time.

A MOSAIC VIEW INTO PORTFOLIO CONSTRUCTION



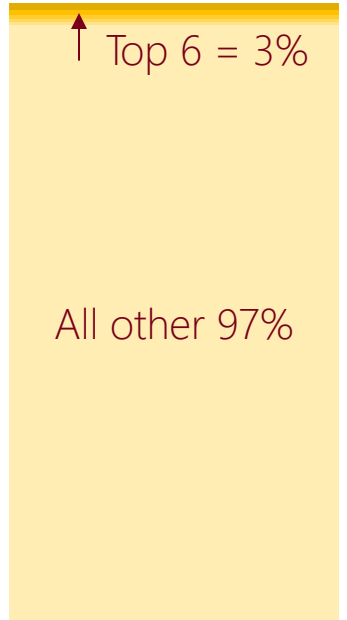
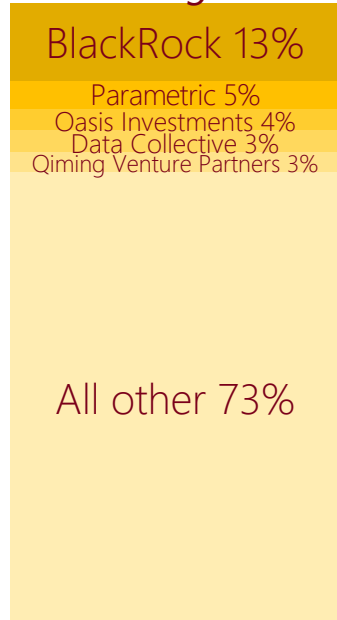
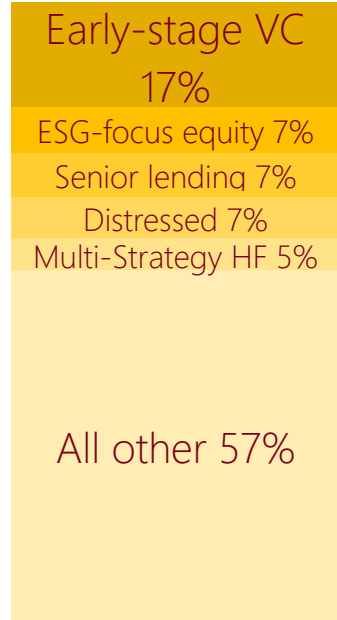
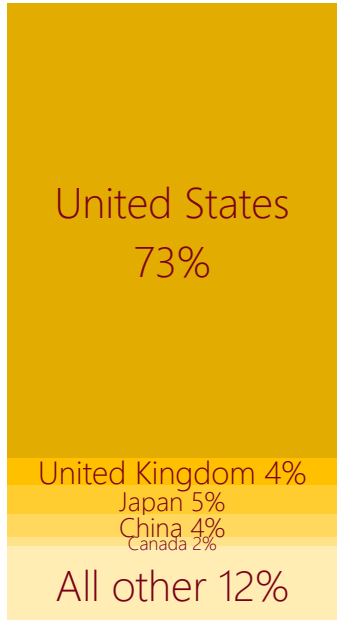
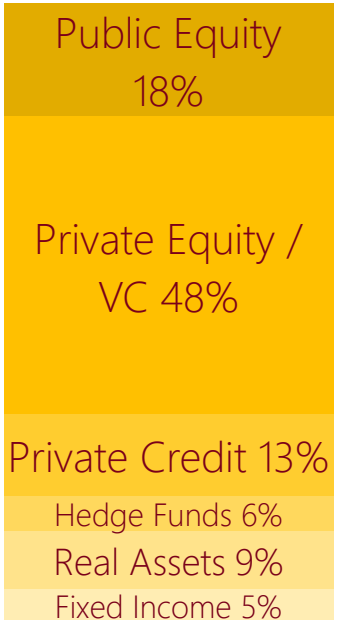
Nearly half of the fund is allocated to high-octane private equity and venture capital funds

The portfolio is heavily U.S. – centric yet globally diversified

Strategy mix is highly diversified, with early-stage venture being the largest

Manager diversification is high, w/ the passive equity ESG-index fund manager being the largest

Fund has diversified exposure to over 10,000 companies, with the top 6 comprising just 3%



DELEGATION OF RESPONSIBILITY MATRIX

	Board of Regents	President and/or SVP*	Investment Advisory Committee	Investment Staff (OIB)
STRATEGIC				
Mission statement	Responsible	Informed		
Investment policy		Informed/Endorse	Endorse/Advise	Develop/Endorse
Payout rate				
Long-term asset allocation				
Portfolio strategy/philosophy/design	Informed		Advise/Informed	Responsible
IMPLEMENTATION				
Rebalancing policy	Responsible	Informed	Endorse/Advise	Develop/Endorse
Tactical deviations from policy targets	Informed		Advise/Informed	Responsible
Investment manager retention		Responsible	Endorse	Develop/Endorse
Investment manager termination or re-allocation	Informed		Informed/Advise	Responsible/Develop
Investment manager contracts/guidelines			Informed	
Third-party vendor selection and monitoring			Informed/Advise	
MONITORING				
Ongoing investment manager diligence	Informed		Informed/Advise	Responsible/Develop
Benchmark selection			Responsible	Develop/Endorse
Investment manager guideline compliance			Informed	Responsible/Develop

Legend



Develop (D) = create materials and obtain information

Advise (A) = use information to provide insight and analysis

Informed (I) = provided information related to that step if/as requested

Endorse (E) = provide recommendation for proper course of action

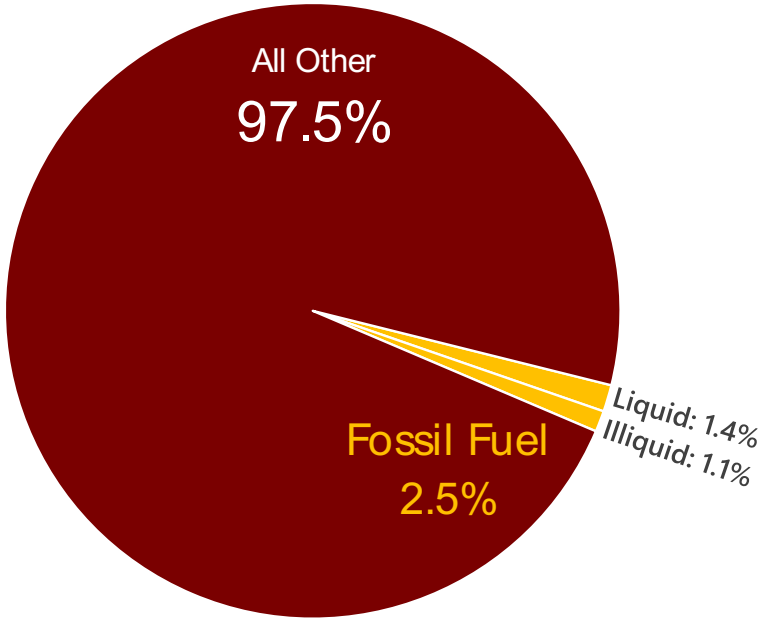
Responsible (R) = final approval or responsible for completion

* President retains authority for investment manager retention

ESG DASHBOARD FISCAL YEAR 2023

The Office of Investments & Banking (OIB) is charged with *integrating Environmental, Social and Governance (ESG) principles* in its investment decisions, consistent with the University's mission and values.

HIGHLIGHTS – BY THE NUMBERS



Only ~2.5% of the endowment is invested in fossil fuel-related exposures. Most of the illiquid funds with exposure are in liquidation mode while the majority of public exposure is obtained via index funds.

154M	<ul style="list-style-type: none"> \$ exposure to ESG Aware and low carbon funds, representing ~44% of public equity
40	<ul style="list-style-type: none"> % of managers that are UNPRI signatories UMN became a signatory in April 2022
6	<ul style="list-style-type: none"> # of "emerging, minority- or woman-owned" managers committed to in FY2023
12	<ul style="list-style-type: none"> LP Advisory Committee seats OIB staff occupy in effort to promote strong governance principles
600,000	<ul style="list-style-type: none"> Metric tons of held carbon credits, removing the equivalent of roughly 2 years of UMN Twin Cities campus emissions
45M	<ul style="list-style-type: none"> \$ committed to funds financing two of the largest renewable power producers in the U.S. (development and operation of 57 GW of wind, solar, and battery storage assets)