BOARD OF REGENTS POLICY:
Capital Reserves and Liquidity Management

ARTICLE I

SECTION I. SCOPE.

This policy governs the management and use of assets held by the University of Minnesota (University) to address various short- and long-term financial needs. This policy also governs the investment objectives and guidelines for the University's short- and medium-term reserves.

SECTION II. GUIDING PRINCIPLES.

The following principles shall guide the University's approach to capital reserves and liquidity management and the investment of reserves:

(a) The University shall maintain an integrated, enterprise-wide approach for managing financial and capital assets and the liquidity of those assets. The approach will be designed to promote financial resilience and strategic flexibility in support of the University's core mission. Consistent with these objectives, the University shall maintain sufficient and ready access to a diversified mix of both internal and external sources of capital.
(b) The University shall ensure sufficient capital is available for the University to repay the principal balance of maturing debt if refinancing is not a viable option.
(c) The University shall maintain and invest the short- and medium-term reserves in a way that effectively balances the dual objectives of capital preservation and return generation.

SECTION III. DEFINITIONS.

Subd. 1. Bond Proceeds.
Bond Proceeds shall mean the amount of unspent funds available through the sale of external debt prior to being used to fund its intended use.

Subd. 2. Capital Assets.
Capital Assets shall mean goods, equipment, or real estate that at inception, under generally accepted accounting principles, is required to be characterized as an asset on the University's Statement of Net Assets.

Subd. 3. Commercial Paper.
Commercial Paper shall mean any form of unsecured short-term revolving debt obligation with a maturity of less than 270 days.

Subd 4. Commercial Paper Facility.
Commercial Paper Facility shall mean a program authorized by the Board of Regents (Board) under which, subject to a total maximum amount, one or more series of commercial paper notes may be issued, reissued, or paid off, as defined by Board of Regents Policy: *Debt Transactions and Long-Term Capital Financing Program.*

Subd. 5. Endowment Fund.
Endowment Fund shall mean the consolidated endowment fund as defined by Board of Regents Policy: *Endowment Fund.*

Subd. 6. Group Investment Pool.
Group Investment Pool (GIP) shall mean the University's medium-term reserves.

Subd. 7. Institutional Income Reserve.
Institutional Income Reserve refers to financial reserves that are not allocated to any specific unit of the University but are held in a central account within the University's financial system. The primary revenue sources of the Institutional Income Reserve include the following: investment earnings and realized and unrealized gains or losses in market values from the Temporary Investment Pool (TIP); other miscellaneous revenues; and undedicated legal settlements.

Subd. 8. Internally Managed Funds.
Internally Managed Funds shall mean portfolio assets for which security selection, execution and ongoing monitoring are conducted by the University, rather than delegated to an external investment manager.

Subd. 9. Line of Credit.
Line of Credit shall mean a short-term lending arrangement that can be accessed as needed, up to a preapproved limit, with flexible repayment arrangements.

Subd. 10. RUMINCO, Ltd.
RUMINCO, Ltd shall mean the University's wholly-owned captive insurance company (Regents of the University of Minnesota Insurance Company Ltd.), including the assets held by RUMINCO.

Subd. 11. Temporary Investment Pool.
Temporary Investment Pool (TIP) shall mean the University's short-term reserves, including, but not limited to, the Institutional Income Reserve.

ARTICLE II
CAPITAL RESERVES AND LIQUIDITY MANAGEMENT FRAMEWORK

SECTION I. CAPITAL RESERVES AND LIQUIDITY MANAGEMENT TIERS.

The University shall utilize an integrated, enterprise-wide approach to capital reserve adequacy and liquidity management through the implementation, monitoring and reporting of capital across a three-tiered system. Assets will be assigned into each of the three tiers according to the following criteria:

- the probability of a requirement for liquidity and the potential impact of a liquidity or risk

event (ranging from low to high); and
- the varying degrees of accessibility of capital (ranging from high to low) and the cost of capital (ranging from low to high).

In accordance with the segmentation outlined above, the University shall assign all available capital within the following pools to the appropriate tiers: Temporary Investment Pool (TIP) – including the Institutional Income Reserve and both unrestricted and restricted unit-level balances; Bond Proceeds – including designated and undesignated bond proceeds; Line(s) of Credit; Commercial Paper – including excess capacity in the Commercial Paper Facility; Endowment Fund – including permanent, quasi-restricted and quasi-unrestricted endowments; RUMINCO; Group Income Pool; and Capital Assets.

Subd. 1. Tier 1.
Tier 1 reserves are intended for potential immediate use to address short-term operational cash needs, support non-recurring purchases, or offset minor, unplanned revenue or expense variances.

- *Description*: Sum of all assets assigned to Tier 1 as a percentage of the University's current fiscal year annual operating expenses budget.
- *Minimum Level Required*: The University shall maintain Tier 1 funds sufficient to provide a minimum of 75 days cash on hand, which is approximately equivalent to 20.5 percent of the University's annual operating budget expenses for the current fiscal year.

Subd. 2. Tier 2.
Tier 2 reserves include funds with moderate accessibility and/or a moderate cost of capital reserved for moderately significant program investments or to offset material but manageable unplanned changes in revenues or expenses.

- *Description*: Sum of all assets assigned to Tier 1 and Tier 2 as a percentage of the University's current fiscal year annual operating expenses budget.
- *Minimum Level Required*: None.

Subd. 3. Tier 3.
Tier 3 reserves include funds with lower accessibility and/or a higher cost of capital, reserved for major strategic initiatives or to cover significant unplanned revenue shortfalls or expense shocks that cannot be sufficiently addressed from Tier 1 and Tier 2.

- *Description:* Sum of all assets assigned to Tier 1, Tier 2 and Tier 3 as a percentage of the University's current fiscal year annual operating expenses budget.
- *Minimum Level Required:* None.

SECTION II. RESERVATION AND DELEGATION OF AUTHORITY.

Subd. 1. Reservation of Authority.
The Board reserves to itself the authority to approve the planned level of spending from the Institutional Income Reserve as a part of the annual operating budget. The Board reserves to itself the authority to establish and amend the minimum reserve level for Tier 1, as defined by Article II, Section I of this policy. Specific transactions and asset allocations for the various assets of each tier are governed by their respective Board policies.

Subd. 2. Delegation of Authority.
The president or delegate shall have the authority to do the following to ensure the implementation of this policy:

(a) Adopt and amend administrative policies and procedures to implement this policy and manage the capital assets defined by this policy when dispersed throughout the University.
(b) Allocate Institutional Income Reserve funds above the planned spending level identified in the annual operating budget. Allocations may be used for recurring expenses and expenses with a fixed term (usually less than three years) as needed.
(c) Assign all available capital sources listed in Article II, Section I of this policy to the appropriate capital reserve and liquidity management tiers.
(d) Invest funds within the parameters defined by Article III of this policy and Board policies applicable to other asset programs addressed in this policy.
(e) Incorporate the planned use of these assets in the annual operating budget.
(f) Conduct transactions consistent with the purpose of this policy and in alignment with other Board policies.
(g) Assess options and determine actions to address risk at the three tier levels outlined in this policy, delivering recommended actions to the Board for approval as required by Board policy.

SECTION III. REPORTING.

Subd. 1. Reporting Included in the Annual Operating Budget.
An Institutional Income Reserve report will be presented to the Board as a part of the annual operating budget. The report will include projected resources and allocations for the current and upcoming fiscal year.

Subd. 2. Reporting Included in Other Required Reports.
The following items shall be annually reported to the Board in conjunction with the Annual Asset Management and Annual Debt Management reports:

(a) Details for each of the three capital reserve and liquidity management tiers shall include, but not be limited to:
    (1) the specific allocation of capital sources into each of the three tiers;
    (2) the total asset value within each aggregate tier; and
    (3) the resulting percentages of those assets in each tier relative to the University's annual operating budget, including a comparison against any minimum or target levels established by this policy and comparative data from rating agencies and peer institutions.

ARTICLE III
INVESTMENT OF RESERVES

SECTION I. SHORT-TERM RESERVES.

Subd. 1. Investment Objectives.
The investment objectives for the Temporary Investment Pool (TIP) are capital preservation and current income generation while seeking market-commensurate returns on invested capital. The pursuit of these objectives shall be guided by and consistent with the following programmatic priorities:

(a) maintaining sufficient liquidity to meet the near-term funding and operations requirements of the University, including as required by Article II, Section I, Subd. 1; and
(b) providing backup liquidity for certain of the University's short-term or variable rate debt obligations, to the extent liquidity is not provided by other means.

Subd. 2. Portfolio Characteristics.
A majority of TIP funds are to be invested in high quality, relatively short-term interest bearing securities denominated in United States dollars and not exposed to significant market risk. This interest bearing portion of TIP investments (Core Allocation) shall be guided by the following:

(a) Average duration shall be four years or less with a maximum duration of seven years for any individual holding.
(b) Credit quality shall be investment grade, specifically an average of A2/A or better.
(c) Corporate obligations shall not exceed 60 percent of the portfolio, measured at the time of investment, with a maximum limitation of 5 percent for any single issuer.

Up to 30 percent of the total TIP funds, measured at the time of investment, may be invested in the Endowment Fund, illiquid investments, and other strategies with a higher risk but higher expected return profile. Investments made under this allocation (Growth Allocation) shall not be subject to the duration, credit quality, or issuer concentration guidelines applicable to the Core Allocation described above. When determining the amount of TIP funds to be invested in the Growth Allocation, consideration shall be given to market conditions and other financial circumstances, including the University's funding and liquidity needs.

Subd. 3. Investment Guidelines for Internally Managed Funds.
The following investment guidelines shall apply to investments managed directly by the University as part of the Core Allocation:

(a) Sovereign Government Securities - Investments in U.S. federal government securities including Treasury obligations, federal agency securities, and obligations guaranteed or insured by an agency of the federal government, shall have no limitation on amount per agency or percent of overall portfolio. Foreign sovereign securities are limited to government obligations issued by Canada or countries that are part of the developed markets MSCI EAFE (Europe, Australasia, and the Far East) Index and shall not exceed 33 percent, at the time of investment, of the overall portfolio unless the president or delegate approves the purchase of a higher percentage. The Board must be notified of such approvals.
(b) Corporate Obligations - Investments in corporate obligations shall be limited to commercial paper, short- or intermediate-term bonds, and bank certificates of deposit.

Subd. 4. Prohibitions.
Explicit leverage – defined as any investment position where potential losses may exceed the initial principal invested – shall not be utilized in the management of TIP funds.

While TIP funds may be invested directly by University personnel, the use of external investment managers also is permissible. The following shall not be subject to the prohibitions described below: a) investment managers utilized in the Core Allocation as long as overall duration and credit quality averages are in compliance with the guidelines described in this policy, and b) investment managers and investments made in the Endowment Fund as part of the Growth Allocation. Subject to the aforementioned exceptions:

(a) 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) securities not traded on a major exchange;
(6) 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
(7) uncollateralized derivative securities.

SECTION II. MEDIUM-TERM RESERVES.

Subd. 1. Investment Objective.
The primary investment objective for 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. To achieve this, the pool is managed as a balanced, moderate volatility portfolio that prioritizes capital preservation alongside growth.

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 percent 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 or unrated private credit investments, up to a maximum 30 percent allocation; and
    (4) emerging market debt, up to a maximum 10 percent allocation.
(b) Money Market Funds - 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) Equity - Up to 50 percent of the overall portfolio may be invested in diversified equity and equity-related securities and/or in the Endowment Fund.

Subd. 3. Prohibitions.
Except for investments made in the Endowment Fund:

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

REVISION HISTORY

Adopted: June 11, 2026
Supersedes: Central Reserves Fund, dated February 11, 2022; Investment of Reserves, dated September 9, 2016.