



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

INVESTMENT OF RESERVES

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

ARTICLE I

Short-Term Reserves

Subd. 1. Investment Objective. The primary investment objective for the University's short-term reserves, known throughout this article 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; and
- (b) maximizing current income and investment returns on these reserves.

Subd. 2. Overall Portfolio Characteristics. A majority of TIP funds are to be invested in high quality, relatively short-term fixed income 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.

The remaining balance of TIP, not to exceed 30%, may be invested in CEF. Annually, when determining the amount of TIP to be invested in CEF, consideration shall be given to market conditions, timing, and other financial circumstances. TIP investments in CEF shall be reported periodically to the Board of Regents.

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



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- (a) average duration of four years or less for the entire portfolio and maximum duration of seven years for any individual holding;
- (b) average credit quality of A1/A+ or better;
- (c) no use of leverage; and
- (d) 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 of Regents must be notified of such approvals.

Subd. 3. Investment Guidelines for Specific Types of Securities. The following investment guidelines shall apply to specific types of securities:

- (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 – Money market investments 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 – Corporate obligations include commercial paper, intermediate or long-term bonds, bank paper, and master notes. In aggregate, corporate obligations shall not exceed 60% of the portfolio, with a maximum limitation of 7% for any single issuer, and shall be guided by the following:
 - (1) Commercial Paper – Commercial paper obligations shall include 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 – Intermediate or long-term bonds shall include bonds and flexible rate securities that are U.S. dollar denominated obligations of U.S.-backed or foreign issuers.
 - (3) Bank Paper – Bank paper shall include U.S. dollar denominated certificates of deposit, time deposits, bankers acceptances, letters of



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credit, and documented discount notes from U.S. or foreign issuers.

- (4) Master Notes – Master note obligations shall include notes issued by U.S. corporations only, with a maximum limitation of 10% of the portfolio.

Subd. 4. Prohibited Securities. Except for investments made in CEF, investments in the following securities are prohibited:

- (a) equity and equity related alternatives;
- (b) securities convertible into equity;
- (c) non-investment grade high yield securities;
- (d) unrated securities;
- (e) financial futures;
- (f) fixed income options;
- (g) interest rate swaps;
- (h) other derivatives securities, private securities, or those not traded on a major exchange; and
- (i) 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.

ARTICLE II

Long-Term Reserves

Subd. 1. Investment Objective. The primary investment objective for the University's long-term reserves, known throughout this article 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 outside professional managers or in CEF.



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

- (a) Fixed Income Securities – Up to 100% of the portfolio may be invested in fixed income 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) a maximum 20% allocation to securities rated below investment grade;
 - (4) a maximum 10% exposure to emerging market debt;
 - (5) mutual funds consistent in quality with these investment guidelines; and
 - (6) futures, options, and interest rate swap agreements.
- (b) Equity – Up to 50% of the overall portfolio may be invested in diversified equity-related securities and/or in CEF.
- (c) 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. Prohibited Activities. Except for investments made in CEF, use of the following instruments and strategies shall be prohibited:

- (a) mortgage derivatives, including stripped mortgage pass through securities, such as interest-only and principal-only securities; and
- (b) leverage.