Endowment update for June 30, 2016

This report provides an update on the management and performance of the University of Minnesota Foundation (UMF) endowment portfolio for the period ended June 30, 2016.

The portfolio, currently valued at $2.2 billion, is invested by UMF Investment Advisors (UMFIA), a nonprofit subsidiary formed in 1998 to focus on long-term investment goals. UMFIA has a 10-member board of directors that includes representation from the UMF Board of Trustees as well as from UMF leadership.

Please visit **give.umn.edu/about/financial** for additional information.

University of Minnesota
FOUNDATION

Creating a margin of excellence

UMF is a key partner in building excellence among students and faculty and fueling important discovery on all five University of Minnesota campuses. UMF accomplishes this by raising gifts from individuals and organizations, investing funds for maximum impact, and stewarding gifts to ensure they are used as donors intended.

Endowments create a margin of excellence that empowers the University to go far beyond what is otherwise possible. UMF manages the investment and spending of approximately 6,000 endowed funds that provide a stable and predictable source of funding for their designated programs.

Donors may make endowed gifts to create new funds or contribute to existing funds. These funds are pooled and invested together as the UMF endowment.

Managing the endowment

The investment policy, set by the UMF Board of Trustees, seeks to maximize growth while minimizing annual risk and volatility. To achieve these goals, the portfolio is highly diversified and actively managed. A portion of each endowed fund's value, currently 4.5% of the fund's average market value over the previous 20 quarters, is made available for spending each year to support the fund's designated program.

Investment results

for the periods ended June 30. Total value of UMF endowment: $2.2 billion.

For the past year, the investment return for the endowment pool was +1.6%, outpacing the market benchmark return of +0.2%. Nearly all of the outperformance of the actual portfolio can be attributed to the asset allocation differences between our long-term strategy and the market benchmark.

Year	Actual	Goal*	Policy Benchmark**	65/35 Market Benchmark***
1-Year	1.6%	6.1%	2.8%	0.2%
5-Year	6.9%	6.4%	6.6%	4.8%
10-Year	5.7%	7.3%	6.1%	4.7%
20-Year	8.1%	8.0%	6.6%	6.3%

* The investment goal is to achieve an annualized return of 5% in excess of inflation. The goal, set by UMFIA, is intended to cover the spending rate as well as administrative fees to ensure permanent endowment value.

** The policy benchmark's components and asset class weightings are based on the portfolio's asset allocation policy.

*** The 65/35 market benchmark is a blend of stock and bond indices (65% stocks and 35% bonds).

Value of UMF endowment over time

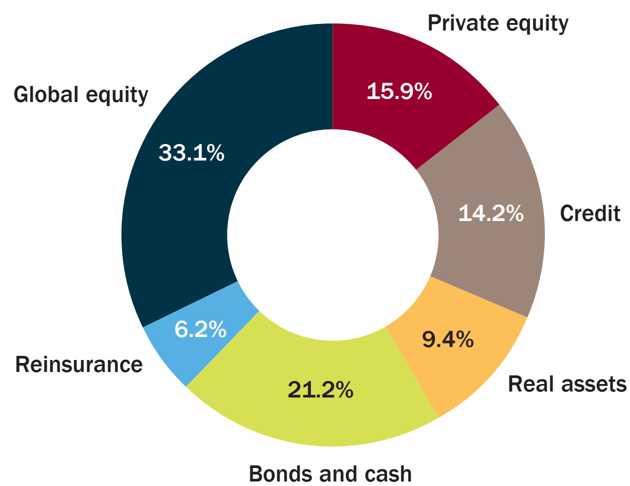
The UMF endowment has performed well over the long term, making it possible for funds to provide predictable and stable funding to support their designated programs.

The chart below shows the growth of the endowment, compared with the foundation's policy goal and a 65/35 market benchmark, illustrated as the growth of $1 since 1990.

The 65/35 market benchmark is a weighted blend of stock and bond indices (65% equities and 35% bonds). To minimize the higher risk inherent in equities, the equity component of UMF's portfolio is closer to 50%. Portfolio diversification is important because the endowment supports current spending. From time to time, simple stock/bond portfolios more heavily weighted in favor of stocks may outperform the UMF portfolio. Our goal is to achieve equity-like returns over the long run but with far less volatility.

Since the inception of UMFIA, our portfolio return has exceeded market benchmark returns by +2.8% annually, with less downside risk.

Asset allocation



Growth of $1 in UMF endowment since July 1, 1990