



## Endowment update for December 31, 2017

This report provides an update on the management and performance of the University of Minnesota Foundation (UMF) endowment portfolio for the periods ended December 31, 2017.

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

### UMFIA 2018 Board of Directors

- Jeffery V. Bailey, CFA
- Fred Friswold,\*† Chair emeritus
- Peter M. Grant
- B. Kristine Johnson,\* Chair
- Erwin A. Kelen\*
- Bruce C. Lueck, CFA
- Douglas A. Neimann
- Benjamin S. Oehler
- Marcia L. Page
- Kathleen L. Pickard\*\*†
- Kathleen M. Schmidtkofer\*\*

\*UMF Board of Trustees  
 \*\*UMF leadership, ex officio member  
 † Non-voting member

Please visit [give.umn.edu/about/financial](http://give.umn.edu/about/financial) for additional information.

## Raising and managing gifts for the benefit of Minnesota's land-grant university

Designated by the University of Minnesota's Board of Regents as the central development office for the University, the U of M Foundation plays a key role in supporting greatness across all five U of M 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.

As the financial cornerstone of any great university, endowments empower the University of Minnesota to reach 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 University 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.

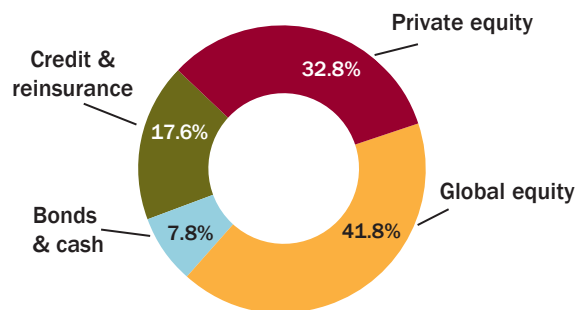
## Managing the endowment

A portion of each endowed fund's value, currently 4.5% of the principal value's trailing average over the previous 20 quarters, is made available for spending each year to support the fund's designated program. The investment goal seeks to support this spending plan, which is set by the UMF Board of Trustees, while preserving the real purchasing power of endowed gifts for the long term.

To achieve this goal, UMF's asset allocation strategy varies considerably from a standard equity/bond mix. UMF's departure from a conventional investment approach may lead to short-term returns that deviate significantly from those of our peers and standardized benchmarks. The portfolio is highly diversified and actively managed, with a goal of achieving equity-like returns over a complete market cycle, with lower risk.

UMF is attentive yet less reactive to short-term results, but highly sensitive to extended periods of low or poor returns. Therefore, the portfolio is structured to capture market upside over the long term while avoiding sharp and prolonged market declines.

## Asset category allocation



Turn over for investment results information

## Investment results

For the periods ended December 31. Total value of UMF endowment: \$2.3 billion.

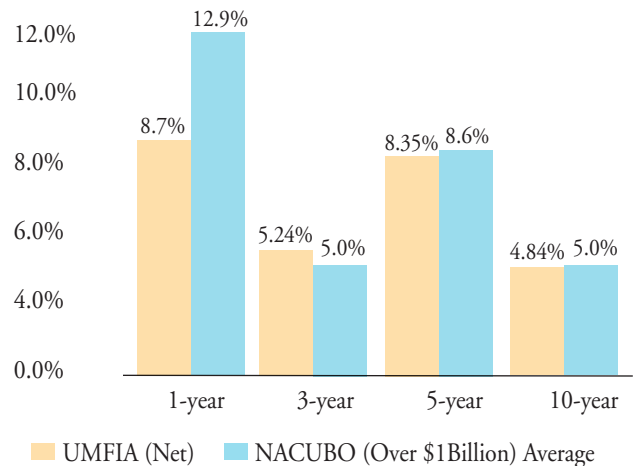
The investment goal is to achieve an annualized return of 5% in excess of inflation in order to cover the 4.5% spending rate as well as administrative fees. For the one-year period ending December 31, 2017, the endowment pool returned 12%. This performance lagged the market benchmark return of 17.4%, due primarily to UMF's long-term investment strategy, which relies much less on traditional common stock exposure as compared to the market benchmark.

Year	Actual	Goal	Policy Benchmark <sup>1</sup>	65/35 Market Benchmark <sup>2</sup>
1-Year	12.0%	7.2%	12.9%	17.4%
5-Year	8.3%	6.5%	8.3%	7.7%
10-Year	5.4%	7.0%	5.6%	4.6%
Since inception <sup>3</sup>	7.7%	7.9%	6.8%	5.3%

## Performance vs. peer group<sup>4</sup>

As of June 30, 2017. Please note that the investment results in the chart at left are as of December 31 and will differ from the values reflected here.

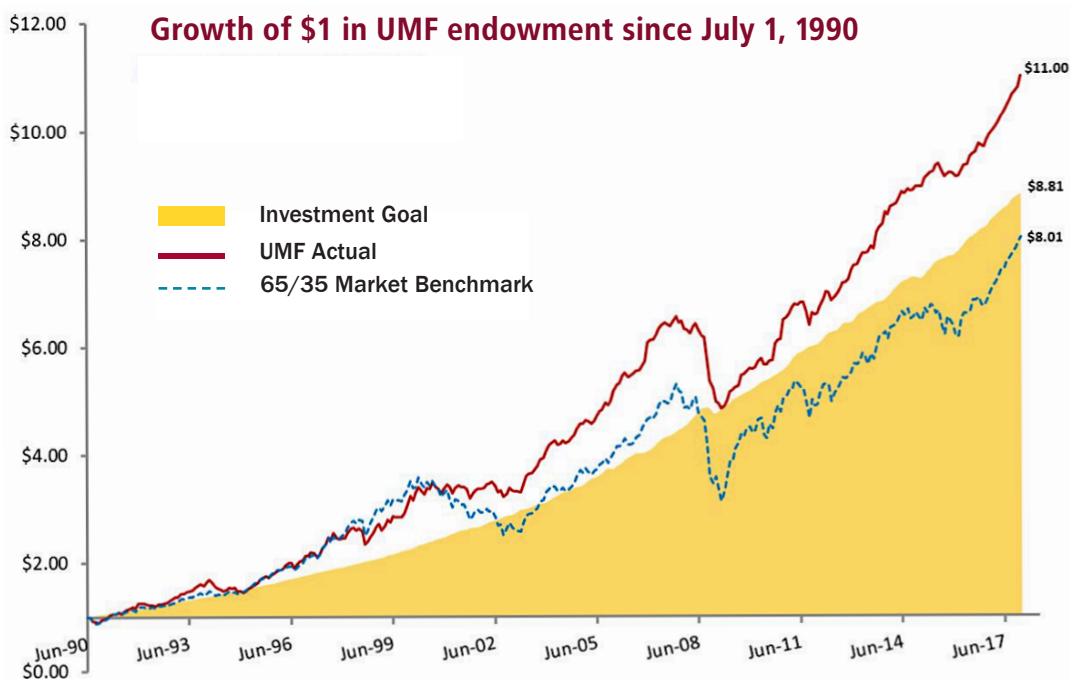
The chart below illustrates UMF's performance relative to our peer group: college and university endowments with assets greater than \$1 billion.



<sup>4</sup> 2017 NACUBO-Commonfund Study of Endowments

## 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 \$1 invested in the endowment in 1990 compared with the foundation's investment goal and a 65/35 market benchmark. Since the inception of UMFIA, our portfolio return has exceeded market benchmark returns by +2.4% annually, with less downside risk.



<sup>1</sup> **The policy benchmark** helps measure how well UMFIA is implementing its investment policy. Its components and asset class weightings are based on the portfolio's asset allocation policy.

<sup>2</sup> **The 65/35 market benchmark** is a weighted blend of stock and bond indices (65% equities and 35% bonds).

<sup>3</sup> January 1999.