University of Minnesota Foundation

endowment update

for the periods ended December 31, 2018

Designated by the University of Minnesota's Board of Regents as the central development office for the University, the U of M Foundation (UMF) 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.

Managing and investing the endowment

The endowment portfolio is invested by UMF Investment Advisors (UMFIA), a nonprofit subsidiary formed by UMF’s Board of Trustees in 1998 to provide dedicated, professional active portfolio management. UMFIA has a board of directors that includes representation from the UMF Board of Trustees as well as from UMF leadership (see back page).

Investment strategy

The UMF endowment portfolio is uniquely structured and managed to meet two goals: preserve the real purchasing power of endowed gifts for the long term while simultaneously supporting a meaningful and dependable rate of spending, currently 4.5% of a fund’s average market value over the previous 20 quarters.

The portfolio is highly diversified and actively managed and has much less reliance on traditional common stock exposure than what is found in a standard 65/35 equity/bond mix. The goal is to maintain stability and capture equity-like returns over the long term, while avoiding the effects of sharp and prolonged market declines. This means that, while on average, UMF’s returns will not experience the highest highs, they will also avoid the lowest lows.

This strategy is designed to create predictable and stable funding over the long term; however, year-to-year short-term results will often look different from those of our peers and the standardized 65/35 market benchmark.

Asset category allocation

- Global equity: 33.1%
- Private equity: 20.1%
- Bonds & cash: 43.2%
- Credit & reinsurance: 3.6%

Additional financial information also is available online at driven.umn.edu/about-umf/financial.
How has the UMF endowment performed over the long term?
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 +2.7% annually, with less downside risk.

**Growth of $1 in UMF Endowment**

*July 1, 1990 to December 31, 2018*

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**UMF performance compared to our peer group**

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

UMF’s long-term investment strategy will frequently generate one-year returns that will be in the outer quartiles—either high or low—of the distribution of peer returns. More meaningful comparisons are found over the three- to five-year periods, when this variation declines.

**Performance vs. peer group**

As of June 30, 2018. Please note that the investment results shown on the preceding page are as of December 31 and will differ from the values reflected here.

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**Spending the endowment**

**What is the endowment spending policy?**
The UMF Board of Trustees establishes the endowment spending policy. The current spending rate is 4.5% of a fund’s trailing average market value over the previous 20 quarters (5 years). These dollars, called the fund’s “payout,” are transferred to a spending account and made available each year to support the fund’s designated program. Funds designated as quasi-endowments allow additional spending of up to 20% of fund value annually.

**Honoring donor intent**
One of UMF’s most critical responsibilities is to ensure that gifts are used in accordance with donor intent. Stringent controls are in place, and UMF staff work in partnership with the U of M units to monitor funds and optimize the utilization and impact of gifts for their designated purposes.

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**Investment results**

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

<table>
<thead>
<tr>
<th>Year</th>
<th>Actual</th>
<th>Policy Goal</th>
<th>Benchmark 1</th>
<th>Benchmark 2</th>
</tr>
</thead>
<tbody>
<tr>
<td>1-Year</td>
<td>-0.3%</td>
<td>7.0%</td>
<td>-2.7%</td>
<td>-6.3%</td>
</tr>
<tr>
<td>5-Year</td>
<td>5.4%</td>
<td>6.6%</td>
<td>5.0%</td>
<td>3.7%</td>
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<tr>
<td>10-Year</td>
<td>8.3%</td>
<td>7.1%</td>
<td>8.0%</td>
<td>7.7%</td>
</tr>
<tr>
<td>Since inception[3]</td>
<td>7.4%</td>
<td>7.9%</td>
<td>6.4%</td>
<td>4.7%</td>
</tr>
</tbody>
</table>

1. 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.

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


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**Endowment funds and cash gifts provided**

$191 million in funding to fuel greatness at the U of M in fiscal year 2018