

## OCTOBER MEETING, 1999

*The University of Michigan  
Ann Arbor  
Thursday, October 21, 1999*

The Regents convened at 2:45 p.m. in the Michigan Rooms at the Harding Mott University Center on the campus of the University of Michigan-Flint. Present were President Bollinger and Regents Brandon, Horning, Maynard, McGowan, and Taylor. Also present were Provost Cantor, Executive Vice President Kasdin, Interim Vice President Harper, Interim Chancellor Klein, Vice President and General Counsel Krislov, Chancellor Mestas, Vice President and Secretary Tedesco, Vice President Ulaby, and Vice President Wilbanks. Regents Deitch, Newman, and White were absent. Vice President Feagin and Executive Vice President Omenn were also absent.

President Bollinger called the meeting to order and thanked Chancellor Mestas for hosting the meeting and the groundbreaking ceremony and luncheon that were held earlier. He announced that Professor Emeritus Martinus Veltman had been awarded the Nobel Prize in Chemistry. He noted that Professor Veltman has a deep affection for the University of Michigan, and that he has returned to campus to participate in events to celebrate the occasion and honor him.

### **Consent Agenda**

**Minutes.** Vice President Tedesco submitted the minutes for the meeting of September 16-17, 1999.

**Reports.** Executive Vice President Kasdin submitted Reports of Investment, Plant Extension, Human Relations and Affirmative Action, and the Regents Report on Noncompetitive Purchases Over \$5,000 from Single Sources, June 16, 1999 through September 15, 1999.

Vice President Krislov submitted the Litigation Report.

Vice President Ulaby submitted the report of Projects Established for September 1999.

Vice President Tedesco submitted a communication to the board from the Ann Arbor City Council, thanking the University of Michigan Hospitals and Health Centers for its decision to close down its medical waste incinerator.

**Division of Student Affairs.** Interim Vice President Harper reported that she would be sending information to the Regents regarding the University's response to recent changes in the recommendations by the Centers for Disease Control for inoculations for bacterial meningitis. She noted that phone lines to nursing staff have been put in place for students seeking information about the disease and the vaccine.

**University of Michigan-Dearborn.** Interim Chancellor Klein reported that the Dearborn campus had recently celebrated its 40th anniversary. He also noted that progress is being made on construction of the College of Arts, Sciences and Letters Building and that the Fitness Center is nearing completion. Lastly, he reported that progress is being made on the search for a new chancellor.

**University of Michigan-Flint.** Chancellor Mestas observed that in the next few months he will be engaging the Flint campus community in a conversation about future directions, such as the geographic areas represented by students and the kinds of programs offered.

**Voluntary Support.** The Report of Voluntary Support was submitted in Vice President Feagin's absence.

**Personnel Actions.** Provost Cantor highlighted the appointment of Bryan Rogers as dean of the School of Art and Design. She noted that his background in both chemical engineering and in art and the breadth of his interests and experience should position him to be a leader who will help the School of Art and Design to engage in a wide variety of interdisciplinary activities across campus and beyond. President Bollinger commented that the University is committed to developing one of the best art schools in the country, and he believes that this appointment will be an important step in achieving that goal.

Regent McGowan congratulated Dean Kenyon of the College of Pharmacy on increasing Ronald Cresswell's ties to the University by appointing him professor of medicinal chemistry. She noted that he is one of the most remarkable individuals to have come to Ann Arbor in many years.

**Transition at University Audits.** Executive Vice President Kasdin reported that Carl R. Smith had stepped aside as director of University Audits as of October 1, 1999. The title of this position will be changed to executive director of University audits, in keeping with the heightened importance of the monitoring and reduction of risk at the University. Robert Moenart has assumed the position of interim director, and the search for the permanent executive director has begun.

**Personnel Reports.** Provost Cantor submitted Personnel Reports.

**Memorials.** No deaths were reported to the Regents this month.

**Degrees.** Provost Cantor submitted recommendations for approval of final degree lists for the August 1999 commencements, as well as changes to previously approved degree lists.

**Retirement memoirs.** Vice President Tedesco submitted a memoir for one retiring faculty member.

On a motion by Regent Brandon, seconded by Regent Taylor, the Consent Agenda was unanimously approved.

Vice President Ulaby announced that the University of Michigan had been notified by the White House Office of Science and Technology Policy that the Undergraduate Research Opportunity Program (UROP) had received a Presidential Award for Excellence in Science, Mathematics, and Engineering Mentoring for 1999, one of five such awards given nationwide. This award, administered by the National Science Foundation, is a vehicle for the president to honor institutions and individuals that had been exemplary in encouraging minorities, women, and persons with disabilities to pursue careers in scientific, engineering, and technical fields. He noted that this year nearly 1,000 students and more than 500 faculty at the University are involved in mentoring partnerships through this program.

### **Michigan Greats**

Vice President Ulaby gave a presentation on the career of James G. Blight, senior research fellow and professor of international relations at Brown University, who is a Flint native and an alumnus of the University of Michigan-Flint.

A five-minute break followed, from 3:05 to 3:10 p.m., after which regular agenda items were taken.

### **Alternative Asset Commitments**

Executive Vice President Kasdin submitted a summary of alternative asset commitments recently made to follow-on funds of previously approved partnerships.

### **Alternative Asset Commitment**

On a motion by Regent Horning, seconded by Regent Brandon, the Regents unanimously approved commitment of up to \$20.0 million from the Long Term Portfolio to J.H. Whitney IV, L.P., pending favorable review of the legal documents by the Office of the General Counsel. Executive Vice President Kasdin disclosed that he had made a personal investment in a prior Whitney fund shortly after arriving at the University after the University had declined an earlier offer to invest in it.

### **Replacement of Tunnel and Associated Utilities located under State Street near the Michigan Union**

Executive Vice President Kasdin noted that portions of State Street will have to be shut down for short periods of time to complete this project. University officials are working with city officials to minimize the inconvenience to the community.

On a motion by Regent Horning, seconded by Regent Taylor, the Regents unanimously approved the project for replacement of the tunnel and associated utilities located under State Street near the Michigan Union, as described in the Regents Communication.

### **Display Technology and Manufacturing Building Renovations for Functional Magnetic Resonance Imaging (fMRI) Laboratory**

Executive Vice President Kasdin observed that creation of the fMRI laboratory, which will be dedicated to basic research studies of cognitive processes, is an important academic initiative to promote large-scale development of research in the life sciences. Provost Cantor noted that both fMRI and PET scans visualize blood flow in the brain, but the former are noninvasive and result in a much sharper image. She pointed out that the fMRI technology has revolutionized cognitive psychology. This project will involve an interdisciplinary collaboration

with the College of Engineering, School of Medicine, and the Department of Psychology in the College of LSA.

On a motion by Regent Horning, seconded by Regent Maynard, the Regents unanimously approved initiating the design of the proposed Functional Magnetic Resonance Imaging Laboratory in the Display Technology and Manufacturing Building and appointing Ann Arbor Architects Collaborative as the architect.

### **New Degree Program for A. Alfred Taubman College of Architecture and Urban Planning**

Provost Cantor reported that the proposed “Master of Urban Design” program, which will take advantage of the University’s proximity to Detroit, will begin as a relatively small program but is expected to become popular and grow, as there are currently no other comparable programs in the Midwest.

On a motion by Regent McGowan, seconded by Regent Brandon, the Regents unanimously approved the “Master of Urban Design” program to be offered in the A. Alfred Taubman College of Architecture and Urban Planning.

### **Revision to Regents’ Bylaw 3.07**

Executive Vice President Kasdin explained that the delegation of signature authority proposed in this bylaw revision refers to the execution of sponsored research proposals, not contracts. The purpose is to streamline the review and signature process and enhance the quality of the research proposal review process. Substantive changes are in subsection 2 (b).

On a motion by Regent Brandon, seconded by Regent Maynard, the Regents unanimously approved a revision to Regents’ Bylaw 3.07. The revised bylaw follows:

[\*Bylaw Sec. 3.07. Approval and Execution of University Documents\*](#)

1. All transactions involving the purchase, sale, or other disposition of real property shall be first approved and authorized by the Board. Unless otherwise specifically provided by the Board, all land contracts and deeds conveying University property shall be executed by the president and the executive vice president and chief financial officer.
  - a. All sales of donated or bequeathed real estate located outside the Ann Arbor, Dearborn, or Flint campus areas regardless of the sales price; real estate that funds a Unitrust for any amount or location; and bequeathed or devised real property requiring action by an estate executor, personal representative or a trustee may be approved and authorized by the executive vice president and chief financial officer. The resulting land contracts and deeds shall be executed by both the president and the executive vice president and chief financial officer. These transactions will be reported to the Regents in an Item of Information.
  - b. Any sale authorized by the executive vice president and chief financial officer must equal or exceed the appraised value except for fractional interest estate properties. For those properties held in an estate in which the University's interest is fractional, the University will cooperate with the estate's legally appointed representative regarding terms and appraisal requirements to accomplish a sale.
2. Transactions involving personal property shall be approved and executed as follows:
  - a. The investment or reinvestment of gift, trust, agency, and deposit funds, the purchase and sale of personal property acquired in connection with the investment or reinvestment of such funds, and the approval of real estate mortgages may be made by any two of the following officers: the president, the executive vice president and chief financial officer, the associate vice president for finance, the controller, and the treasurer and investment officer. Any two of the said officers are hereby authorized and empowered to execute and deliver the documents necessary to complete the sale of any stocks, bonds, evidences of indebtedness or other securities, including rights and options to acquire or sell the same owned or held by the Regents of the University of Michigan. The transfer of any such securities by the officers herein authorized shall be sufficient to convey ownership to the transferee.
  - b. All contracts for sponsored research and supplements thereto, including agreements for fellowships, scholarships, and grants-in-aid, and all contracts covering payment for tuition and supplies may be executed by the executive vice president and chief financial officer. The executive vice president's signature shall be certified by the vice president and secretary where such certification is requested. Where the commitments fall within the normal activities of the University, the executive vice president and chief financial officer is authorized to delegate in writing to designated representatives authority to execute:
    - (i) All such contracts described in this subsection (b) where the amount involved is less than \$750,000;
    - (ii) Training grants and/or fellowship program awards where the amount does not exceed a rate of \$250,000 per year; and
    - (iii) Applications for grants and contracts.
  - c. All discharges of mortgages and cancellations of land contracts may be executed by any two of the following officers: the president, the executive vice president and chief financial officer, the vice president and secretary, the associate vice president for finance, the controller, and the treasurer and investment officer.
  - d. All routine contracts for the purchase, sale or loan of supplies or equipment within authorized budgets may be executed by the executive vice president and chief financial officer, provided, however, that the executive vice president and chief financial officer is authorized to delegate in writing to the vice president and secretary, the associate vice president for finance, the associate vice president for business operations, [or] the purchasing agent, or other designated representatives authority to execute such contracts.

3. In case the president is absent or for any reason is unable to execute documents requiring the president's signature, then they shall be executed on the president's behalf by the executive vice president and chief financial officer. In the event the executive vice president and chief financial officer acts on behalf of the president or in the event of the absence or inability to act of the executive vice president and chief financial officer, then the associate vice president for finance, the controller, or the vice president and secretary may execute such documents.

4. All other documents involving real or personal property transactions and vendor service contracts shall be executed by the executive vice president and chief financial officer; provided, however, that the executive vice president and chief financial officer may delegate in writing to the vice president and secretary, the associate vice president for finance, or other designated representatives authority to execute such documents.

A 25-minute recess followed, from 3:20 until 3:45 p.m.

### **Public Comments**

The Regents heard comments from Thomas Hahn, former chief steward of AFSCME Local 1583, and Glenn Ford, current chief steward for AFSCME Local 1583, regarding labor relations and the grievance investigation process.

The meeting was recessed at 3:50 p.m. until the following day.

*Friday, October 22, 1999*

The Regents convened at 9:30 a.m. in the Regents' Room. Present were President Bollinger and Regents Brandon, Deitch, Horning, Maynard, McGowan, Newman, and Taylor. Also present were Provost Cantor, Vice President Feagin, Executive Vice President Kasdin, Interim Vice President Harper, Interim Chancellor Klein, Vice President and General Counsel Krislov, Chancellor Mestas, Vice President and Secretary Tedesco, Vice President Ulaby, and Vice President Wilbanks. Regent White and Executive Vice President Omenn were absent.

## **Resolution in honor of Martinus J.G. Veltman**

Regent McGowan called to the podium Professor Emeritus Martinus J.G. Veltman, and expressed that this resolution “comes to you with the admiration, the awe, and the affection of the people of this university.”

### ***Regents’ Resolution***

*The Regents of the University of Michigan applaud and congratulate Martinus J. G. Veltman, the John D. MacArthur Professor Emeritus of Physics, on winning the Nobel Prize for physics. Dr. Veltman and his colleague and former student Gerardus ‘t Hooft are being recognized by the Royal Swedish Academy of Sciences for their definitive contributions to advances in theoretical physics.*

*Dr. Veltman developed the theories necessary for physicists to mathematically predict properties of the sub-atomic particles that comprise all matter in the universe and the forces that hold the particles together. In so doing, he has provided the framework for some of modern physics’ most heralded discoveries, including the 1995 discovery of the “top” quark.*

*Dr. Veltman brings a profound respect for reality, considerable intellect, and curiosity to a field so abstract it is difficult for friends, family and even colleagues to imagine, let alone comprehend. In devoting his life to asking and answering questions about the universe and how it works, Dr. Veltman continues in the tradition of such great physicists and cosmologists as Isaac Newton, James Clerk Maxwell, and Albert Einstein.*

*The Regents express admiration and deep appreciation to Dr. Veltman for his many contributions to science and to the University’s intellectual and cultural life, and laud the accomplishments of Professor Emeritus Martinus J. G. Veltman, the first University of Michigan faculty member to win a Nobel Prize.*

A standing ovation followed.

Professor Veltman observed that he is overwhelmed by what has happened to him since winning the Nobel Prize. He said that nothing in life can compare with the experience of moving into uncharted territory, arriving where no one has ever been, discovering something new, making a guess about it, and having it work out. He thanked the Regents and administration for “creating a university in which it is a pleasure to work.”

Another standing ovation followed.

## **Y2K Preparedness**

President Bollinger called on Jose-Marie Griffiths, University chief information officer and executive director of the Information Technology Division. Dr. Griffiths reported that over the past few months, significant progress has been made in readying the University for the Y2K rollover. Among the activities that have taken place are continued remediation and testing, the development of business continuity and contingency plans, quality assurance activities, and a series of communications activities. Testing has been completed on all legacy mainframe administrative systems, and the Medical Center has completed quality assurance testing of its patient care data system. Payroll systems and student systems have also been tested.

Extensive campus-wide communication has occurred through a variety of means. Dr. Griffiths reviewed the Y2K priorities that have been set by the executive officers, and noted that people throughout the University have prepared business continuity and contingency plans with these priorities in mind. Quality assurance activities are currently underway, including review of twelve units' contingency plans by the risk management office.

Dr. Griffiths reported that a Y2K Communications and Event Management Response Team has been identified, and a campus-wide Y2K Response and Communication Center has been established that will operate during the rollover period. A core team of key decision makers is being trained, decision-making authority and responsibility of each command center participant is being identified, and additional needed staffing needs are being assessed. A full simulated dress rehearsal will be held in early December. She acknowledged Bill Bess, director of the Department of Public Safety, and James Snyder, professor of architecture and urban planning, for sharing their expertise in large-scale emergency management operations.

A communications plan has also been produced, and various communities who have different kinds of communications needs during the rollover period are being identified. Key messages are being prepared for dissemination before, during, and after the rollover.

Dr. Griffiths emphasized that at every point the planners have worked to augment and build upon existing failure response systems. The majority of the effort has involved finding and fixing deficits and integrating the different systems into a comprehensive, holistic system.

She reported that the University of Michigan has played a leadership role both state-wide and nationally in Y2K activities. Through the Michigan Community Outreach program, Y2K training programs have been provided to community leaders throughout the state. University officials were invited to participate in the U.S. President's Council on Year 2000 Conversion Roundtable and the University of Michigan is one of only 20 higher education institutions on the U.S. Department of Education's "Honor Roll." The University's materials for Y2K training have been sent by the U.S. Department of Education to several thousand postsecondary institutions across the United States. Finally, the University has been cited by the Gartner Group as a "great example" of "effective, comprehensive Y2K testing, remediation and contingency planning."

Dr. Griffiths reported that UM-based Y2K problems are not expected. If there are externally-based Y2K problems, the contingency plans will operate. As a result of Y2K preparations, the University will have gained an updated, campus-wide comprehensive emergency preparedness and disaster recovery system.

Regarding the nuclear reactor, Dr. Griffiths noted that it will be powered-down to a minimal level of operation during the rollover period, as it does not require power to remain safe.

## **Announcements**

In the area of faculty accomplishments, President Bollinger announced that four University of Michigan medical researchers have been named to the Institute of Medicine: David Ginsburg, Julian T. Hoff, James S. House, and Michael Marletta. He also noted that “A View From the Bridge,” composed by Professor William Bolcom, had premiered on October 9 at the Lyric Opera of Chicago and had received enthusiastic reviews.

He noted that WUOM (“Michigan Radio”) has been named “Best in the Nation” in its market category by the Public Radio Program Directors Association, and that the School of Public Health has been named the national program office of a community-based project funded by the Robert Wood Johnson Foundation designed to improve the quality of life for children with asthma.

He also highlighted the identification of genes linked to an aggressive form of breast cancer by University of Michigan researchers, and commented on the deaths of a number of emeritus faculty members.

## **University of Michigan Financial Report and Year-End Financial Information for the Year Ended June 30, 1999**

Executive Vice President Kasdin called attention to The University of Michigan Year-End Financial Information for Fiscal Year 1998-99 (“ivory book”) which had been distributed at the meeting.

## **PricewaterhouseCoopers LLP Management Report with University Responses**

Executive Vice President Kasdin noted that this is the first year of the engagement of PricewaterhouseCoopers LLP as its external accounting firm. The thoroughness of the audit, and the fact that the auditing firm was new to the University following a twelve-year engagement

by the previous firm, has given him even greater confidence that the University is in excellent and secure financial position. He introduced Jack McCarthy, executive partner with PricewaterhouseCoopers LLP on this engagement.

Mr. McCarthy observed that the high quality of the University's initiatives in implementing the PeopleSoft system, the increased emphasis on investment performance, the review of business processes, and financial management practices are equivalent to what is being done among the University's leading peer institutions, both public and private, across the country. He introduced several of the partners involved in the audit: Bill Gehrke, Don Christian, George Johnson, Cheryl Soper, and Darrell Burks.

Mr. Burks reviewed the material handed out at the meeting. He observed that the audits were conducted in accordance with generally accepted auditing standards which require that the audits be planned and performed to obtain reasonable assurance of whether the financial statements are free of material misstatement. He reported, "We believe that the University's financial statements present fairly, in all material respects, the financial position of the University." He also said that the audits examined the internal control structure of the University, and noted that the internal control structure is strong, with no material deficiencies.

Mr. Burks then reviewed the required communications set out in the Statement on Auditing Standards No. 61. These include "significant new accounting policies and unusual transactions," "management judgments and accounting estimates," "significant audit adjustments," "disagreements with the administration," "consultation with other accountants," "major issues discussed with management prior to retention," "difficulties encountered in performing the audit," and "other information in documents containing audited financial statements." He noted that separate reports were prepared for the combined activities of the

University of Michigan and its sub-units: the Board in Control of Intercollegiate Athletics, the Executive Education Center, the Hospitals and Health Centers, Veritas, and Michigan Health Corporation. Separate unqualified reports were issued for the Alumni Association, William Davidson Institute, and the University Musical Society. Audits are currently in process for the Schedule of Federal Financial Assistance for the year ended June 30, 1999; the financial statements of M-Care for the year ended December 31, 1999; and the annual agreed-upon procedures of the NCAA intercollegiate athletic program and athletic booster information.

Mr. Burke noted that audit observations and recommendations have been included in the management letter.

Regent Deitch observed that “great compliments are due to everyone involved in this effort.” To have a seamless transition while changing financial accounting systems is, he said, “an astoundingly excellent accomplishment.” He also pointed out that public accountants are required to report the least aberrations, and to have an unqualified report is a great compliment to Executive Vice President Kasdin and the University’s financial staff.

Executive Vice President Kasdin thanked Regent Deitch and noted that the compliments paid to staff are very meaningful. Executive Vice President Kasdin said that he would be reporting back at the March meeting with progress on each comment made in the management letter.

### **University of Michigan Financial Report**

Executive Vice President Kasdin reported that this year responsibility for this report had been switched from the chief financial officer to the Office of Development. He noted that it is an important communication device both to financial professionals and to the community at large

and alumni, and he complimented Vice President Feagin and the development staff for the results of their efforts.

### **Annual Report of Investments**

Executive Vice President Kasdin noted that the annual report of investments had traditionally been given in the spring, but the decision was made to change the timing to the fall. Thus, the last report was given 18 months ago.

He introduced Erik Lundberg, chief investment officer, and Elizabeth Hokada, director of investments.

Executive Vice President Kasdin reported that as of June 30, 1999, the University had \$4.1 billion in financial assets, with \$2.5 billion in the endowment funds and almost \$1.2 billion in the University Investment Pool. The remainder of the assets is invested in Veritas (\$159.8 million), M-Care (\$61.0 million), charitable remainder trusts (\$63.6 million), Donor Pooled Income Fund (\$10.0 million), the Business School Growth Fund (\$2.2 million), and in bond, construction, and other funds (\$127.6 million).

He noted that the Long Term Portfolio has a market value of \$2.95 billion, and noted that it is comprised of the endowment funds (85 percent); the University Investment Pool (13 percent); Veritas (2 percent); and M-Care (less than 1 percent).

Executive Vice President Kasdin reviewed the strategic decisions made by the Board of Regents in past years that serve as guidelines for management of the University's investments. One of these decisions is to use external investment management (November 1986); as a result of this decision, essentially all University assets are currently invested by external professional managers. Executive Vice President Kasdin indicated that this will continue to be the case with the hiring of Mr. Lundberg as chief investment officer.

Executive Vice President Kasdin next pointed to Regental directives for maximizing the return on investments over long term time horizons by maintaining an equity orientation, with up to 85 percent of the portfolio in equities (November 1986, June 1989, and September 1994). In recent years, 80 percent of the portfolio has been invested in equities and assets that will behave like equities.

Another important Regental directive has been to insulate University operations from volatility (November 1986 and June 1995). A rule was established stating that 5 percent of the endowment funds would be used each year to support operations, based on a 12-quarter average to reduce volatility. He noted that as a nonprofit institution, the University is considered a “total return” investor, which gives it a great degree of flexibility.

The final strategic decision made by the Board of Regents was the commitment to invest up to 25 percent of the portfolio in alternative assets (June 1989 and September 1994). He noted that one of the important contributors to investment performance in the fourth quarter of 1999 was the venture capital portfolio that the Board of Regents has been building throughout the decade.

Executive Vice President Kasdin displayed a chart illustrating the asset allocation of the Long Term Portfolio, which contains \$2.95 billion of the University’s total of \$4.1 billion in invested funds. The asset allocation includes 43 percent in market-traded equities (29 percent domestic and 14 percent international); 22 percent in alternative assets, which can be considered as an additional exposure to the domestic equity market; 3 percent in REITs (Real Estate Investment Trusts); 15 percent in fixed income; 7 percent in cash equivalents; and 10 percent in absolute return investments. The basic philosophy is identification of the core asset classes which over time will produce superior returns.

Regent McGowan asked for an explanation of the absolute return investments and whether they are the equivalent of hedge funds. Executive Vice President Kasdin responded that “absolute returns” are a generic term given to a wide variety of investment vehicles that have certain things in common. They are structured as limited partnerships, investing as liquid assets. The investors get either quarterly or annual withdrawal rights, so that these funds are not illiquid in the same fashion as alternative assets in which funds cannot be withdrawn for 5-7 years. Finally, they are focused to attain positive investment performance irrespective of broader market conditions. Regent McGowan noted that “hedge funds” are comprised of derivatives, equities, venture capital funds, and other similar instruments, and asked why are they not considered to be alternative assets.

Executive Vice President Kasdin responded that the differences between absolute return managers and alternative asset managers are that absolute return managers offer liquidity on a periodic, regular basis. Moreover, they are assets that are supposed to have low correlation to markets, whereas private equity/venture capital merely gives the illusion of low correlation because in down markets they are carried at cost.

Regent McGowan asked for more clarity with regard to classification of alternative assets, and also asked about the size of the University’s investment in hedge funds. Executive Vice President Kasdin responded that there is 10 percent in a variety of absolute return managers. Regent McGowan asked to be provided with a list of the University’s actual investments in the absolute return category, including what each of the funds is investing in and the names of the managers. At the suggestion of Regent Maynard, it was decided to provide such a list for the entire array of the University’s investments.

Executive Vice President Kasdin continued that the market value of alternative assets is \$757.7 million, divided among venture capital (34 percent); real estate (25 percent); private equity (18 percent); energy (15 percent); and distressed debt (8 percent). He described the asset allocations for the University Investment Pool (UIP), Veritas, and M-Care funds.

Executive Vice President Kasdin reported that he plans to reconstitute the Investment Advisory Committee now that Mr. Lundberg has arrived, and emphasized that the University will continue to focus on ensuring use of the best managers and understanding the risks of exposure for University funds. Finally, he said that Mr. Lundberg will be developing a set of priorities for the Board's consideration over the coming months.

Executive Vice President Kasdin introduced Lila Hunnewell, from Cambridge Associates, the University's investment advisor. Ms. Hunnewell observed that the University of Michigan, like other nonprofits, has a long-term investment horizon, with an investment objective of having an inflation-adjusted total return, net-of-fees, greater than its spending rate. The University has chosen to achieve this objective through diversification; the question becomes one of degree of diversification.

Since the last report, she said that the first theme had been to reduce the level of diversification but maintain concentrated value-added strategies in the diversifying asset classes. She noted that since December 31, 1997, there has been a change in the diversifying asset classes to position the portfolio so that it maintains the level of diversification it needs and not have a volatile spending stream, and to reduce the risks in the portfolio. Within the diversifying allocations, the goal is to focus on managers who can add value either through their skills or their practice of operating in segments of the market where inefficiencies can be taken advantage of.

To this end, she noted that the following categories were pared back: small capitalization equities, emerging international, sector funds, real estate, and energy stocks.

The second theme was to focus on the asset classes that can add value, such as venture capital, private equity, multi-strategy absolute return managers, and long-short equity managers. Regent McGowan asked whether hedge funds were governed as to what financial instruments they could include. Ms. Hunnewell replied that the types of investments the funds make are determined by their partnership agreements which set out the areas of focus for the partnerships and typically they are very broadly defined. The types of long-short stockpickers that the University has chosen indicate in their documents that they do not and will not do macro-trading. Ms. Hunnewell emphasized that the University staff practices vigorous due diligence with managers, and this is critical to all of these asset classes.

Ms. Hunnewell noted that exposure to commodities has been eliminated, which is consistent with the decision to focus on areas where managers' skills can add value. Fixed income exposure has been reduced from 20.9 percent to 15.2 percent.

The 13.5 percent return for the Long Term Portfolio was in the top quartile of 282 other endowed institutions. This was driven by the 141 percent return on the venture capital portfolio, strong performance by the international equity managers, and by the multi-strategy absolute return managers. Ms. Hunnewell observed that when the venture capital returns are placed in context, they are extraordinary. This year's average venture capital return among the institutions tracked by Cambridge Associates was about 80 percent. The University's high quality portfolio provided a much greater return, which she attributed to the importance of manager skill.

Over the coming year, goals include finalizing the strategy portfolio; reviewing the marketable side of the portfolio, including evaluation of domestic and global managers from

both an asset allocation and manager structure perspective; and continuing to build relationships with the highest quality venture capital, private equity, and absolute return/long-short hedge fund managers.

### **Institute of Science and Technology (IST) High Bay Building Addition**

Stephen Director, dean of the College of Engineering, reported that the proposed new building will house the Department of Biomedical Engineering and will allow for expansion of the Center for Ultrafast Optical Science (CUOS). He noted that the project is the beginning of an evolving plan to create a locus of activity in biomedical engineering on North Campus, and that it will contribute to the Life Sciences Initiative.

Executive Vice President Kasdin introduced Robert Powell, of Jickling, Lyman and Powell Associates, Inc., to present plans for the building's design. Mr. Powell displayed site maps, photographs, schematic designs of the interior, and a drawing of the exterior. He also described the exterior treatment and displayed samples of the materials to be used on the exterior. He noted that the current IST complex consists of three buildings; at the completion of this project, it will become two buildings.

Regent Deitch moved approval of the design of the IST High Bay Building Addition, and authorization for issuing the project for bids and awarding a construction contract providing that bids are within the approved budget. Regent Horning seconded the motion, and it was approved unanimously.

### **Mason Hall and Haven Hall Renovation Project**

Executive Vice President Kasdin introduced Mr. Steven L. Einhorn, of Einhorn Yaffee Prescott, Architecture & Engineering, P.C. He noted that this firm is involved in important restoration work throughout the U.S. and around the world.

Mr. Einhorn said that he would present issues regarding the exterior of the building, and his partner, Mr. Thomas Birdsey, would comment on some of the functional planning issues.

Mr. Einhorn noted that the challenge was to develop an exterior skin for the addition and renovation that recalls some of the old buildings on campus but also embraces the future. He displayed photographs of existing buildings and illustrated how their outstanding features will be woven into the new facade. He displayed renderings of the exterior treatment from a number of elevations.

Mr. Birdsey reviewed some of the planning ideas being incorporated into the interior renovation, displaying diagrams of the ground floor plan for Haven Hall and for a typical upper floor. He noted that the plans call for the introduction of a great deal of natural light into the building.

Executive Vice President Kasdin observed that state capital outlay funds earmarked for infrastructure repair will be used for this building, so the project also includes restoration and replacement of the infrastructure in both Mason Hall and Haven Hall.

Regent Deitch asked whether the project also includes any aesthetic improvements to Mason Hall. Mr. Einhorn noted that the infrastructure improvements will enhance Mason Hall. President Bollinger commented that in his opinion, the improvements being made to Haven Hall do not need to be derived from features of Mason Hall, because the goal would be to eventually replace Mason Hall.

Regent Horning observed that the cost per square foot for this project appears to be nearly double the cost for the IST High Bay Addition project. Executive Vice President Kasdin responded that the reason for this perception is that the actual renovation and infrastructure improvement portion of the project represents a significant part of the cost of the Mason Hall and

Haven Hall project. The \$38 million project cost should be applied not to the 67,000 square foot addition, but to the entire project, which consists of 213,000 square feet. This will yield a cost per square foot equivalent to or less than other projects.

Regent Brandon commented that it would be helpful if in the future, project descriptions could contain information about the cost per square foot for both new construction and renovation. Executive Vice President Kasdin responded that this will be done.

Regarding the exterior of the renovation, Mr. Einhorn commented that mockups of several different options will be constructed so that an informed decision can be made.

On a motion by Regent McGowan, seconded by Regent Deitch, the Regents unanimously approved the revised scope of the Mason Hall and Haven Hall Renovation Project and the design of the project as presented by Einhorn Yaffee Prescott, Architecture & Engineering, P.C. Regent Newman was absent when the vote was taken.

### **Michigan Student Assembly Monthly Report**

Mr. Bram Elias, president of Michigan Student Assembly, distributed a document describing the work of MSA. He gave an overview of the structure of MSA and described the projects MSA is working on this year, noting that much of the work of MSA is conducted by commissions and committees. He emphasized that commissions are the vehicle for administrators and Regents to obtain information about specific issues, and he urged them to contact the commission chairs directly when they have questions. He noted that MSA would be reporting on funding for club sports at the November meeting and on civic activism on campus at the December meeting.

Mr. Elias commented that MSA would take advantage of the opportunities for discussion with the Regents on a monthly basis. Their objectives in these reports will be to build

institutional momentum for specific projects; to seek Regental and executive officer input and advice; to let the Regents know what students think about the direction of the institution; and to affect institutional policy. He said that he welcomes input as to how best to present the monthly reports and to work with Regents and the administration.

In response to a question from Regent Maynard, Mr. Elias gave background information about activities of the Peace and Justice Commission that had recently been described in the *Michigan Daily*. He said that the issues were structural, rather than political, and that in the future, the work of this committee will be vetted through MSA prior to issues being raised publicly and independently by the group. This is due to MSA's philosophy that it has an obligation to represent all students and to ensure that the actions of commissions it empowers are in the interest of the entire student body, rather than those who hold particular political views.

#### **Motion to Meet in Nonformal Session**

Regent Taylor moved adjournment of the formal session of the Board of Regents and commencement of a nonformal session, the purpose of which is to consider a personnel evaluation. Regent Brandon seconded the motion, and it was approved unanimously.

The meeting then continued in nonformal session until 12:30 p.m.

The next meeting will be held November 18-19, 1999.