

OCTOBER MEETING, 2009

Approved by the Regents
November 19, 2009

*The University of Michigan
Ann Arbor
October 15, 2009*

The regents convened at 3:30 p.m. in the Harding Mott University Center on the campus of the University of Michigan-Flint. Present were President Coleman and Regents Darlow, Deitch, Ilitch, Maynard, Newman, Richner, Taylor, and White. Also present were Vice President and Secretary Churchill, Chancellor Little, Vice President Lampe, Vice President May, Chancellor Person, Executive Vice President Pescovitz, Vice President Scarnecchia, Executive Vice President Slottow, Provost Sullivan, and Vice President Wilbanks.

Call to Order and President's Opening Remarks

President Coleman called the meeting to order. She commented on the vibrancy of the Flint campus and community, noting that enrollment is up 7% from a year ago and that the campus has attracted a number of transfer students. President Coleman noted that the World Stem Cell Summit is being held in Detroit in 2010, and that the University Research Corridor (consisting of the University of Michigan, Wayne State University, and Michigan State University) would play a major role in this event. President Coleman also commented about the University's burgeoning technology transfer activity and its importance to regional economic development. Lastly, she commended Professor C.K. Prahalad on his being named the most influential management thinker in the world in the "Thinkers 50," a biennial list of the world's leading management gurus.

Chancellor's Report: University of Michigan-Flint

Chancellor Person reported on the transformation that is occurring in the city of Flint, from “auto town” to “college town,” and the role that the University of Michigan-Flint and other area colleges are playing in this transformation. She displayed a video that showcases some of the positive things that are happening in the city as it is changing its identity to that of a lively college town.

Chancellor Person then introduced Interim Provost Vahid Lofti, who reported on the Flint campus's expanded initiatives in the area of serving students who are veterans. He reported that in March 2009, the campus launched a broad-based Student Veterans Support Program, which provides a centralized source of information and support for returning veterans in their transition from military life to that of a civilian and student. He described some of the initiatives that the program has established, noting that it has been successful in attracting students, with 142 “certified veteran students” currently affiliated with the program. He recognized faculty, staff, and student veterans who were present at the meeting, including Jeremy Glasstetter, a veteran of the Iraq and Afghanistan wars, founding president of the Flint chapter of the Student Veterans of America, and state director of this organization.

H1N1 Flu Update

President Coleman introduced Dr. Robert Ernst, medical director of the University Health Service, who presented an overview of H1N1 flu activity nationwide and locally, and the University's response to and preparedness activities in anticipation of the spread of the disease.

Committee Reports

Finance, Audit and Investment Committee. Regent White reported that attendees at that morning's meeting had included Regents Ilitch, Maynard, and Darlow, President Coleman,

and Executive Vice President Slottow. The bimonthly audit and compliance program was reviewed with Carol Senneff, executive director of University audits, and Vice President and General Counsel Suellyn Scarnecchia. The second agenda item, "internal control certification," was reviewed with Associate Vice President Rowan Miranda, who noted that progress with internal control certification is on schedule. The committee also met with Erik Lundberg, chief investment officer, to discuss the endowment spending rule and to review the FY 2009 Annual Report on Investment Performance. Regent White made the following statement:

FY 2009 Annual Report on Investment Performance

"As set forth in the State of Michigan Constitution, the Board of Regents has "general supervision" over the University. The board controls and directs all of the expenditures from the University's funds. As part of that broad responsibility, the board is charged with the fiduciary duty to take a long-term view in preserving and growing University endowment funds over the life of the University. This responsibility falls to those who have served before us, those currently serving on the board, and our successors.

As part of that broad responsibility, a decade ago, the Board of Regents made a decision to change the way in which the University of Michigan managed the University's endowment. FY 2009 marked the 10th anniversary of the board's decision to delegate responsibility for managing the University's endowment and other investment pools to the new Investment Office. Even though the banking crisis, in the short term, created a challenging year, over the past ten years, the University's endowment has earned an annualized return of 9 percent. An annualized 9 percent return over the past 10 years is at the upper end of the top quartile for all college and university endowments. This is in contrast to the S&P 500, which lost on average 2.2 percent per year for the same period and where the average university endowment returned 4.2 percent. If the UM endowment had performed at that level, it would be \$2 billion smaller than it is today. The 20-year compound growth rate for the endowment is 14%.

In FY 2009, as of June 30th, the University of Michigan's endowment was valued at \$6 billion, down from an all-time high of \$7.6 billion in FY 2008. The equity-oriented portion of the long-term portfolio returned a negative 23 percent last year. Although these numbers show a significant decline in one year, the endowment is, however, invested for the long-term and the overall performance of the portfolio is consistent with our diversified strategy to provide an ample amount of return to support for operations, while protecting the corpus and fostering the endowment's growth.

The University of Michigan's endowment spending rule, providing quarterly distributions equal to a 5.0 percent annual rate of the trailing 28-quarter average market value, is a policy that has helped insulate University operations from volatility always present in the market. The endowment spending rule has allowed the University to provide \$244 million to support operations this past year, a slight increase from 2008, while at the same time continue to increase actual dollar distributions to units and still grow the corpus. In fact, we expect to be able to increase distributions next year as well. To put these numbers in perspective, over the past five years, the University's long-term investment strategy and spending policies have generated \$1 billion in endowment distributions to support University operations.

As in prior years, a detailed analysis of the endowment performance by asset class is included in this year's Annual Report of Investments."

On behalf of the Board of Regents, Regent White recognized Erik Lundberg, chief investment officer, and his team, “for their excellent and outstanding work,” and noted that Mr. Lundberg would be available to answer questions after the meeting.

Personnel, Compensation and Governance Committee. Regent Newman reported that the Personnel, Compensation and Governance Committee had met that morning with herself and Regents Taylor and Deitch in attendance. Provost Sullivan presented the annual report on dean and director reviews and searches, and Chancellor Person gave a report on faculty recruitment and retention on the Flint campus. She noted that a search firm had been retained to search for candidates for the position of provost, and that enrollment on the Flint campus had increased by 500 students.

President Coleman then turned to the consent agenda.

Consent Agenda

Minutes. Vice President Churchill submitted for approval the minutes of the meeting of September 17, 2009.

Reports. Executive Vice President Slottow submitted the Investment Report, Plant Extension Report, the Regents Report on Non-Competitive Purchases over \$5,000 from Single Sources, and the University Human Resources Report.

Litigation Report. Vice President Scarnecchia submitted the Litigation Report.

Research Report. Vice President Forrest submitted the Report of Awards Established, September 1 – September 30, 2009. He announced the formation of a new committee, the Advisory Committee on Culturally Unidentifiable Human Remains under the Federal Native American Graves Protection and Repatriation Act (NAGPRA). This multi-disciplinary committee will advise him on issues related to requests the University receives from Native

American tribes for the transfer of culturally unidentifiable human remains and funerary objects from the Museum of Anthropology.

University of Michigan Health System. There was no additional report from the University of Michigan Health System.

Division of Student Affairs. There was no additional report from the Division of Student Affairs.

University of Michigan-Flint. There was no additional report from the Flint campus.

University of Michigan-Dearborn. Chancellor Little reported about scholarly activities on the Dearborn campus that further the campus's "Metropolitan Vision."

Michigan Student Assembly Report. Mr. Abhishek Mahanti reported on recent activities of the Michigan Student Assembly on the Ann Arbor campus and then introduced Mr. Owen Agho, president of the UM-Flint student government, who reported on student activities on the Flint campus.

Voluntary Support. Vice President May submitted the report of voluntary support for September, 2009.

Personnel Actions/Personnel Reports. Provost Sullivan submitted a number of personnel actions and personnel reports.

Retirement Memoirs. No retirements were reported to the regents this month.

Memorials. Vice President Churchill submitted a memorial statement for Bruce D. Parfitt, Ph.D., associate professor of biology at the University of Michigan-Flint.

Degrees. President Coleman submitted recommendations for honorary degrees to be awarded to the following individuals: Grace Lee Boggs, civil rights leader, Doctor of Humane Letters; Jeff Daniels, actor, Doctor of Fine Arts; Helen Thomas, journalist, Doctor of Humane

Letters, and Edward O. Wilson, biologist, naturalist, and sociobiologist, Doctor of Science. It was noted that these degrees are to be awarded at the December 2009 commencement.

Approval of Consent Agenda. On a motion by Regent Taylor, seconded by Regent Maynard, the regents unanimously approved the consent agenda.

University of Michigan Financial Statements for the Year Ended June 30, 2009

Executive Vice President Slottow submitted for approval the consolidated financial statements for fiscal year 2009 and the separate audited financial statements for the hospitals and health centers, intercollegiate athletics, and the Veritas Insurance Corporation. He recognized the efforts of Cheryl Soper, university controller, Russ Fleming, director of financial reporting, and Rick Stover, senior partner from external auditor PricewaterhouseCoopers, for their efforts in compiling the financial statements.

On a motion by Regent Newman, seconded by Regent Ilitch, the regents unanimously approved the University of Michigan financial statements for the year ended June 30, 2009.

Identity Theft Prevention Program

On a motion by Regent Newman, seconded by Regent Maynard, the regents unanimously approved the Identity Theft Prevention Program, as described in the regents communication.

Administrative Services Building Substation Replacement

On a motion by Regent White, seconded by Regent Darlow, the Regents unanimously approved the Administrative Services Building Substation Replacement Project as described, and authorized issuing the project for bids and awarding construction contracts, providing that bids are within the approved budget.

Central Power Plant Water Treatment System Improvements

On a motion by Regent White, seconded by Regent Newman, the Regents unanimously approved the Central Power Plant Water Treatment System Improvements Project as described, and authorized issuing the project for bids and awarding construction contracts providing that bids are within the approved budget.

Conflict of Interest Items

President Coleman announced that the agenda includes 3 conflict of interest items, each of which requires 6 votes for approval. On a motion by Regent White, seconded by Regent Ilitch, the regents unanimously approved the following agreements:

Lease Amendment Agreement with 1250 North Main LLC

The Regents approved a lease amendment agreement with 1250 N. Main LLC, for property located at 125 North Main Street, Ann Arbor, Michigan. Because Peter T. Allen, a University of Michigan employee, is also a member of 1250 North Main LLC, this agreement falls under the State of Michigan Conflict of Interest Statute. The following information is provided in compliance with statutory requirements:

1. Parties to the lease amendment agreement are the Regents of the University of Michigan and 1250 N. Main LLC.
2. The service to be provided is the lease amendment of 14,000 square feet in a building at 1250 North Main Street, Ann Arbor, Michigan, for twenty-one months, retroactive from September 1, 2009 through May 31, 2011, at a monthly rate of \$20,416.67. Tenant will be responsible for gas, electric and water and sewer usage plus janitorial service. Tenant will be responsible for a portion of the operating expenses of the building.
3. The pecuniary interest arises from the fact that Peter T. Allen, a University of Michigan employee, is a member of 1250 N. Main LLC.

Authorization to make payments to the Institute for Social and Environmental Research

The regents authorized the Institute for Social Research ("ISR") to make payments to the Institute for Social and Environmental Research ("ISER") to conduct research in the Chitwan

Valley of Nepal. Because Dr. Dirgha Jibi Ghimire, a University of Michigan employee, is also director and a member of the board of directors of ISER, this agreement falls under the State of Michigan Conflict of Interest Statute. The following information is provided in compliance with statutory requirements:

1. Parties to the agreement are the Regents of the University of Michigan, ISR, and ISER.
2. The payments to ISER are for conducting research in the Chitwan Valley of Nepal for three separate projects for a total of \$19,841: \$8,856 to study migration during armed conflict, \$6,715 to gather information on village elders, and \$4,270 to study social exclusion and marginalization.
3. The pecuniary interest arises from the fact that Dr. Dirgha Jibi Ghimire, a University of Michigan employee, is a director and a board member of ISER.

Patent Option Agreement between the University of Michigan and JV Biolabs, LLC

The regents approved a patent option agreement with JV Biolabs, LLC ("Company") to enable the Company to obtain an option to license the following technology from the University: UM File No. 4059, "The Use of Two Botanicals with Complementary Activities for Improvement of Skin." Because Kent Johnson and James Varani, University of Michigan employees, are also partial owners of the Company, this agreement falls under the State of Michigan Conflict of Interest Statute. The following information is provided in compliance with statutory requirements:

1. Parties to the agreement are the University of Michigan and JV Biolabs, LLC.
2. Option terms include giving the Company an option to obtain an exclusive license with the right to grant sublicenses. The Company will pay an option fee and ongoing patent expenses during the term of the option agreement, and would pay a royalty on sales and reimbursement of patent costs if the option is exercised and a license is executed. The University will retain ownership of the licensed technology and may continue to further develop it and use it internally. No use of University services or facilities, nor any assignment of University employees, is obligated or contemplated under the agreement. Standard disclaimers of warranties and indemnification apply, and the contract may be amended by consent of the parties. University procedures for approval of these changes will be followed and additional conflict of interest review will be done as appropriate.
3. The pecuniary interest of Kent Johnson and James Varani arise from their ownership interest in JV Biolabs, LLC.

University of Michigan Hospitals and Health Centers (UMHHC) Bylaws of the UMHHC Executive Board

Executive Vice President Pescovitz requested approval of revisions of the Bylaws of the UMHHC Executive Board ("UMHHCEB"). She pointed out that the proposed revisions have already been reviewed by the Regents Personnel, Compensation and Governance Committee, and that their approval would require a revision to the Bylaws of the Board of Regents. If the UMHHCEB bylaws are approved, the proposed revisions to the Regents' Bylaws will be posted next week for public comment and submitted for approval at a subsequent meeting.

There being no further discussion, Regent Newman moved approval of the proposed amendments to the University of Michigan Hospitals and Health Centers Executive Board Bylaws as described in the regents communication. Regent Maynard seconded the motion, and it was approved unanimously.

Public Comments

There were no speakers at the public comments session.

There being no further business, the meeting was adjourned at 4:45 p.m. The next meeting is scheduled for November 19, 2009.