

OCTOBER MEETING, 2000

*The University of Michigan
Ann Arbor
Thursday, October 19, 2000*

The Regents convened at 3:00 p.m. in the Michigan Rooms of the Harding Mott University Center on the campus of the University of Michigan-Flint. Present were President Bollinger and Regents Brandon, Deitch, Horning, Maynard, McGowan, Newman, Taylor, and White. Also present were Provost Cantor, Vice President Feagin, Interim Vice President Harper, Executive Vice President Kasdin, Vice President and General Counsel Krislov, Chancellor Little, Chancellor Mestas, Vice President Rudgers, Vice President and Secretary Tedesco, Vice President Ulaby, and Vice President Wilbanks. Executive Vice President Omenn was absent.

“Michigan Greats”

President Bollinger called the meeting to order and called on Vice President Ulaby. Vice President Ulaby introduced Professor Lois Alexander, chair of the Department of Music at the University of Michigan-Flint. Professor Alexander noted that “Michigan Greats” would feature the University of Michigan-Flint’s Gospel Choir, directed by Professor Carl Byerly. Professor Byerly then led the choir in a twenty-minute performance, which was followed by a round of applause.

President Bollinger thanked Chancellor Mestas for hosting the Regents’ Meeting and commented on the beauty and pleasant atmosphere of the Flint campus.

State Budget Requests - All Three Campuses

Ann Arbor Campus. Provost Cantor reported that the Ann Arbor campus had recently been reaccredited by the North Central Association. She expressed thanks to state legislators for

the 5.7 percent funding increase for the current fiscal year, which, combined with the 4.8 percent increase for the previous year, had allowed the University to keep its annual tuition increase below 3 percent for two years in a row, compared to a national average increase of 5 percent overall and 4.4 percent for public, 4-year universities.

Regarding the reaccreditation effort, she reported that the University had pursued a “special emphasis” on the topic of interdisciplinary and collaborative work at the University. Four working groups, coordinated by Mr. John Godfrey, had been formed to examine how collaborative and interdisciplinary work allows people to take full advantage of the campus’s intellectual and social richness. The reaccreditation had been granted with no contingency.

Provost Cantor observed that the reaccreditation team had praised the University’s atmosphere of intellectual freedom, and said that “the dynamic coexistence of two successful traditions, decentralization and connectivity, helps to distinguish the University of Michigan as an international leader in higher education.” She observed that the state budget request reflects the theme of connectivity and attempts to build on the University’s social and intellectual nimbleness. It examines the mutual benefits bestowed on both undergraduates and faculty from interaction and immersion in each other’s world.

The University is seeking an increase of 6 percent in state appropriation with two special emphases that reflect the theme of the reaccreditation exercise: Enhancing the contexts within which faculty and students interact through such themes as economic and environmental sustainability; and through expanding undergraduate residential living experiences in keeping with the theme of providing learning environments that stretch beyond the traditional classroom.

President Bollinger observed that the accreditation experience had been very meaningful and that the University had been gratified by the reactions of the distinguished members of the

visiting accrediting team. He pointed out that in response to concerns about the cost of higher education, the average tuition increase during the four years of his administration has been limited to 3.3 percent, which is the lowest in decades. Tuition for a resident undergraduate student, which is an “unbelievable bargain,” is only 25 percent of the cost of a comparable education at a private university.

Dearborn Campus. Chancellor Little observed that the Dearborn campus is preparing for an anticipated growth rate of 3 percent per year for the next few years. The central focus of the budget request involves strengthening and broadening the faculty, reducing the percentage of adjunct faculty. Program growth will be examined and targeted in specific areas, so as to enhance the campus’s ability to meet the educational needs of southeast Michigan. Information technology needs will be addressed and interdisciplinary and community-outreach initiatives will be expanded as well. The total request is for a base increase of \$2,785,000 and a one-time additional allocation of \$750,000 for information technology.

Flint Campus. Chancellor Mestas indicated that the UM-Flint request focuses on four areas: continuing to provide top-quality undergraduate and graduate education at an affordable price; incrementally strengthening new academic program initiatives; expanding informational and instructional technology, especially in academic areas; and enhancing community outreach efforts to the City of Flint and the surrounding area. He noted that the University of Michigan-Flint is one of the most valuable resources in an area that has many challenges, and it needs to continue contributing to the development of the Flint area.

Chancellor Mestas reported that an enrollment management study has been completed, and its recommendations will serve as the basis for discussion, involving all elements of the campus community, about the future of the University.

Regent Taylor moved approval of the state budget request for the Ann Arbor Campus.
Regent White seconded the motion, and it was approved unanimously.

Regent Newman moved approval of the state budget request for the Dearborn Campus.
Regent White seconded the motion, and it was approved unanimously.

Regent Newman moved approval of the state budget request for the Flint Campus.
Regent Taylor seconded the motion, and it was approved unanimously.

Consent Agenda

Minutes. Vice President Tedesco submitted the Minutes of the meeting of September 21-22, 2000.

Reports. Executive Vice President Kasdin submitted Reports on Plant Extension, Human Resources and Affirmative Action, and Non-Competitive Purchases over \$5,000 from Single Sources from June 16, 2000 through September 15, 2000. He noted that the Office of Human Resources and Affirmative Action has received a grant from the Federal Mediation and Conciliation Service as part of a joint effort with Michigan State University and AFSCME to foster more cooperative efforts between the union and the universities, improve organization effectiveness and communication, and eliminate the conflict inherent in the grievance process.

Vice President Krislov submitted the Litigation Report.

Vice President Ulaby submitted the Report of Projects Established, September 1-30, 2000.

University of Michigan Health System. There was no report regarding the University of Michigan Health System.

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

UM-Dearborn. Chancellor Little reported that Dr. Camron Amin, an assistant professor of history, had recently received a major grant from the National Endowment for the Humanities to develop a Middle Eastern Studies Source Book in collaboration with colleagues from two other universities. He also reported on the accomplishments of Ms. Bethany Bran, a student in the Honors Program at the UM-Dearborn.

UM-Flint. There was no additional report from the Flint campus.

Michigan Student Assembly. Mr. Hideki Tsutsumi, chair of MSA, noted that he would send a report via email.

Voluntary Support. Vice President Feagin submitted the Report of Voluntary Support for September 30, 2000.

Personnel Actions/Personnel Reports. Provost Cantor submitted a number of Personnel Actions and Personnel Reports. She commented on the appointment of Susan Walz as professor of public policy in the Gerald R. Ford School of Public Policy. Executive Vice President Kasdin highlighted the appointment of Barbara Butterfield as associate vice president for human resources and affirmative action and chief human resources officer. Vice President Wilbanks called attention to the appointment of Michael Waring as executive director of federal relations and executive director of the Washington, D.C. office.

Retirement Memoirs. Vice President Tedesco submitted for adoption four retirement memoirs.

Memorials. Vice President Tedesco submitted three memorial statements for three active faculty member.

Degrees. Provost Cantor submitted for approval final degree lists for the May 2000 Law School commencement and for the August 2000 commencements for other schools, colleges,

divisions, and branch campuses. She also submitted a number of changes to previously approved degree lists.

On a motion by Regent Maynard, seconded by Regent McGowan, the Regents unanimously approved the Consent Agenda.

Public Comments

The Regents heard comments from the following individuals, on the topics indicated: Richard Bernstein, alumnus, in support of E. Royster Harper; Chris A. Common, alumnus, regarding advertisements for alcoholic products on campus; Gary Glenn, president of the American Family Association of Michigan, Tom McMillin, alumnus, and Deborah DeBacker, member of the Oakland County Republican Assembly, on the class “How to be Gay: Male Homosexuality and Initiation;” and Nick Waun, student, on fetal tissue research.

Following Public Comments, the meeting continued with consideration of the regular business agenda.

Sale of Gifted Real Estate

Executive Vice President Kasdin reported on the sale of real estate located at Sugar Maple Drive, Cedar, Michigan.

Lorch Hall Addition

On a motion by Regent Horning, seconded by Regent White, the Regents unanimously approved the Lorch Hall Addition project and authorized commissioning the firm of Barton Phelps & Associates, working in association with O’Donnell Wicklund Pigozzi and Peterson Architects Inc., as the architect.

Pierpont Commons Renovation Project

On a motion by Regent White, seconded by Regent Brandon, the Regents unanimously approved the Pierpont Commons Renovation Project and authorized engaging the firm of Albert Kahn Associates, Inc. for its design.

West Hall Renovation Project

On a motion by Regent Taylor, seconded by Regent White, the Regents unanimously approved issuing the West Hall Renovation Project for bids and awarding a construction contract as described in the Regents Communication, providing the overall project remains within the approved budget.

The University of Michigan Hospitals and Health Centers (UMHHC) University Hospital (UH) ICU Swivette Unit Replacement

On a motion by Regent Horning, seconded by Regent Maynard, the Regents unanimously approved the UH ICU Swivette Replacement Project as described, and authorized issuing the project for bids and awarding a construction contract providing that bids are within the approved budget.

The University of Michigan Hospitals and Health Centers (UMHHC) Med Inn Supply Fans Replacement

On a motion by Regent Brandon, seconded by Regent Maynard, the Regents unanimously approved the Med Inn Supply Fans Replacement Project as described in the Regents Communication, and authorized issuing the project for bids and awarding a construction contract providing that bids are within the approved budget.

The University of Michigan Hospitals and Health Centers (UMHHC) North Campus Administrative Complex Roof Replacement

On a motion by Regent Taylor, seconded by Regent White, the Regents unanimously approved proceeding with the University of Michigan Hospitals and Health Centers (UMHHC) North Campus Administrative Complex Roof Replacement Project as described and authorized issuing the project for bids and awarding a construction contract providing that bids are within the approved budget.

The University of Michigan Hospitals and Health Centers (UMHHC) Turner Air Handling Unit Replacement

On a motion by Regent Brandon, seconded by Regent White, the Regents unanimously approved the University of Michigan Hospitals and Health Centers Turner Air Handling Unit Replacement Project as described in the Regents Communication, and authorized issuing the project for bids and awarding a construction contract providing that bids are within the approved budget.

The University of Michigan Hospitals and Health Centers (UMHHC) Medical Information Services Relocation Project

On a motion by Regent Taylor, seconded by Regent White, the Regents unanimously approved the UMHHC Medical Information Services Relocation Project as described in the Regents Communication and authorized issuing the project for bids and awarding a construction contract providing that bids are within the approved budget.

Purchasing Contracts with Life Support Services, Inc.

On a motion by Regent Brandon, seconded by Regent McGowan, the Regents unanimously approved a purchasing contract with Life Support Services, Inc. Because Mary Berry-Bovia is both a university of Michigan employee and a partial owner and stockholder of Life

Support Services, Inc., this contract falls under the State of Michigan Conflict of Interest Statute.

The following information is provided in compliance with statutory requirements:

1. The parties to the purchase contracts will be the Regents of the University of Michigan and Life Support Services, Inc.
2. The terms of the contracts are to provide training for a period beginning July 1, 2000 through June 30, 2002, for amounts not to exceed \$54,000 for Cardiac Arrest Competency Training, \$90,000 for Basic Cardiac Life Support Training, and \$8,000 for Neonatal Resuscitation Training.
3. Ms. Berry-Bovia's pecuniary interest arises from her position as partial owner and stockholder of Life Support Services, Inc.

Payment for Services for Artwork of James Cogswell, Jr.

On a motion by Regent Brandon, seconded by Regent Maynard, the Regents unanimously approved processing payment for artwork of James Cogswell, Jr. Because James Cogswell, Jr. is a University employee and would also be a party to the contract by virtue of his being the artist who created and owns the artwork to be purchased, this purchase falls under the State of Michigan Conflict of Interest Statute. The following information is provided in compliance with statutory requirements:

1. The parties to the contract are the Regents of the University of Michigan and its Hatcher Graduate Library, and Associate Professor James Cogswell, Jr.
2. The artwork to be purchased is five unframed woodblock prints at a total cost of \$3,000.00.
3. The pecuniary interest arises from the fact that James Cogswell, Jr., a University of Michigan employee, is the owner/creator of the artwork to be purchased.

License Agreement between the University of Michigan and Arbor Networks

On a motion by Regent White, seconded by Regent Horning, the Regents unanimously approved a license agreement with Arbor Networks for three inventions, identified as file numbers 1900, 1920, and 1921 in the Technology Management Office. Because the inventors of the technologies, Farnam Jahanian and Gerald R. (Rob) Malan, are University of Michigan

employees and also hold equity interest in Arbor Networks, Inc., 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 Arbor Networks, Inc., a company in which Farnam Jahanian and Gerald Malan hold an equity interest.

2. Contract terms include:

Grant: Exclusive right to practice and commercialize the technology, subject to certain rights reserved by the University to practice it for research and educational purposes, with right to grant sub-licenses.

Equity: The University will receive a 5% equity share in Arbor Networks. This position will be protected against dilution up through \$5 million of investment in Arbor Networks.

Research support: Arbor Networks will support College of Engineering research at a level of at least \$50,000/year for a minimum of three years.

Performance: Specified milestones will be met in order to maintain the rights granted by the license.

Patent Costs: All remaining current and future U.S. and foreign patent costs will be paid by the licensee.

Term: Term of the agreement is for the life of the patents.

Other: No use of University services or facilities, nor any assignment of University employees, is obligated under this agreement.

3. Farnam Jahanian's pecuniary interest arises from his ownership interest in Arbor Networks. He has waived any personal participation in the sharing of royalties received by the University from the company.

Gerald Malan's pecuniary interest arises from his personal founders share in Arbor Networks. He has waived any personal participation in the sharing of royalties received by the University from the company.

Research Agreement between the University of Michigan and the Great Lakes Commission

On a motion by Regent Maynard, seconded by Regent White, the Regents unanimously approved a research agreement between the University of Michigan and the Great Lakes Commission. Because the project involves collaboration with Dr. Michael Donahue, who is employed by the Great Lakes Commission and is also an adjunct faculty member at the

University of Michigan, 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 the Great Lakes Commission.
2. Under the project a total subcontract of approximately \$28,586 is anticipated to cover the period of July 1, 2000 through September 30, 2002. The terms of the proposed agreement are acceptable and conform to University policy.
3. Michael Donahue's adjunct appointment at the University of Michigan is without compensation.

Research Agreement between the University of Michigan and HealthMedia, Inc.

On a motion by Regent Brandon, seconded by Regent Maynard, the Regents unanimously approved a research agreement between the University of Michigan and HealthMedia, Inc. Because Victor Strecher is both a University of Michigan employee and partial owner and chief scientific officer of HealthMedia, Inc., 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 HealthMedia, Inc.
2. The terms of the agreement are acceptable and conform to University policy. The amount of the subcontract to the University is \$279,591. The period of performance is one year.
3. Victor Strecher's pecuniary interest arises from his part-ownership of HealthMedia, Inc. and his role as chief scientific officer. He will devote no effort to this project on behalf of the University and has played no role in the proposal submission or negotiation of an agreement with the University.

The meeting then recessed at 4:30 p.m.

Friday, October 20, 2000

The Regents convened at 9:30 a.m. in the Regents' Room. Present were President Bollinger and Regents Brandon, Deitch, Horning, Maynard, McGowan, Newman, Taylor, and

White. Also present were Provost Cantor, Vice President Feagin, Interim Vice President Harper, Executive Vice President Kasdin, Vice President and General Counsel Krislov, Chancellor Little, Chancellor Mestas, Vice President Rudgers, Vice President and Secretary Tedesco, Vice President Ulaby, and Vice President Wilbanks. Executive Vice President Omenn was absent.

Motion to meet in Informal Session

Regent White moved that this formal session of the Regents be adjourned and a non-formal session begin, for the purpose of considering a personnel evaluation. Regent Maynard seconded the motion, and it was approved unanimously.

Reconvening of Formal Session

The meeting reconvened in formal session at 10:45 p.m. Present were President Bollinger and Regents Brandon, Deitch, Horning, Maynard, McGowan, Newman, Taylor, and White. Also present were Provost Cantor, Vice President Feagin, Interim Vice President Harper, Executive Vice President Kasdin, Vice President and General Counsel Krislov, Chancellor Little, Chancellor Mestas, Vice President Rudgers, Vice President and Secretary Tedesco, Vice President Ulaby, and Vice President Wilbanks. Executive Vice President Omenn was absent.

Resolution in Honor of Olympic Athletes

The following Olympics participants with University of Michigan affiliations were introduced and called to the podium: Swimmers Tom Dolan, Tom Malchow, Chris Thompson, Marcel Wouda, Samantha Arsenault; Bernice Orwig (women's water polo); Jennifer Brundage (softball) (all medal winners). Also introduced were Mike McWha and Owen VonRichter (swimming team members), Jon Urbanek (men's swimming coach), Kevin Sullivan (cross

country team member), Ron Warhurst (cross country coach), and Rich Fetchiet (baseball umpire).

Speaking on behalf of all of the Olympic participants, Tom Dolan observed that it was an honor for athletes to represent their countries in the Olympics but “it’s nicer to be able to come back as part of the University of Michigan family.” He noted that while athletes strive to be successful in their own sport, to have the link of all having been teammates regardless of what country one is from or represents at the games, the fact that they have all been teammates is what really means a lot to them as athletes. He said that “it is an honor to be part of the University of Michigan and the academics and athletics that it has offered us and given us a chance to be a part of, and we feel very special to have done that.” He thanked the Regents for inviting the athletes to receive a resolution and for feeling “part of the great family that is the University of Michigan.” A round of applause followed.

Regent White read the following resolution:

Regents’ Resolution

The Regents of the University of Michigan applaud the University’s Olympic athletes for their commitment to athletic excellence and for their superb performances at the Twenty-seventh Olympiad. The 2000 Olympic games long will be remembered for the nine medals won by the University of Michigan’s athletes, as well as for the intensity, resolve, and sportsmanship exhibited by all of Michigan’s student athletes, alumni, and coaches who participated in this summer’s games.

It is with great pride that the Regents commend swimmers Tom Dolan (gold and silver), Tom Malchow (gold), Samantha Arsenault (gold), Chris Thompson (bronze), Marcel Wouda (bronze), and Gustavo Borges (bronze); assistant women’s softball coach Jennifer Brundage (gold), a member of the United States softball team; assistant women’s water polo coach Bernice Orwig (silver), a member of the United States water polo team; and men’s swimming coach Jon Urbanchek for his leadership as assistant coach of the U.S. Men’s Olympic Swimming Team.

The Regents laud all the other Olympic athletes affiliated with the U-M, including Derya Buyukuncu, Mike McWha, Shannon Shakespeare, Francisco Suriano Siu, and Owen von Richter in swimming; Abel Sanchez in platform diving; Kevin Sullivan in men's track; Rudy Tomjanovich, U.S. basketball team coach; Han Lee, coach of the U.S. Tae Kwon Do team; and Rich Fetchiet, an umpire for the Olympic baseball competition. Also, thank you to Carol S. Hutchins, women's softball coach; Richard J. Kimball, women's and men's diving coach; Ron Warhurst, men's track coach; and to all of the coaches and Athletic Department staff who have contributed to Michigan's Olympic-quality program.

The Regents salute Michigan's Olympic athletes for their dedication and for the rich contributions they are making to the University of Michigan's athletic tradition.

Mr. Mike Stevenson, executive associate athletic director, accepted the plaque on behalf of the Department of Intercollegiate Athletics. Another round of applause followed. President Bollinger commented that he took great pride in the University's significant representation at the 2000 Olympics.

Resolution in Honor of Mayor Ingrid Sheldon

Regent Brandon called Mayor Ingrid Sheldon to the podium. He observed that he took particular pride in presenting this resolution, as he had known Mayor Sheldon for many years, beginning when she was his third grade Sunday school teacher. He then read the following resolution:

Regents' Resolution

The Regents of the University of Michigan congratulate and extend their warmest best wishes to Ingrid B. Sheldon as she concludes her fourth term as mayor of Ann Arbor.

Her deep love of the city, its residents, and its institutions, including the University of Michigan, is evident in Mayor Sheldon's ubiquitous presence in the community and a leadership style marked by openness to new ideas, decisiveness, and trust. A lifelong Ann Arbor resident and enthusiastic Michigan alumna, Mayor Sheldon was elected mayor in 1993 after serving two terms on City Council. In a city with an extraordinarily demanding constituency, she has governed wisely, with wit, charm, and a respect for colleagues and constituents.

Mayor Sheldon has served on numerous boards and committees, including the City/University Committee, Downtown Marketing Task Force, Ann Arbor Historical Foundation, and the Ann Arbor/Ypsilanti Urban Area Transportation

Study Committee. She serves on the Southeast Michigan Council of Governments (SEMCOG) Executive Board and is vice-chair of SEMCOG's Community and Economic Development Advisory Council. She also is influencing public policy more broadly as president of the Michigan Municipal League and through her activities with the U.S. Conference of Mayors. Mayor Sheldon has received numerous accolades, including the Huron Valley Girl Scout Council Woman of Distinction Award, Rotary Club of Ann Arbor Distinguished Service Award, and the United Way Heart of Gold Award.

With deep appreciation, the Regents congratulate and commend Ingrid Sheldon for outstanding civic leadership, and for fostering a cooperative spirit between the City of Ann Arbor and the University of Michigan that has encouraged both to flourish.

A round of applause followed, after which Mayor Sheldon thanked the Regents and commented on the long association she and her family have had with the University of Michigan. She noted that the city works hard to ensure that the University is “the number one institution and number one community to host that institution.”

Life Sciences Institute Co-Directors

President Bollinger called to the podium Professor Jack Dixon, newly appointed co-director of the Life Sciences Institute, noting that with the appointments of him and Scott Emr, the University has obtained the best possible leadership for this institute.

Professor Dixon commented that he and Scott Emr were excited about getting the institute underway, and thanked President Bollinger and the Regents for their leadership and foresight which had led to the University's current leadership position nationally in the life sciences. He also praised the work of members of the Life Sciences Task Force and the implementation group which had worked on the building and the co-directors search.

PricewaterhouseCoopers Management Report and Responses

Executive Vice President Kasdin introduced PricewaterhouseCoopers representatives Jack McCarthy, senior partner on the University of Michigan engagement; Darrell Burks, partner

in charge of the UM engagement and head of the Midwest Higher Education Practice Division; and Cheryl Soper, senior manager; and George Johnson from George Johnson and Company, the joint venture partner of PricewaterhouseCoopers in the audit.

Mr. McCarthy and Mr. Burks then gave a presentation on the audit, which included descriptions of the scope of services and results of audits; the actual deliverables that the firm was engaged to perform; required communications between the auditors and the Board of Regents; the management letter comments process; a preview of upcoming financial standards that will seriously and significantly impact future financial statements.

Mr. McCarthy observed that the University's performance during the past year ranks at the top of that for the most prestigious universities in the country. Regarding the audit itself, he said that no material misstatements or illegal acts were noted; nor did the audits disclose any material deficiencies in the University's internal control structure. He stated that "the audit was a clean audit and we rendered a clean opinion for each and all of the entities for which we were engaged to audit." He then turned to Mr. Darryl Burks, who reviewed the "Required Communications" section of the audit.

Mr. Burks commented that "based on the procedures that we performed, there are no additional actions required by the Board of Regents at this time." He reviewed each required communication and noted the auditor's response to each one. He reported that there were no significant audit adjustments and there were no disagreements with management of the University.

Regarding management letter comments, Mr. McCarthy observed that the University has made significant progress in addressing the management letter comments for the year ended June

30, 1999, and that there are no new major issues to report as a result of the audit for the year ended June 30, 2000.

Mr. Burks summarized changes in accounting practices that will be required in the future, due to Government Accounting Standards Board (GASB) statements.

In response to a question from Regent Newman as to whether this is a financial or performance audit, it was noted that it is a financial audit that did not include performance. However, based on his experience conducting audits at a number of the University's peer public and private institutions, Mr. McCarthy said that in many respects he would characterize the University of Michigan as "best in class." Executive Vice President Kasdin also noted that the audit does review financial operations from the perspective of controls.

Executive Vice President Kasdin commented that in addition to the annual audit report, the Regents receive a report each spring on progress made in addressing issues raised in the management letter. He noted that there is an ongoing dialog among the external auditors and the University's auditing staff. In this regard, he acknowledged the contributions of staff members Robert Moenart, Fred White, Russ Fleming, and Tim Slottow.

University of Michigan Financial Statements for the Year Ended June 30, 2000

On a motion by Regent Brandon, seconded by Regent Horning, the Regents unanimously approved adoption of the University of Michigan financial statements for the year ended June 30, 2000.

Annual Report of Investments

Executive Vice President Kasdin noted that everything being done in the area of investments is being done in accordance with Regentally established guidelines, and that ultimate

responsibility for investment performance resides with the Board of Regents. He called on Chief Investment Officer Erik Lundberg.

Mr. Lundberg noted that the majority of the University's financial assets reside in one of four pools of funds: endowment funds (\$3,468.4 million); the University Investment Pool (UIP) (\$1,554.7 million); Veritas (\$173.3 million); and M-Care (\$64.4 million). Other assets include charitable remainder trusts; the Donor Pooled Income Fund; and "Bond, construction, and other." The latter vehicles are invested differently from the other pools and will not be addressed in this report.

Mr. Lundberg commented that in ten years, the endowment funds have risen from \$0.5 billion to almost \$3.5 billion. He noted that most of the endowment is invested in the Long Term Portfolio (LTP), the value of which was \$4.0 billion at the end of FY2000. The LTP consists of endowment funds (87%), UIP (10%), Veritas (3%) and M-Care (less than 1%). Asset allocation is divided among alternative assets (38%), domestic equities (24%), international equities (10%), absolute return (8%), fixed income (19%) and cash equivalents (1%).

He reported that the current market value of alternative assets is \$1.5 billion, divided among venture capital public equities (40%), private equity (16%), real estate (17%), energy (9%), distressed debt (4%), and venture capital (14%). He described how alternative assets function, noting that the current allocation of 38% includes a significant amount of public equities held by venture capital firms pending distribution. Over time, the allocation will come down to the 23% target in the model portfolio.

Mr. Lundberg commented that the investment advisory committee was supportive of a model portfolio of 77% in securities (16% international equities, 33% domestic equities, 10% in absolute return investments, 18% in fixed income, and 23% in alternative assets).

Regarding FY2000 performance, he observed that at 43.6%, the University is within the top quartile of Cambridge Associates' universe of fully diversified endowments. The diversified nature of the University's portfolio has contributed to the University's performance and will continue to do so in the future.

He then turned to the University Investment Pool, describing it as the University's working capital. Twenty-six percent of the UIP is invested in the Long Term Portfolio, and 74% is invested in fixed income assets. These proportions will continue to be reviewed and adjusted.

Regarding Veritas, he reported that 46% is in the LTP and 54% in fixed income investments. For M-Care, 18% is in the LTP and 82% in fixed income. These percentages are dictated by organizational needs and regulatory requirements.

Mr. Lundberg concluded by thanking investment staff. Executive Vice President Kasdin commented that the FY2000 returns are extraordinary, and it is highly unlikely that they will be repeated.

Comments from President Bollinger

President Bollinger called attention to the recent death of Professor Emeritus Lesley Kish, founder of the Institute for Social Research and one of the most distinguished members of the University faculty. Regent Deitch pointed out that Professor Kish invented the concept of "margin of error."

There being no further business, the meeting was adjourned at 11:50 a.m. The next meeting will take place November 16-17, 2000.