

# University of Michigan University Endowment Fund Profile

June 30, 2004



## INVESTMENT PERFORMANCE

Net of Fees and Expenses

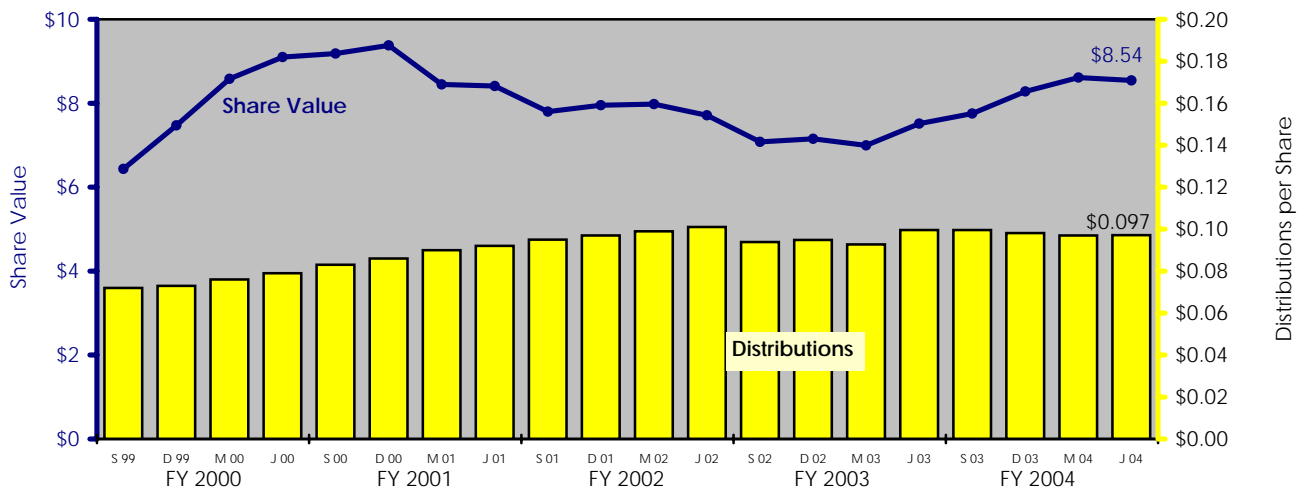
Periods Ended June 30, 2004

	1 Year	3 Years Annualized	5 Years Annualized
University Endowment Fund	20.7%	6.8%	10.5%
Median College and University Endowment*	16.9%	4.5%	5.1%

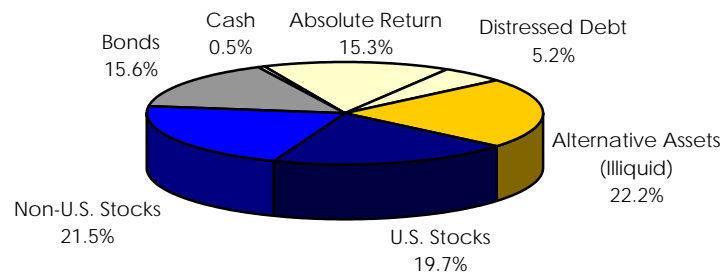
\* Based on Cambridge Associates' endowment survey of more than 100 college and university endowments.

## QUARTERLY SHARE VALUE AND DISTRIBUTIONS

The University Endowment Fund is organized similar to a mutual fund. Over time, growth in share value results in increased distributions.



## ASSET ALLOCATION\*



\* Alternative Assets (illiquid) include venture capital, private equity, real estate, and energy investments. Absolute return investments emphasize manager skill rather than market movements.

## **POLICY FRAMEWORK**

- The endowment's **long-term investment horizon** allows for an equity-oriented investment strategy, which should provide higher returns over time.
- The long-term investment horizon also permits the use of less liquid **alternative assets** providing for equity diversification beyond the stock market.
- The investment program relies on carefully selected **external investment managers** to implement investment strategies.
- The University's tax-exempt status enables the University to **invest for total returns**, giving equal value to income and appreciation.
- The endowment distribution policy **insulates the University's budget from market volatility** by setting distributions at a 5 percent annual rate, based on the trailing 12-quarter average market value of endowment shares.
- The distribution policy also provides for **intergenerational equity** by requiring adequate reinvestment of returns to protect the purchasing power of the endowment and its future distributions.

## **ADDITIONAL INFORMATION**

The University Endowment Fund is the unitized investment pool for the University of Michigan's nearly five thousand, separately administered endowment and quasi-endowment funds.

**Objective.** The University manages the fund to meet donors' expectations that their endowment gifts will provide support to the University in perpetuity. The objective is to maintain and enhance the value of endowment gifts and to secure the purchasing power of the quarterly distributions.

**Size.** Michigan's endowment was valued at \$4.2 billion at June 30, 2004. In a June 30, 2003 survey, it was twelfth in size among U.S. higher education endowments and fourth among public universities, outranked by three university systems.

**Distributions.** Distributions are made quarterly and are computed at 1.25 percent (which is one-quarter of 5 percent) of the trailing 12-quarter average market value of University Endowment Fund shares. To protect the endowment in a declining market, quarterly distributions are capped at 1.325 percent of the current market value of University Endowment Fund shares.

**Additions and Redemptions.** Additions to the University Endowment Fund can be made quarterly, priced on the last business day of the quarter. Redemptions of quasi-endowment shares can be made quarterly, with one month's prior notice to Financial Operations. True endowment shares cannot be redeemed.

**Establishment of New Endowment and Quasi-Endowment Funds.** Legal review by the Development Office and approval of the Controller are required. Quasi-endowment funds entail a five-year investment commitment.

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## **Endowment Profile Talking Points**

FY 2004

- Last year, the endowment returned 20.7 percent. The performance was supported by broad investment gains made across the portfolio as most equity-oriented investments responded favorably to stronger global economic growth.
- The long-term, diversified strategy that the University pursues continued to produce superior performance by adding value in strong markets and limiting losses in challenging markets.
- The ranking of Michigan's returns among other colleges and universities reflected its diversified equity strategy. The 1-year, 3-year and 5-year annualized returns placed in the top quartile.
- The size of Michigan's endowment, twelfth among higher education endowments and fourth among public universities, demonstrates the generosity of alumni and friends of the University.