SRI at University of Michigan

Public Insitution

Locations: Michigan State (3 campuses): Ann Arbor (Main Campus), Flint, Dearborn

Size: 39,000 students across 3 campuses

Governance: The University is governed by the Board of Regents, which consists of eight members elected at large in biennial state-wide elections. The president of the University serves as an ex officio member of the board.

The Regents serve without compensation for overlapping terms of eight years. According to the Michigan Constitution of 1963, the Regents have "general supervision" of the institution and "the control and direction of all expenditures from the institution's funds."

The Regents meet once a month in a public session.

Endowment size: $4.2 billion on June 30, 2004 reflecting a one-year return on investment of 20.7%. For comparison, as of June 30, 1998, the endowment was valued at $2.3 billion.

During the 2003 fiscal year, endowment distributions totaled $151 million or 4.8% of the University's operating revenues.

Michigan's endowment ranks #4 among public institutions the others being The University of Texas (1), University of California(2), and Texas A & M University(3), and #12 when compared to both public and private universities, using the June 30, 2003, market value of endowment assets

Fund Performance:

INVESTMENT PERFORMANCE	Return for Twelve-Month Period Ended June 30, 2004	Annualized Three-Year Return	Annualized Five-Year Return
Long Term Portfolio	20.7%	6.7%	10.5%
U-M's Benchmark	16.1%	3.0%	4.7%
S&P 500/Lehman Aggregate Bond Index	15.2%	1.0%	-0.2%

Stability: The diversification of the University's portfolio, which includes stocks, bonds, absolute return, real estate, venture capital and other investments, contributes to the stability of the University's endowment.

Policy:

The endowment distribution policy insulates the University's budget from short-term fluctuations in the financial markets by using a smoothing formula for the distributions that provide program support. Endowment distributions are made at a 5 percent annual rate based on the 12-quarter average value of endowment shares, up to a maximum of 5.3 percent of the current value of endowment shares.

POLICY FRAMEWORK (from "University of Michigan University Endowment Fund Profile June 30, 2004")

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.

Management Structure:

There is a Investment office run by the Chief Investment Officer who reports to the Business and Finance Executive Vice-President and Chief Investment Officer. The Investment Office manages Investment Directors who in turn manage Investment Analysts.

Current Chief Investment Officer L.Erik Lundeburg

Current Business and Finance Executive Vice President and Chief Financial Officer: Timothy Slottow

The University Academic Senate has two advisory committees that look into university policy surrounding this: The Senate Advisory Committee on University Affairs (essentially the executive committee of the Senate), and the financial affairs advisory committee of the Senate Assembly. Relevant university officers attend meetings of these advisory committees.

Socially Responsible Investing

2 major victories: Divestment from South Africa (1978) and Divestment from Tobacco (2000)

Other than the two specific victories, no major attempts by university to adopt socially responsible rules. As the Chief Financial Officer puts it:

"it is the Investment Office's mandate to invest in companies that will bring the highest return for a given amount of risk and that politics should not be considered. The only exception to this is the decision to not invest in tobacco companies."

- L.Erik Lundeburg , Chief Investment Officer: Meeting of Nov 19 2002 Senate Financial Affairs Advisory Committee

In the South Africa case, public pressure from students, faculty and the university's senate (which wrote a report on the issue stating that South Africa was an exceptional enough case to warrant divestment) eventually made the university Regents divest. The University also adopted the following policy on future questions about investments:

> If the Regents shall determine that a particular issue involves serious moral or ethical questions which are of concern to many members of the University community, an advisory committee consisting of members of the University Senate, students, administration and alumni will be appointed to gather information and formulate recommendations for the Regent's consideration.

In 1999, students (including an overwhelming vote of the Student Assembly) and the university senate again pressured the university to divest from Tobacco. The above mentioned policy was used and an ad-hoc committee was put into place. The Committee investigated and reported as follows:

In the committee's studies, two questions became most important in reaching a decision. First, what was it about tobacco and the tobacco companies that might warrant singling them out for divestment? Second, is the ownership of tobacco securities really antithetical to the core mission of the University to the extent that divestiture is warranted?

The committee researched the questions at length, concluding that tobacco is a significant and well-documented health risk, not only to the smoker but also to others, and that it is addictive. Further, the committee found that tobacco is made attractive to young people by tobacco companies; that tobacco companies have denied the health risk even when internal documents showed they had proof of the risk and addiction; and that the companies would not publicly admit the dangers that are associated with smoking.

In answering the second question, the committee debated first whether the attributes of the products themselves and the activities of the industry were antithetical to the core missions of the University. It concluded that both tobacco and the tobacco companies' activities are antithetical to the University's missions of research, teaching and service. "The brazen dishonesty of the tobacco industry for so many years about a matter of such enormous public health significance is, in the view of this committee, unquestionably antithetical to the core missions of the University."

However, the committee had more trouble with whether the ownership of tobacco stocks in itself was antithetical to the core missions of the University, especially to the extent that it would call for divestment. It concluded that both the magnitude of the misbehavior of the companies involved and the gravity of the public health issue of tobacco use warranted the action.

The Committee also noted that tobacco is a unique product in "its capacity to cause death in its intended use."

Disclosure:

Michigan State law allows freedom of information requests to force public universities to disclose names of all companies in which the University invests and the aggregate amount of money invested in them. In 2004, an amendment was passed that allowed the university to keep confidential its direct corporate investments, but kept the endowment investments public. Cannot find any evidence that proxy voting records are accessible.