1. CALL TO ORDER/ROLL CALL/WELCOME

Chair Don Blair called the meeting of the Finance and Administration Committee of the State Board of Higher Education to order at 8:11 a.m.

The following Committee members were present: Don Blair, Henry Lorenzen, and John von Schlegell.

The following Board members were also present: Bridget Burns, Adriana Mendoza (arrived at 8:33 a.m.), Tim Nesbitt (arrived at 8:50 a.m.), Geri Richmond, Howard Sohn, and Tony Van Vliet.

OUS staff present included: George Pernsteiner, Michael Green, Ryan Hagemann, and Jay Kenton.

Others present included: Presidents Dan Bernstine, Philip Conn, Khosrow Fatemi, and Elisabeth Zinser. OSU Vice President Mark McCambridge, UO Provost John Moseley, OHSU Provost Lesley Hallick, and IFS President Bob Turner were also present.

Meeting attendees also included OUS staff, faculty, institution representatives, the press, and interested observers.

2. APPROVAL OF MINUTES
• FBAPRE Committee Meeting, June 3, 2005

Chair Blair called for a motion to approve the minutes of the June 3, 2005, FBAPRE Committee meeting. Director Lorenzen moved approval of the minutes and Director von Schlegell seconded the motion. All in favor: Blair, Lorenzen, von Schlegell. Opposed: none. Motion passed.
3. **ACTION ITEM**

a. **Endowment Investment Management**

**DOCKET:**

*Background - Foreign Equity Allocation:*
As discussed during the May 6, 2005 Finance and Administration Committee meeting, the T. Rowe Price Foreign Equity Fund in the OUS Pooled Endowment Fund (OUS Fund) had consistently under-performed its benchmark and its performance did not meet the minimum performance criteria as set out in the Oregon University System Pooled Endowment Fund Investment Objectives and Policy Guidelines (Policy). As a result, staff initiated the process of replacing T. Rowe Price.

R.V. Kuhns & Associates, Inc., the System’s investment consultant, performed a search and, based on the guidelines and objectives in the Policy, identified suitable investment managers to replace T. Rowe Price. On Monday, May 9, 2005, OUS staff, R.V. Kuhns & Associates, Inc., and a representative from the Oregon State Treasury interviewed the following three core managers:

- AllianceBernstein Institutional Investment Management (AllianceBernstein International Style Blend Equity)
- Julius Baer Investment Management LLC (Julius Baer International Equity II)
- Barclay Global Investors, N.A. (International Alpha Tilts Fund)

Based on the analysis done by R.V. Kuhns and the results of the manager interviews, Julius Baer Investment Management LLC was recommended to replace T. Rowe Price to manage the OUS Fund’s allocation to international equities.

*Staff Recommendation to the Finance and Administration Committee:*
Staff recommended that the Board approve moving the OUS Fund’s international equity allocation from T. Rowe Price to Julius Baer Investment Management LLC. Once approved by the Board, the action will be forwarded to the Oregon Investment Council for approval at their next meeting.

*Background – Endowment Management Change:*
At the June 3, 2005, Finance and Administration Committee (Committee) meeting, three options for the management of the OUS Pooled Endowment Fund (OUS Fund) were discussed. These differing options were examined with the primary goal of streamlining operations. Briefly, these options are:

- The Treasury Option (discontinue the Board and staff work with respect to asset allocation, investment manager selection and monitoring, and performance monitoring and ask Treasury and the Oregon Investment Council [OIC], working
with their investment consultants, to perform these functions as they presently do
with all other state funds);

• The Contractor Option (contract with one or more OUS university foundations to
perform the investment management function for the OUS Fund, if selected by
the OIC);

• The Foundation Option (distribute the OUS Fund to the respective university
foundations to manage as a part of their endowment investment program;
requires statutory changes).

Analysis:
In the interim, Staff met with representatives of Oregon State Treasury and the
Department of Justice to discuss the management of the OUS Fund. The results of
those discussions are as follows:

• The OIC has statutory authority and responsibility for the management of the
OUS Fund.
• The OIC does not have discretion to delegate its statutory responsibilities.
• The OIC may, at its sole discretion, contract with one or more non-profit
foundations to invest the OUS Fund or a portion of the OUS Fund providing that
the contractor meets the investment objectives, risk tolerance, and cash flow
needs of the OUS Fund as set forth in OIC Policy 4.10.01: Oregon University
System Pooled Endowment Fund Investment Objectives and Policy Guidelines
(see copy attached).
• The decision to contract with one or more non-profit foundations would be made
by the OIC based on a full analysis of the proposed investment mix of the
foundation(s) in conjunction with the OUS Fund objectives and the costs and
benefits of such an arrangement, when compared to other alternatives (e.g., the
direct hiring of investment managers by the OIC).
• The OIC may require that any such contractor provide a fidelity bond with
corporate surety authorized to do business in Oregon.
• Comparing investment returns of the OUS Fund with those of other investment
funds must be done in light of the investment objectives, risk tolerance, and cash
flow needs of the comparator funds. While returns of both the Common School
Fund and the UO Foundation may differ over time from those of the OUS Fund, it
is more important to evaluate whether the investment returns of the OUS Fund
have met the OUS Fund’s investment objectives. Additionally, the time period
chosen for comparison may change the conclusion reached. For example, the
Common School Fund out-performed the OUS Fund for the five-year period
ended April 30, 2005, by 23 basis points, annually, net of fees.
• The asset allocation of the OUS Fund can be changed to meet changes in
investment objectives.

Additionally, staff asked the OUS institutions for the asset allocation and investment
returns of their respective foundations. This information showed that asset allocations
employed by the foundations varied based on their specific investment objectives and
showed differences in their investment returns. This information is attached.
Staff Recommendation to the Board:
Based on the above information, Staff recommended the revising, for Committee and OIC approval, OIC Policy 4.10.01 to further codify the roles and responsibilities and the operational expectations of OUS, the State Treasurer, and the OIC. The proposed revisions would include the expectation that OUS would have input into the asset allocation processes. The revised policy would be brought to the Committee for approval in October 2005. This action would meet the initial objectives of streamlining operations by eliminating Committee and staff involvement in investment manager selection, reduce the frequency of performance reporting to the Board from quarterly to annually, and eliminate the Board’s investment consultant in favor of OIC’s.

Additionally, Staff recommended, subsequent to the policy change approvals, the engagement of OIC’s investment consultants in an asset allocation study to update the investment objectives, risk tolerance, and cash flow needs of the OUS Fund. Staff would include information relative to the asset allocation of OUS institution foundation endowment funds in that process, as well as best practices in endowment management from other institutions across the country. The goal would be to complete this update by the first quarter of 2006. After this study is complete and an updated asset allocation has been approved by the OIC, OUS will work with the OIC and Treasury staff to implement the chosen asset allocation.

OST Investment Manual
Activity Reference: 4.10.01

FUNCTION: Oregon University System
ACTIVITY: Pooled Endowment Fund Investment

POLICY: An asset allocation policy shall be adopted and appropriate guidelines shall be defined for the Oregon University System Pooled Endowment Fund.

I. INTRODUCTION

This statement governs the investment of the Pooled Endowment Funds (the “Fund”) of the Oregon State Board of Higher Education (the “Board”) of the Oregon University System ("OUS").

This statement is set forth in order that the Board, the Investment Committee, its investment advisor, its investment managers, and others entitled to such information may be made aware of the policy of the Fund with regard to the investment of its assets. This statement of investment policy is set forth in order that:

1. There be a clear understanding by the Board, Investment Committee, and staff of the investment goals and objectives of the portfolio.
2. The Board and management have a basis for evaluation of the investment managers.

3. The investment managers be given guidance and limitations on investing the funds.

It is intended that these objectives be sufficiently specific to be meaningful but flexible enough to be practical. It is expected that the policy and objectives will be amended from time to time to reflect the changing needs of the endowment; however, all modifications will be in writing and approved by the Board.

II. OREGON UNIVERSITY SYSTEM POOLED ENDOWMENT FUND

The Oregon University System Pooled Endowment Fund (Fund) is a permanent fund and is expected to operate in perpetuity. As a result, these funds will be invested long-term. It is important to follow coordinated policies regarding spending and investments to protect the principal of the funds and produce reasonable total return.

III. RESPONSIBILITY OF THE BOARD

The responsibility of the Board is to define and to recommend to the OIC broad investment guidelines, selection of investment managers, and determination or approval of asset allocation.

IV. INVESTMENT COMMITTEE RESPONSIBILITY

The Investment Committee serves as advisory to the Board and will have the responsibility and authority to oversee the investments of the Fund. The Investment Committee will recommend to the Board a specific asset mix reflecting judgments as to the investment environment as well as the specific needs of the Fund. Other advisory responsibilities of the Investment Committee will include:

- Recommending professional investment managers.
- Negotiating and/or monitoring Fund investment expenses.
- Monitoring the investments on an ongoing basis.
- Assuring proper custody of the investments.
- Reporting to the Board on a quarterly basis the Fund's investment results, its composition, and other information the Board may request.
- Recommending to the Board the goal for maintaining purchasing power.
- Recommending distribution per unit to the Board.
- To assist in the process, the Board may retain a registered investment advisor/consultant. The duties of this investment advisor/consultant are described in Section X.
V. SPENDING POLICY

The amount of endowment return available for spending (distribution) is based on a percentage of the average unit market value of the 20 quarters preceding the current fiscal year. The Board determines the distribution per unit (under Exhibit A) as recommended by the Investment Committee. The distribution amount per unit is multiplied by the current number of units and any additional units added during the current year as new endowment money comes into the Fund. This shall be exclusive of investment management fees.

VI. INVESTMENT POLICY GUIDELINES

The Board does not expect the Investment Committee to be reactive to short-term investment developments, recognizing that the needs for payout are long-term and that the investment competence must be measured over a meaningful period of time. While the quantitative assessment of managerial competence will be measured over a complete market cycle, the Board anticipates that the Investment Committee will make interim qualitative judgments. Specific qualitative factors that will be reviewed by the Investment Committee on an ongoing basis include any fundamental changes in the manager’s investment philosophy, any changes in the manager’s organizational structure, financial condition and personnel, and any change, relative to their peers, in the manager’s fee structure.

A. Asset Allocation

The most important component of an investment strategy is the asset mix or the resource allocation among the various classes of securities available to the Fund. The Investment Committee will be responsible for target and actual asset allocation for the investments that will best meet the needs of the Fund, taking into consideration the appropriate level of portfolio volatility.

The risk/return profile shall be maintained by describing a long-term “target” strategic asset allocation and is set forth in Schedule I of this policy.

B. Investment Time Horizon

In making investment strategy decisions for the Fund, the focus shall be on a long-term investment time horizon that encompasses a complete business cycle (usually three to five years). Interim evaluation will be required if a significant change in fees, manager personnel, strategy, or manager ownership occurs.

C. Statement of Derivatives Policy

A derivative is defined as a contract or security whose value is based on the performance of an underlying financial asset, index, or other investment. An investment manager shall not use derivatives to increase portfolio risk above the level that could be
achieved in the portfolio using only traditional investment securities. Moreover, an investment manager will not use derivatives to acquire exposure to changes in the value of assets indices that, by themselves, would not be purchased for the portfolio. Under no circumstances will an investment manager undertake an investment that is non-covered or leveraged to the extent that it would cause portfolio duration to exceed limits specified above. The investment manager will report on the use of derivatives on a quarterly basis to the administrative manager.

VII. PRUDENCE, RESPONSIBILITIES, AND CONTROLS

A. Prudence

All participants in the investment process shall act responsibly. The standard of prudence to be applied by the Board, Investment Committee, OUS staff responsible for the management of investments, and external service providers shall be the “prudent investor” rule, which states: “Investments shall be made with judgment and care, under circumstances then prevailing, which persons of prudence, discretion and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital as well as the probable income to be derived.”

B. Ethics and Conflicts of Interest

Board members, Investment Committee members, OUS Staff responsible for the management of investments, managers, and advisors involved in the investment process shall refrain from personal business activity that could conflict with the proper execution and management of the investment program or that could impair their ability to make impartial decisions. These parties are required to reveal all relationships that could create a conflict of interest in their unbiased involvement in the investment process.

VIII. INVESTMENT OBJECTIVES

The investment objective of the Fund is to seek consistency of investment return with emphasis on capital appreciation over long periods of time, since the Fund will operate in perpetuity. In keeping with the performance goals included in the Policy, achievement of this objective shall be done in a manner that maintains the purchasing power of the principal. The Investment Committee shall set the goal for maintaining the purchasing power of the principal value of the assets (under Exhibit A).

IX. MANAGER(S) RESPONSIBILITIES

A. Legal Compliance – The investment manager(s) is responsible for strict compliance with the provisions of the prudent investor rule as it pertains to their duties and responsibilities as fiduciaries.
B. Evaluation Timetable – The manager(s) will be expected to provide to the OIC, State Treasurer’s Office, Board, Investment Committee, and their investment advisor/consultant on a timely basis each quarter such data as is required for proper monitoring. In addition, the manager(s) will provide to the investment advisor/consultant transaction registers and portfolio valuations, including cost and market data on a monthly basis.

C. Authority of Investment Manager(s) in the Managed Accounts – Subject to the terms and conditions of this policy, manager(s) shall have full discretionary authority to direct investments, exchange, and liquidation of assets of the managed accounts. The Investment Committee expects that the investment manager(s) will recommend changes to this Policy when the manager(s) views any part of this Policy to be in variance with overall market, economic conditions, and relevant investment policies.

The Investment Committee directs all managers to vote proxies and to vote them in the best interest of the Fund. The manager(s) will report to the Investment Committee and their investment advisor/consultant at least annually as to how proxies were voted.

Each investment manager is required to meet with the Investment Committee and their advisor/consultant at least annually to review:

- The investment forecast for the following year.
- The effect of that outlook on the attainment of the Fund objectives.
- The manager’s actual results for the preceding forecast period compared to the previously established return goal for the reporting period.
- The Investment Policy, Guidelines, and Objectives of the Fund. If it is felt by the investment manager(s) that the Policy is too restrictive or should be amended in any way, written notification must be communicated immediately.

X. INVESTMENT ADVISOR/CONSULTANT RESPONSIBILITIES

Investment results will be monitored by an independent consulting organization, under contract by the Board, on a regular basis and reported to the Investment Committee as soon as practicable after each calendar quarter. A representative of the investment advisor/consultant shall meet with the Investment Committee to review for each manager (i) its past performance, (ii) compliance with the Investment Policy, Guidelines and Objectives of the Fund, including but not limited to asset allocation, actual return, and comparative return in relation to applicable index (indices) and to a universe of comparable funds, (iii) risk profile, (iv) ability of manager to fulfill the stated objectives of the funds, (v) any other material matter. A representative of the investment advisor/consultant shall also report investment results, or other information, to the Board, OIC, and others, as requested by the Investment Committee. Any
noncompliance with the Investment Policy, Guidelines and Objectives of the Fund, or other section of this statement discovered by the investment advisor/consultant will be reported to the Investment Committee immediately.

XI. INVESTMENT GUIDELINES

A. The Fund shall maintain minimal cash, consistent with short-term requirements.

Short-term cash will be invested in the Oregon State Treasurer’s Short-Term Investment Pool.

B. Fixed-income securities, for purposes of these guidelines, shall mean mortgage-backed securities, U.S. government securities, investment-grade corporate bonds, and other fixed income securities, such as certificates of deposit and commercial paper. The objective of this component of the Fund is to preserve capital in keeping with prudent levels of risk through a combination of income and capital appreciation. Realization of income will be subordinate to safety, liquidity, and marketability (securities should be readily marketable). This component of the fund shall adhere to the following categories:

1. Average credit quality shall be A or better.

2. With the exception of US Government and Agency issues, no more than 10 percent of the bond portfolio, at market value, will be invested in the securities of a single issuer or 5 percent of the individual issue.

3. There shall be a maximum limitation on below investment grade bonds of 15 percent of the bond portfolio.

4. There shall be a maximum limitation on non-US bonds of 20 percent of the bond portfolio.

Fixed-income managers have full discretion over the allocation between long-term, intermediate or cash equivalent investments.

C. Equity securities are to be made primarily in well-established, quality companies. The objective specific to this component of the Fund is to maximize long-term total return through a combination of income and capital appreciation. The restrictions pertinent to this portion of the Fund are as follows:
Large-Cap Equity Requirements:

Not more than 10 percent of the companies invested in should have market capitalizations less than $1 billion (subject to the large-cap equity limitations of Schedule I). Portfolios should be comprised of at least 30 securities.

Small-Cap Equity Requirements:

Investments in smaller companies with market capitalization similar to the Russell 2500 index (subject to the small/mid-cap equity limitations of Schedule I). Portfolios should be comprised of at least 30 security issues.

International Equity Requirements:

Investments in equity securities of companies located outside the United States are permitted (subject to the international equity limitations of Schedule I). Portfolios should be comprised of at least 30 security issues.

D. Diversification

1. Not more than 5 percent of the market value of any investment fund will be invested in any single issue, property, or security. This restriction does not apply to U. S. Government-issued securities.

2. No investment in any single issue, security, or property shall be greater than 5 percent of the total value of the issue, security, or property.

Performance expectations for each of the asset classes are described in Exhibit A.

XII. OTHER INVESTMENTS

The Board and the Investment Committee recognize that the addition of other investment classes may reduce total fund volatility.

The Board and the Investment Committee may, with the concurrence of the OIC, place up to 10 percent of the aggregate Fund assets in venture capital, real estate, distressed securities, and oil and gas partnerships. This allocation is to provide for portfolio diversification.

XIII. OTHER GUIDELINES AND REQUIREMENTS

Custodial responsibility for all securities is to be determined by the Board or its designee(s).
XIV. CONCLUSION

Implementation of this Policy, including the investment manager selection, shall be the responsibility of the Investment Committee, subject to the necessary approvals of the Board and the OIC.

The Board shall review this policy at least every two years.
SCHEDULE I

ALLOCATION OF ASSETS

The following represents target allocations and the ranges by asset category.

<table>
<thead>
<tr>
<th>Class</th>
<th>Target Allocation</th>
<th>Ranges</th>
<th>Policy Benchmark</th>
</tr>
</thead>
<tbody>
<tr>
<td>Equity Category</td>
<td>70%</td>
<td>60%-80%</td>
<td>90 Day T-Bill</td>
</tr>
<tr>
<td>Fixed Income Category</td>
<td>25%</td>
<td>20%-30%</td>
<td>Lehman Aggregate</td>
</tr>
<tr>
<td>Cash</td>
<td>5%</td>
<td>0%-10%</td>
<td></td>
</tr>
<tr>
<td>Alternative Assets</td>
<td>0%</td>
<td>0%-10%</td>
<td></td>
</tr>
</tbody>
</table>

The allocation of equity assets shall be as follows:

<table>
<thead>
<tr>
<th>Class</th>
<th>Target Allocation (% of Equity)</th>
<th>Ranges</th>
<th>Benchmark</th>
</tr>
</thead>
<tbody>
<tr>
<td>Large-Cap Equity</td>
<td>65%</td>
<td>55%-75%</td>
<td>S&amp;P 500</td>
</tr>
<tr>
<td>Small-Cap Equity</td>
<td>20%</td>
<td>15%-25%</td>
<td>Russell 2500</td>
</tr>
<tr>
<td>International Equity</td>
<td>15%</td>
<td>10%-20%</td>
<td>MSCI EAFE</td>
</tr>
</tbody>
</table>

The Target Allocation Policy benchmark is 59.5 percent Russell 3000 Index, 10.5 percent MSCI EAFE Index, 25 percent Lehman Aggregate Index, and 5 percent 90 Day T-Bills.
EXHIBIT A

Performance Monitoring Return Expectations

Spending Policy

The distribution rate for the Fund is 4.5 percent of the five-year moving average unit market value for FY 2000-01 and will decrease to 4 percent of the five-year moving average unit market value for FY 2001-02 and thereafter.

Total Fund

The total fund will be evaluated quarterly. Specific performance objectives include, but may not be limited to, the following:

1. Exceed the return of the Policy benchmark (Schedule 1) by 0.5 percent (after fees) over a market cycle.

2. Exceed the level of inflation by 5 percent or more as measured by the Consumer Price Index (CPI) over a market cycle.

3. Exceed the median fund in a universe of other endowments over a market cycle. A market cycle is defined as an investment period lasting three to five years.

U.S. Equities - Large Capitalization

1. Equity accounts will be evaluated quarterly. Specific performance objectives include, but may not be limited to, the following:

2. Exceed the return of the S&P 500 Index by 0.25 percent (after fees) over a market cycle.

3. Rank at or above median of a nationally recognized universe of equity managers possessing a similar style.

U.S. Equities – Small/Mid Capitalization

Small/Mid capitalization accounts will be evaluated quarterly. Specific performance objectives include, but may not be limited to, the following:

1. Exceed the return of the Russell 2500 (after fees) by 1 percent over a market cycle; and

2. Rank in the 40th percentile of a nationally recognized universe of small cap managers possessing a similar style.
**International Equities**

International equity accounts will be evaluated quarterly. Specific objectives include, but may not be limited to, the following:

1. Exceed the return of the EAFE Index by 1 percent (after fees) over a market cycle.
2. Rank in the 40\textsuperscript{th} percentile of a nationally recognized universe of equity managers possessing a similar style.

**Fixed Income**

Fixed Income accounts will be evaluated quarterly. Specific performance objectives include, but may not be limited to, the following:

1. Exceed the return of the Lehman Aggregate Bond Index by 0.5 percent (after fees) over a market cycle.
2. Rank in the 40\textsuperscript{th} percentile of a nationally recognized universe of fixed income managers possessing a similar style.

Approved by the Investment Committee on October 5, 1999. **Section XI changes were adopted by the Investment Committee on September 20, 2001 and by the HIED Board on October 19, 2001. Section VIII changes were adopted by the Investment Committee on September 19, 2002, and by the HIED Board on October 18, 2002.**
### Endowment Survey Results
as of June 30, 2004

<table>
<thead>
<tr>
<th>Foundation Management</th>
<th>Total Fund Average Returns</th>
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</thead>
<tbody>
<tr>
<td></td>
<td>1 Yr</td>
</tr>
<tr>
<td>University Foundation:</td>
<td></td>
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<tr>
<td>Eastern Oregon University Foundation</td>
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<tr>
<td>Oregon Institute of Technology Foundation</td>
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<td>Oregon State University Foundation</td>
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<td>Portland State University Foundation</td>
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<td>Southern Oregon University Foundation</td>
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<td>University of Oregon Foundation</td>
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<tr>
<td>Western Oregon University Foundation</td>
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<tr>
<td>OUS Pooled Endowment Fund</td>
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</tbody>
</table>

#### Target Asset Allocation

<table>
<thead>
<tr>
<th></th>
<th>EOU</th>
<th>OIT</th>
<th>OSU</th>
<th>PSU</th>
<th>SOU</th>
<th>UO</th>
<th>WOU</th>
<th>OUS</th>
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</thead>
<tbody>
<tr>
<td>Equity:</td>
<td>65.00%</td>
<td></td>
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<tr>
<td>Domestic Equity:</td>
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<td></td>
<td>30.00%</td>
<td>65.00%</td>
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<tr>
<td>Large Cap</td>
<td>34.00%</td>
<td>40.00%</td>
<td>54.00%</td>
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<tr>
<td>Small/Mid Cap</td>
<td>11.00%</td>
<td>15.00%</td>
<td>6.00%</td>
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<tr>
<td>International Equity</td>
<td>15.00%</td>
<td>12.00%</td>
<td>22.00%</td>
<td>13.00%</td>
<td>10.00%</td>
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</tr>
<tr>
<td>Total Equity</td>
<td>0.00%</td>
<td>65.00%</td>
<td>60.00%</td>
<td>67.00%</td>
<td>82.00%</td>
<td>43.00%</td>
<td>75.00%</td>
<td>70.00%</td>
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<tr>
<td>Fixed Income</td>
<td>35.00%</td>
<td>20.00%</td>
<td>25.00%</td>
<td>18.00%</td>
<td>10.00%</td>
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<tr>
<td>Alternatives - General</td>
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<tr>
<td>Emerging Market Equity</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>5.00%</td>
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<tr>
<td>Private Equity</td>
<td>5.00%</td>
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<tr>
<td>Realestate</td>
<td>5.00%</td>
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<tr>
<td>Absolute Return</td>
<td>10.00%</td>
<td></td>
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<tr>
<td>Cash</td>
<td>8.00%</td>
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#### Endowment Fund Market Value ($000)

<table>
<thead>
<tr>
<th></th>
<th>EOU</th>
<th>OIT</th>
<th>OSU</th>
<th>PSU</th>
<th>SOU</th>
<th>UO</th>
<th>WOU</th>
<th>OUS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Endowment Market Value at June 30, 2004</td>
<td>$11,138</td>
<td>$277,670</td>
<td>$21,599</td>
<td>$12,461</td>
<td>$267,903</td>
<td>$3,577</td>
<td>$59,564</td>
<td></td>
</tr>
</tbody>
</table>

Note: Blank cells indicate that the information was not available or not provided.
COMMITTEE DISCUSSION AND ACTION:

Chair Blair turned to OUS Controller Mike Green to outline the endowment investment management docket item. With two items to discuss, Green explained that he would be deferring the international equity discussion until after walking through the various proposed options for endowment management.

Green noted that the OUS pooled endowment fund has approximately $60 million, with an annual budgetary impact of $2 million. He advised of previous discussions regarding endowment management attempts to streamline the administration of the fund and eliminate duplicative efforts. In previous meetings, three options—a treasury option, a contractor option, and a foundation option—had been discussed, but Green noted that the F&A Committee required additional information and research. Green shared he asked the university foundations for information on investment returns and asset allocation, consulted with the Department of Justice, and met with Treasury officials.

Green concluded that the treasury option would be the best available option, particularly considering comparability on investment returns and hard and soft cost savings. Green noted, however, that there would be some soft cost associated with updating Board policies to reflect the change. He observed that the contractor option was not available because the Oregon Investment Council (OIC) could not delegate their fiduciary duty to a contractor and an agreement with terms acceptable to OIC was unlikely. Green added that the foundation option was not feasible because of various constitutional and statutory hurdles, combined with the substantial staff time that would be required to review trust agreements.

Green recommended the treasury option for approval and noted a revised staff recommendation from the docket materials. He observed that the proposal would need to include a revised internal management directive. Green added that the implementation timeline would be accelerated for completion by December 2005.

Chair Blair and Director von Schlegell both applauded Green’s work and observed several advantages to the proposal. Chair Blair noted that some internal practices and policies would require adjustment. Green replied that the policy in the docket was adopted by the OIC and Chair Blair confirmed that policies would need to be changed to reflect action. Director Lorenzen added that it was important to streamline as many practices as possible because of the burden created by the shortfall to the Chancellor’s Office.

Director Van Vliet asked about the OIC’s good investment track record and Green noted OIC had access to managers and a fee structure because of the size of its funds, which OUS would not be able to access. Director von Schlegell added that OIC would permit OUS to piggyback off one of the existing funds or have its own allocation. Chair Blair reminded the Committee that OIC had ultimate statutory responsibility for the management of the fund and that the proposal was sound because of efficiency and the
requirements of today’s markets. Director von Schlegell asked if staff were still prepared to postpone any specific manager changes and Green clarified that the first docket item—the change of the international equity manager—would be deferred until the funds were transferred to Treasury.

Chair Blair called for a motion to reflect the deferral of the first docket item and Director von Schlegell moved to approve the proposed course of action for endowment management, working through the documentation to transfer the responsibility directly to IOC. Director Lorenzen seconded the motion. All in favor: Lorenzen, von Schlegell, and Blair. Opposed: none. Motion passed.

Chair Blair, Green, and Secretary Hagemann discussed the deferral of the first docket item.

4. **DISCUSSION ITEM**

a. Finance and Administration Committee Charter

DOCKET:

At the May 2005 meeting of the Finance and Administration Committee, the following proposed charter was discussed. The May discussion indicated that most Board members were comfortable with the proposal, liked the fact that this Committee acted as a “policy shifter,” and appreciated that the meetings were scheduled in a manner that allowed many Board members to participate. In addition, many felt that they would like to see complex policy issues brought to the committee two times; first for a general introduction and discussion; and second for approval. Staff will endeavor to accommodate this preference where possible.

**Proposed Finance and Administration Committee Charter**

The Finance and Administration Committee serves as a subcommittee of the State Board of Higher Education to:

- Advise the Board on the management of the ongoing financial and administrative affairs of the Oregon University System;

- Focus the business functions of the Oregon University System on supporting the OUS mission and the Board’s priorities; and

- Recommend policies to ensure that System resources are managed prudently, efficiently, and effectively.
Specifically, the Committee is charged with the following:

**Audit**
Review and recommend to the Board the internal audit mission statement, charter, and other governance documents related to both internal and external auditing activities in the Oregon University System.

Review the annual internal audit plan and discuss the extent to which it addresses high-risk areas with the internal auditor.

Assure that the audit function reviews the system of internal controls and the adequacy of the accounting, financial, and operational policies and practices related to financial, accounting, and compliance and ethics reporting.

Review the annual report on the accomplishments of the internal audit department and discuss significant issues of internal control and compliance with the internal auditor and management.

Discuss the planned scope of the annual independent audit and other engagements with the independent certified public accountants. Review the results of the audit(s), reviews, and other engagements with the auditors, reviewers, and management.

Receive and review the annual financial report with the independent certified public accountants and management.

**Budget and Finance**
Consider and recommend to the Board on policy matters relating to budgeting for operating and capital needs, financial management, and long-range financial planning for the Oregon University System.

Monitor the financial performance of the institutions of the Oregon University System, including quarterly review of enrollment and managerial reports from each institution. The managerial reports will contain information and projections on enrollments, budgeted and actual revenues, expenses, fund balances, and other financial performance measures as determined by the Committee.

Request additional financial reports and analysis from management as required to assure a thorough review of financial activity.

Develop and monitor a set of financial performance and accountability measures for the Oregon University System.

Review quarterly investment reports on pooled endowment funds and make recommendations regarding the selection of investment consultants.
Review and approve debt issuances and policies including refunding strategies.

Approve transfers from the Chancellor’s Office fund balance that exceed $250,000 or aggregate to $1 million or more.

**Real Estate**
Consider and recommend to the Board on policy matters relating to facilities and real estate administration, including long-range planning, the purchase, sale, or lease of real estate, capital construction programs, capital repair/maintenance, and debt financing.

**Human Resources and Personnel**
Consider and recommend to the Board on matters relating to human resources and personnel policies, programs, and labor relations presented by the Chancellor.

**Operating Guidelines**
Certain docket items related to business and financial matters will be referred directly to the Board rather to the Committee, including:

- Approval of Oregon Administrative Rules
- Approval of OUS Annual Operating and Capital Budgets

In general, docket items that require policy decisions should go to the Committee as “Items for Future Action” to allow sufficient time for discussion and consideration.

These items will be presented as “Action Items” at the subsequent meeting.

The Committee Chair will confer with staff and the Board President to determine when other docket items should be referred directly to the Board.

**COMMITTEE DISCUSSION:**

Chair Blair called on Vice Chancellor Jay Kenton to discuss the revised Finance & Administration (F&A) charter. Kenton explained that the draft was a revision-2 charter, containing additions requested by Committee members and a general bullet point regarding the performance of other duties directed by the Board. Kenton reviewed the other changes, including reference to the audit charter, the quarterly audit updates, and annual financial reports. Kenton also discussed the extent to which the Board could delegate certain responsibilities and duties to the Committee.

Chair Blair asked Kenton about the delegation of debt questions specifically. Before turning to Chair Blair’s question on debt, Kenton mentioned that the investment policy guidelines would need to be updated to reflect recent action. Kenton observed that the Board would need to consider how to treat the issuance of debt and explored whether
or not that could be delegated to the Committee. Before turning it over to questions, Kenton also added that he clarified fund balance language in the charter.

Chair Blair, at the outset, noted that he expected the Committee to come to some agreement about the charter before submitting it to the full Board for consideration. Director Van Vliet asked if the audit committee was a subcommittee of the F&A Committee and Chair Blair explained it was not and that the F&A Committee was a broad committee with many different responsibilities. Director Van Vliet inquired about whether a separate audit committee was necessary and Director Lorenzen explained why other entities, including Oregon Public Broadcasting, had a separate audit committee. Director Van Vliet asked about the applicability of Sarbanes-Oxley and Kenton explained that it did not apply to the Board, but there were rumblings in Congress that it might at some point.

Chair Blair turned to questions. He asked about the acceptance of the annual financial report, suggesting that while the Committee could review the annual financial report, that the Board might not want to delegate that responsibility to the Committee. Director Lorenzen agreed. Kenton clarified that the Committee was suggesting the independent auditors highlight any issues to the F&A Committee, but the report would be made to and approved by the full Board and Chair Blair confirmed.

Chair Blair asked Kenton about debt and whether or not the issuance of debt could be delegated to the Board. Acting Chancellor Pernsteiner explained that the constitutional language regarding Article XI-F(1) debt requires the Board to find that projects are self-supporting and self-liquidating and that the pro forma on the projects was not done until it is time to issue the debt. Pernsteiner turned to Assistant Attorney General Wendy Robinson for guidance on the legal questions and she explained that statutes require the Board to take final action on the issuance of debt. Chair Blair summarized that the Committee might be able to look at projections and assist with formulating a point of view on debt questions, but the full Board would need to take the final action. Pernsteiner confirmed that view, but noted that there were other types of debt, such as certificates of participation, that the Committee might be able to approve without the full Board if the full Board were to delegate that function to the Committee.

Chair Blair asked if there was a recommendation that would streamline the process most effectively, inquiring whether there were more than certificates of participation that the Committee could approve if the Board were to delegate the responsibility. Kenton added that long-term leases, if they were greater than five years, typically came before the Board and Pernsteiner noted that he did not think there was a legal requirement dictating whether those leases go before the Committee or the Board. Chair Blair asked for a framework to parse the specific responsibility regarding debt. Robinson added that with bonded debt, bond counsel would also opine on whether the project was self-liquidating. Chair Blair reiterated the importance of the Board fulfilling its accountability responsibilities.
Kenton added Director von Schlegell's proposed language regarding the recent action on endowment management and Chair Blair confirmed that the Committee would not be moving on the actual recommendation of the manager. Director von Schlegell asked whether the Committee had the right to change managers in the future and Green added that he thought it was a terminology issue. Chair Blair stated that he wanted to make sure the proper terminology was in the draft charter. Director von Schlegell stated it was important that the Committee had the appropriate independence, that the Committee lived voluntarily by Sarbanes-Oxley, and how the Committee handled the audit function would need more attention. Chair Blair cautioned about "living by" Sarbanes-Oxley and explained that a strong system of internal controls was vitally important. He noted that he was pleased that the Committee would be receiving quarterly internal audit progress reports. Chair Blair proposed making the adjustments and revisions discussed at the meeting and putting the draft charter in front of the full Board at the next meeting.

5. **ACTION ITEM**

   a. **UO, Lease of Office Space in Portland for the Oregon Executive MBA Program**

   **COMMITTEE DISCUSSION:**

   Before adjourning, Chair Blair shared that the Oregon Executive MBA program (OEMBA) had a walk-on item for consideration. At the outset, Director Lorenzen recused himself from discussing or voting on the matter because a close friend was involved in the matter. Chair Blair explained that the OEMBA was proposing to relocate and lease a Portland property. He observed that the final financial information was not complete, but because of the timing requirements, it made sense for the Committee to get some perspective on the program and why OEMBA was proposing to move its facilities. Chair Blair turned to Scott Dawson, Dean of the School of Business Administration at Portland State University for some comments.

   Dean Dawson explained the importance of the move in the context of business education in the region. He noted that other business programs were aggressively attempting to enter the Portland market and that OEMBA would need to position itself to address the impact of the other programs. Dawson observed that the program needed to garner visibility by moving out of the CAPITAL Center. He explained that relocation to the 200 Market Street Building in downtown Portland would place the program in the center of downtown and achieve the necessary visibility the program needed. Dawson also noted that a long-term goal of the program was to offer additional executive education programs and that PSU might be able to use the new facility. He observed that repositioning of the OEMBA branding would be on the agenda for the OEMBA to move forward. He noted that while OEMBA was a cooperative effort between UO, OSU, and PSU, the degree was from the UO. Dawson concluded that the status quo would not be acceptable if the program was to move forward.
UO Provost John Moseley added that the OEMBA is a self-supporting program, it is highly regarded and ranked, and that it is a prime example of successful collaboration among OUS institutions. With these factors, Moseley pointed out that the CAPITAL Center was not adequate for the program to grow, noting that the program had emerged as a real asset to executive business education. Discussing UO’s support for the lease, he observed that the lease would be competitive, but that UO would need to prove that to the Board.

Chair Blair noted that the goal of a competitive executive MBA program was without question, but that the program should be examined holistically, and that all factors, including the physical location, should be discussed. He noted that, according to preliminary numbers, the annual cost commitment for the proposed new physical location was going to be substantial and that he was reluctant to execute pieces of a plan without understanding the whole. Moseley echoed Chair Blair’s comments and Chair Blair reiterated the importance of understanding the entire context of the OEMBA’s competitiveness. Moseley noted that the proposed location’s proximity to PSU was considered an advantage because of the campus’s library and other facilities. Dean Dawson added that the program had been scouting for a location for over a year and that it preceded the move of Babson into the Portland market. Director Van Vliet discussed various efforts for Systemwide collaboration in the past. Director von Schlegell echoed previous comments, but noted that the Committee and Board would certainly consider the lease of the proposed location, but that there might be other factors, as Chair Blair discussed, to bolster the competitiveness of the program. Director von Schlegell asked if there were time considerations with the proposed property and Moseley confirmed that there were, particularly with the landlord and the upcoming academic year. Moseley added that they would be prepared to answer Chair Blair’s questions to the extent possible, considering the timeframe. Chair Blair observed that the final decision on the lease would come shortly, but that going into the discussion, he might not rank a change in location as the most important factor when considering the competitiveness of the OEMBA.

Director von Schlegell asked if the OEMBA’s departure would spell a loss of money at the CAPITAL Center. Kenton confirmed that it would and Chair Blair noted it would need to be part of the overall consideration. Moseley added, with the other programs at the CAPITAL Center, it was incompatible with the OEMBA program.

6. **ADJOURNMENT**

Chair Blair adjourned the meeting at 9:04 a.m.

Donald W. Blair  
Chair, F&A Committee

Ryan J. Hagemann  
Secretary of the Board