MINUTES OF THE MEETING OF FINANCE AND ADMINISTRATION
COMMITTEE OF THE STATE BOARD OF HIGHER EDUCATION
UNIVERSITY OF OREGON, EUGENE, OREGON
NOVEMBER 3, 2006

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1. **CALL TO ORDER/ROLL CALL/WELCOME**

   Board President Henry Lorenzen called the meeting to order at 8:34 a.m. Committee members present included: Directors Henry Lorenzen and John von Schlegell. Director Blair was absent due to a business conflict. Other Board members present: Directors Kirby Dyess and Tony Van Vliet.

   Chancellor’s office staff present: Chancellor George Pernsteiner, Neil Bryant, Michael Green, Ryan Hagemann, Jay Kenton, Robert Simonton, and Marcia Stuart.

   Others present included: Presidents Mary Cullinan (SOU), Martha Anne Dow (OIT), Khosrow Fatemi (EOU), and John Minahan (WOU). Vice Presidents Lindsay Desrochers (PSU), Frances Dyke (UO), and Mark McCambridge (OSU) were also present.

2. **ACTION ITEMS**

   a. **UO, Increased Limitation for Hayward Field Improvements**

      **DOCKET ITEM:**

      **Summary:**
      The University of Oregon sought Board approval to authorize the Chancellor, or designee, to seek state Legislative Emergency Board approval of an Other Funds limitation increase by $25 million to be entirely funded through gifts. The Board and state Legislative Emergency Board approved an Other Funds limitation of $7,390,000 for the Hayward Field Improvements Project in June 2006. Board approval will authorize UO to seek approval to expend up to $32,390,000 if donations become available. The improvements, to be funded entirely with gifts, will enable the UO to host the 2008 U.S. Olympic Track and Field Team trials. Since obtaining Board and Legislative approval for its previous request, the University has been awarded the NCAA Outdoor Track and Field Championships for 2010. The excitement of hosting these two events has generated considerable donor interest in expanding the project. Work has already begun on the improvements that were included in the initial authorization. Work must begin immediately to solidify potential donations, planning, and construction to complete the project before March 2008. Legislative Emergency Board approval is required. There is no General Fund impact associated with this request.
Staff Report to the Board

Background:
The 2008 U.S. Olympic Track and Field Team trials will be held June 27–July 6, 2008. Approximately 1,000 athletes, 1,000 members of the media, and 300 officials will participate. Daily attendance is expected to range between 14,000 and 16,000. The estimated economic impact to the local community will be around $18 million. The NCAA Division 1 Outdoor Track and Field Championships for 2010, to be held June 9–12, is the oldest and largest NCAA championship.

As noted in the earlier request, the project includes improvements to lighting, audio and video systems, infrastructure, and the facilities themselves. Additional funds will be used for other infrastructure upgrades, increasing the quality and scope of the current proposed improvements, and, potentially, an additional practice track. The additional projects will be undertaken only when, and if, funds are donated for the project.

The combination of these two events has generated considerable donor interest in the project. Interested donors have expressed a reluctance to commit unless they have assurances that the UO will have authority to expend the funds, recognizing the tight window during which the projects must be completed. Because of the construction window, this means the Legislative Emergency Board must authorize this project so that donations can be secured and construction can be completed before March 2008 for the Olympic Trials.

Remaining Issues to be addressed:
We do not foresee additional issues needing to be resolved; understanding that permits will not be sought and construction will not begin until donor funds are secured.

Staff Recommendation to the Committee:
Staff requested the Board Finance and Administration Committee approve the staff recommendation and recommend it to the full Board for their approval as a consent item. The F&A Committee recommended that the Board approve the request to increase the Other Funds limitation for this project and that the Chancellor, or designee, be authorized to seek authority from the state Emergency Board to increase the Other Funds limitation by $25,000,000 to $32,390,000.

COMMITTEE DISCUSSION AND ACTION:
Mr. Robert Simonton, Assistant Vice Chancellor, explained that the University of Oregon was seeking approval to obtain an additional $25 million of Other Funds limitation from the Legislative Emergency Board for additional Hayward Field improvements. This approval is in addition to the authorization granted in June of 2006 for $7.4 million in Other Funds for preparation for the 2008 U.S. Olympic Track and Field Trials. Since June, the UO has also been awarded the 2010 NCAA Outdoor Track and Field Championships.
Director Henry Lorenzen moved, seconded by Director John von Schlegell, to approve the staff recommendation and forward the request to the full Board on the Consent Agenda. Motion passed.

b. Allocations of State Lottery Funds to Intercollegiate Athletics Programs

DOCKET ITEM:

Background:
Since 1989, Oregon law has allocated the net proceeds from the sports action lottery to Oregon University System institutions. Most of the funds (88 percent) are directed to intercollegiate athletics programs at the campuses. The formula for distributing these funds to each institution’s Intercollegiate Athletic Department was established by the OUS Board at its November 1997 meeting to take into account the costs of the programs, the level of play, and gender equity. The remaining 12 percent of the proceeds has been provided to campuses for scholarships based on need (6 percent) and scholarships based on merit (6 percent). Much of the funding in the latter category has been used historically to support graduate students.

The distribution formula resulted in providing about $1.8 million in 2004-05 to campus programs. Each campus received allocations ranging from 5 percent of the total allocated to 31 percent of the total allocated, based on the criteria established in 1989. The formula was revised slightly in the mid-1990s when Portland State University’s intercollegiate athletic programs went from Division II of the NCAA to Division I. It was not adjusted when Western Oregon University later went from Division III to Division II, despite the criterion dealing with level of play.

The NCAA opposed the concept of betting on sporting events and has restricted its men’s basketball postseason tourneys in Oregon due, in part, to the existence of the sports action lottery. That led to an effort in the 2005 session of the Oregon Legislature to repeal the sports action lottery, effective in July 2007. The Legislature, mindful of the loss of revenue to campuses, included in the new law a provision that would allocate 1 percent of lottery profits to OUS to replace the sports action lottery revenue. OUS was asked informally during the discussions pending adoption of the new law to address some of the issues that had arisen under the existing sports action distribution formula. These included a view that OUS had not taken into account adequately the level of play of those campuses who had changed divisions since 1989 and the low level of funding available under the formula to the smaller campuses.

After discussions with campus representatives, a new distribution plan was developed by OUS staff, with the assent of each campus president. Its principle characteristics include several precepts carried over from the current distribution formula. In other words, that 6 percent of proceeds be used for need-based scholarships and 6 percent for awards based on academic merit, that 88 percent of the proceeds be used to support intercollegiate athletics (with
30 percent of that amount to be used to fund revenue sports [men’s basketball and football at UO, OSU, and PSU] and 70 percent to be used to fund nonrevenue sports [all other sports]).

The distribution formula would permit each campus to earn the same percentage of the total as it does under sports action until the amount received by OUS exceeds the amount received in 2004-05. In other words, no campus will receive less funding than at present unless the entire pool of funds is reduced. The formula would change after the current revenue threshold is reached so that the smaller campuses, particularly WOU and PSU, would receive greater shares of the total than in the past. These changes would address the concerns raised during the past legislative session. The details of the formula for any fiscal year are:

- Of the first $1.8 million, the University of Oregon would receive 31.15 percent, Oregon State University would receive 30.14 percent, PSU would receive 18.71 percent, and each of the other campuses would receive 5 percent.
- Of the next $500,000 received in that year, the shares for UO and OSU each would be 5 percent, that for PSU would be 20 percent, the share for WOU would be 20 percent, and the shares for EOU, SOU, and OIT would be 15 percent.
- Finally, for any amounts received in excess of $2.3 million in a year, UO would receive 24 percent, OSU 23 percent, PSU 19 percent, WOU 10 percent, and the other campuses would each receive 8 percent.

**Staff Recommendation to the Committee:**
Staff requested the Board Finance and Administration Committee approve the staff recommendation and recommend it to the full Board for their approval as a consent item. The F&A Committee recommended that the Board approve the new lottery funds distribution methodology as stated above effective when the new Lottery funding mechanism is implemented.

**COMMITTEE DISCUSSION AND ACTION:**

Mr. Neil Bryant, consultant, reminded the Committee that during the last legislative session, the legislature made a decision to eliminate the state Lottery Funds distributed to each institution’s Intercollegiate Athletic Departments. In its place, the legislature approved the use of 1 percent of the Lottery Funds for this purpose. The proposed allocation schedule for the fund is projected to be: $1.8 million divided along the same percentages as at the present time; the next $500,000 primarily directed to assist the regional institutions, PSU, and WOU, which has gone to a different conference level; and, if there are additional funds in excess of the $2.3 million, it will be divided along the percentages that have been used. A benefit, according to Mr. Bryant, is that there will not be a legislative disagreement on the allocation distribution.

Director John von Schlegell moved, seconded by Director Henry Lorenzen, to approve the staff recommendation and forward the request to the full Board on the Consent Agenda. Motion passed.
c. Managerial Reporting—Quarterly Management Report

DOCKET ITEM:

Attached are the quarterly management reports as of September 30, 2006. After reviewing the Budget Projections Summary received from each university and comparing prior year results, we noted the following:

**Education and General—Limited:** Revenue collections are projected to be 4.6 percent above 2005-06 due to equal increases in both tuition and state funding. Revenue collections year-to-date are 9.3 percent over the prior year due to the receipt of the additional compensation funding from the state and increases in tuition. Spending is up 4.2 percent year-to-date and is projected to be 4.5 percent above prior year spending at year-end. The increase in spending is due to pay raises and increased benefit costs.

The ending fund balance of Education and General – Limited is projected to decrease by $10.4 million compared to a decrease of $13.1 million in 2005-06. Systemwide, the June 30, 2007, ending fund balance of Education and General – Limited is projected to be 9.3 percent of Operating Revenues, a decline of 15 percent from the beginning of the year and a 28 percent decline from two years ago.

Projections indicate that fund balances as a percentage of operating revenues will decline at all institutions and the Chancellor’s Office. SOU’s fund balance as a percent of operating revenues is projected to be 3.2 percent, below the Board’s recommended lower threshold of 5 percent. All institutions except OIT are projected to be below the Board recommended 10 percent level: EOU – 5.5 percent; OSU – 8.5 percent; PSU – 8.8 percent; SOU – 3.2 percent; UO – 9.4 percent; and WOU – 8.3 percent.

The Chancellor’s Office ending fund balance exceeds the recommended reserve level of 5-15 percent of Operating Revenue. The current year plan projects a 13 percent spend down of the Chancellor’s Office fund balance.

**Auxiliary Enterprises:** Systemwide, Auxiliary Enterprises is projected to have total revenue of $291 million and expenditures of $282 million, resulting in $9 million of revenue over expenditures. Unrestricted Net Assets are projected to increase $9.6 million to $67.7 million. Please refer to the explanatory notes on the institution and Chancellor’s Office reports for additional information.

**Designated Operations, Service Departments, and Clearing Funds:** The Projected ending fund balance of $29 million is $2 million higher than prior year. Please refer to the explanatory notes on the institution and Chancellor’s Office reports for additional information.
**Staff Recommendation to the Committee:**
Staff recommended that the Committee accept the Budget Projections Summary for September 30, 2006. The next management reports for the quarter ending December 31, 2006, are scheduled to be presented to the Board in February 2007.

Supporting tables may be obtained at: [http://www.ous.edu/state_board/meeting/dockets/ddoc061103.pdf](http://www.ous.edu/state_board/meeting/dockets/ddoc061103.pdf).

**COMMITTEE DISCUSSION AND ACTION:**

Mike Green, Associate Vice Chancellor and Controller, noted that at the time the report was prepared, institutions did not have the fourth week enrollment numbers. Therefore, projections were based on earlier projections and not on solid numbers. Adjustments will be made to the projections at a later date if needed. Mr. Green’s comments were focused primarily on each institution’s Fiscal 2007 projections compared to the prior year, in particular for Education and General Funds.

The auxiliary enterprise section of each institutions report has been changed. The long-term capital assets, long-term debt, were pulled out to show what is termed unrestricted net assets. “It is similar to fund balance but you get a better idea of the operating results without some of the adjustments that were constantly in need of explaining,” Mr. Green said.

**Eastern Oregon University** – The target established by the F&A Committee in May anticipated a 2.5 percent increase in full-time equivalent enrollment over the prior year. The projection, as presented had been adjusted downward to reflect flat enrollment from the prior year. The indications are that fall enrollment may be down 3.8 percent from the prior year. If this trend continues the remainder of the year, tuition and fee revenue will likely need to be adjusted downward. The current projection for indirect cost recoveries has been reduced by $100,000. Projected revenues below the target are expected to be offset by savings obtained from an ongoing six-month hiring freeze on vacancies.

Ending fund balance as a percent of operating revenues is projected to be 5.5 percent compared to the target of 5.4 percent and the 6.2 percent at the end of last year. In summary, EOU’s current projected spend down in fund balance is slightly lower than the target presented to the Board in May.

Auxiliary revenues and expenses are projected to be 12 percent and 11 percent above the prior year. The increase is primarily due to projected revenue and expenditure increases for housing operations. Mr. Green noted that all four of the regional institutions and Portland State are projecting a decline in their unrestricted net assets for Fiscal 2007 in the auxiliary enterprise category. This is be closely monitored.

Director Lorenzen asked President Fatemi what he thought was contributing to the continued decline in enrollment. The President observed that during this past year, EOU had gotten a lot
of bad publicity for a variety of reasons. “Much of the decline is from out-of-state enrollment. We lost about 15 percent of California residents and an even higher percentage from Idaho residents. Those are directly related to the bad publicity. Our lawsuits made the front page of the Boise paper and, since that was the only information they had, that had a serious impact.

“For within the state and closer to La Grande, that bad publicity was negated or compensated by a number of other favorable reports. Our enrollment from the 12-county region that we serve is actually up by 3.1 percent headcount.” Chancellor Pernsteiner observed that last year Eastern actually had the fastest growth of any of the campuses. “A lot of the numbers that you see at Eastern are either distance education or at the centers that Eastern has around the state that are perhaps more subject to variation than the on-campus enrollment might be,” he concluded.

Oregon Institute of Technology -- Tuition and fee revenues are projected to be up 6.5 percent over the prior year due to an increase in tuition rates, elimination of the resident tuition plateau, a 2 percent decline in full-time equivalent enrollment, reduced remissions, and increases in distance education fees and enrollment. Total expenditures are projected to increase 6.6 percent over the prior year. OIT is currently projecting an $80,000 increase in fund balance; however, the ending fund balance as a percent of operating revenues is projected to decrease to 11.5 percent from 11.8 percent at the beginning of the year.

Fall fourth week enrollment data indicate that OIT may experience a 4 percent decline in full-time equivalent enrollment. In auxiliaries, unrestricted net assets are projected to decline $183,000 or 5.7 percent from the prior year. President Dow observed that much of the enrollment decline came in the undeclared majors rather than in the category of declared majors. “When we take the cap off our medical health programs by fall, when we are in our new facility, that will help us recover because we have self-imposed some of our own enrollment restrictions because of that capacity issue.”

Oregon State University projects a $9.5 million or 3.1 percent increase in total revenues and a reduction in total expenditures of $1.1 million. This will result in break-even operating income. Total expenditures are projected to decrease due to cuts in Services and Supplies, capital outlay, and reduced personnel services due to additional restricted fund support. The ending fund balance is projected to decrease to 8.6 percent of operating revenues from 8.7 percent at the beginning of the year.

The increase in first quarter revenue and expenses is primarily due to more football and basketball home games in the current year compared to the prior year.

Portland State University projects an increase in total revenues of $12 million and an increase in total expenditures of $16.3 million, resulting in a projected decrease in fund balance of $4.4 million. Ending fund balance is projected to be 8.8 percent of operating revenues compared to the prior year of 11.8 percent.
Realization rates for supplies and services are lagging the prior year due to the timing of internal charges. Unrestricted net assets are projected to decline $370,000 or 4.2 percent from the prior year.

Vice Chancellor Kenton pointed out that, for the System as a whole, there is a projection that $10.4 million will be spent in excess of revenue that will be brought in and the trend appears to continue. “And, it is not going to be sustainable in the long-run,” he observed. “But we are going to drop, if these projections are accurate, from almost $110 million in reserves coming into this biennia, to $86 million at the end – burning off 22 percent of our reserves over this two-year period. This is troubling. In a lot of ways, we have wishful thinking in our budgeting that we’re going to create break-even budgets. In fact, universities are spending in excess of those budget amounts.”

Southern Oregon University – The Education and General funds, tuition and fees, are projected to increase 3.1 percent primarily due to increased tuition and fees for resident and nonresident students. These are offset by a projected full-time enrollment decline of 2 percent. “As SOU finalizes its fiscal plans, the Chancellor’s Office will review with them the requirements, if any, to obtain authority to transfer funds. The transfer from auxiliaries contributes to the $501,000 or 19.6 percent decline in the unrestricted net assets within the auxiliary enterprises as shown,” Mr. Green explained.

Total expenses are projected to increase 2.9 percent primarily due to increases in pay and benefits that are partially offset by reduction in Services and Supplies and capital outlay expenditures. The year-to-date realization rate for tuition and fees is 39 percent compared to the prior year of 42 percent. If SOU’s efforts to manage tuition revenue are unsuccessful, this lagging realization rate may indicate a significant downward adjustment of projected revenue. Southern projects a decrease in fund balance of $959,000 compared to a decrease in fund balance of $1.6 million in the prior year. The decrease in fund balance results in a projected fund balance of 3.2 percent of operating revenues compared to 5.9 percent at the beginning of the year.

President Cullinan indicated that she knew the drop in fund balance would be a concern and suggested that she would be prepared, in December, to describe SOU’s plan for restoring the fiscal strength and improving the reserve balance. “SOU needs to go through a period of financial retrenchment to create a better balance between our revenue and our expenses. We have made some very significant and painful cuts this year. We cut $1.248 million from an array of areas including library acquisitions, motor pool, out-of-state travel and we have created $500,000 in savings by freezing positions as vacancies occur. We are launching a university-wide initiative for revisioning and right-sizing to adjust the number of academic programs,” the President explained. “So I ask the Board’s patience and support as we go forward.”

University of Oregon – Education and General Fund total revenues are projected to increase 4.1 percent and total expenditures are projected to increase 6.7 percent, resulting in a $4.1 million use of fund balance. The increase in tuition and fee revenue is due to an increase in
tuition and fee rates and approximately 100 additional non-resident undergraduate students. The increase in total expenditures is primarily due to a $14.9 million increase in personnel services related to new hires and increased health care costs. The ending fund balance is projected to be 9.4 percent of operating revenues compared to the prior year of 11.4 percent.

For the auxiliary funds, the realization rate for revenue is higher than the prior year due to the receipt of proceeds from the sale of the Westmoreland property.

**Western Oregon University** – Tuition and fee revenues are projected to be 7.1 percent over the prior year due to increase in tuition rates, the elimination of the nonresident part-time tuition plateau, and an increase in nonresident enrollment, particularly international students, and reduced remissions. The increase in revenues is projected to be partially offset by lower tuition revenue from nonresident students from California who are now eligible for discounted tuition offered by the Western Undergraduate Exchange (WUE) Program. Total expenditures are projected to increase 6.8 percent over the prior year. Realization rate for Service and Supplies is 24 percent compared to 32 percent from the prior year. The fund balance is projected to be 8.3 percent of operating revenues.

For auxiliary enterprises, the projected decrease in revenues and expenses are primarily due to lost dining service revenue related to the move of the Department of Public Safety Standards and Training Facility to Salem.

**Chancellor’s Office** – Total revenues are expected to increase $2.1 million primarily due to the transfer of funds resulting from an internal review of inactive agency funds. Total expenditures are projected to increase $2.8 million or 18.8 percent, primarily due to increased spending on the IDTS and ATLAS projects. The ending fund balance is projected to be 49.2 percent of operating revenues, a 13 percent decline from the beginning of the year. If approved, the ending fund balance will be reduced by $3 million for the purchase of approximately 10,000 square feet of office space in the PCAT Phase 1 facility at PSU. Total expenditures and net transfers are projected to decline, primarily related to the subsidy from the Chancellor’s Office to cover CAPITAL Center holding costs.

In summary, Mr. Green indicated, “Systemwide, we are projecting $10 million spend-down in fund balance in Fiscal 2007 which follows a $13 million spend-down in 2006. Our reserves are projected to be 9.3 percent of revenues at fiscal-year-end. Six of the seven universities are projecting ending fund balances below the 10 percent target. And one university is projecting an ending fund balance below the 5 percent lower limit.”

Director John von Schlegell moved acceptance of the Quarterly Management Report. Director Henry Lorenzen seconded the motion. Motion passed.
d. Report on Investments – As of September 30, 2006

DOCKET ITEM:

The investment report for the first quarter of Fiscal Year 2007 is included with the supplemental materials (on file with the Board’s Office). A brief summary of the information within the report is provided below.

As of September 30, 2006, total OUS investments had a combined market value of $303 million, summarized as follows:

<table>
<thead>
<tr>
<th>Fund</th>
<th>Market Value September 30, 2006</th>
</tr>
</thead>
<tbody>
<tr>
<td>Endowment Funds (pooled and separately invested)</td>
<td>$74,622,232</td>
</tr>
<tr>
<td>Donation Funds</td>
<td>57,860,185</td>
</tr>
<tr>
<td>Bond Building Funds</td>
<td>97,156,219</td>
</tr>
<tr>
<td>Bond Sinking Funds</td>
<td>46,934,001</td>
</tr>
<tr>
<td>Auxiliary Enterprise Building Repair and Equipment Replacement Reserves</td>
<td>26,787,556</td>
</tr>
<tr>
<td>Total</td>
<td>$303,360,193</td>
</tr>
</tbody>
</table>

First Quarter Highlights
The total Pooled Endowment Fund (Fund) return for the first fiscal quarter ending September 30, 2006, was 3.6 percent, which lagged the policy benchmark return of 4.0 percent. The Fund’s allocation to large-cap equities (BGI Alpha Tilts Fund B) returned 5.6 percent, which lagged its benchmark (S&P 500 Stock Index) return of 5.7 percent. The Fund’s allocation to small/mid-cap equities (Batterymarch) returned –2.0 percent, which lagged its benchmark (Russell 2500 Index) return of 0.5 percent. The Fund’s allocation to foreign equities (Arrowstreet Capital) returned 3.2 percent, which lagged its benchmark (MSCI World Ex US Index) return of 3.8 percent. The Fund’s allocation to fixed income (Western Asset Core Plus Bond Fund) returned 4.6 percent, which out-performed its benchmark (Lehman Aggregate Bond Index) return of 3.8 percent.

Donation, bond building, bond sinking, and repair and replacement reserve funds were invested in the Oregon State Treasury Short-Term Fund and earned 1.3 percent for the quarter.

During the quarter, securities were sold and the proceeds redirected to implement the new asset allocation set forth in Oregon State Treasury Policy 4.10.01 (Investment Policy for the OUS Pooled Endowment Fund) that was approved by the Oregon Investment Council (OIC) on December 7, 2005. The results of the transactions were as follows:

<table>
<thead>
<tr>
<th>Security</th>
<th>Asset Class</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sold BGI Alpha Tilts Fund B</td>
<td>Large Cap Equity</td>
<td>$ –11,000,000</td>
</tr>
<tr>
<td>Purchased Arrowstreet Capital</td>
<td>International Equity</td>
<td>11,000,000</td>
</tr>
<tr>
<td>Sold Batterymarch</td>
<td>Small/Mid Cap Equity</td>
<td>–2,000,000</td>
</tr>
<tr>
<td>Security</td>
<td>Asset Class</td>
<td>Amount</td>
</tr>
<tr>
<td>----------------------------------------------</td>
<td>-------------</td>
<td>----------</td>
</tr>
<tr>
<td>Transferred from Cash</td>
<td>Cash</td>
<td>-3,000,000</td>
</tr>
<tr>
<td>Purchased Western Asset Core Plus Bond Fund</td>
<td>Fixed Income</td>
<td>5,000,000</td>
</tr>
</tbody>
</table>

**Staff Recommendation to the Committee:**
Staff recommended the Committee accept the Investment Report as of September 30, 2006.

**COMMITTEE DISCUSSION AND ACTION:**

Controller Mike Green summarized the funds are invested as follows: approximately $75 million endowment funds that are both pooled and separately invested; donation funds, basically gift funds from donors, of about $58 million; bond building funds, bond proceeds from building projects, at about $97 million; bond sinking funds set aside for debt service, at $47 million; and, auxiliary enterprise building and repair, and equipment replacement reserves of about $27 million, which are funds set aside by auxiliaries to repair buildings and replace equipment, for a total of $303 million.

The total pooled endowment fund returned 3.6 percent, which lagged its benchmark return of 4 percent. This resulted because three out of four of the investment allocations underperformed in their related benchmarks. The allocation to large cap equities returned 5.6 percent compared to 5.7 percent for its benchmark. Allocations of the small- and mid-cap equities returned a negative 2 percent compared to 0.5 percent for its benchmark. The allocation to foreign equities returned 3.2 percent compared to 3.8 percent for its benchmark. The allocation of fixed income returned 4.6 percent compared to 3.8 percent for its benchmark.

Mr. Green pointed out that this particular quarter “is the first time that I can recall that the stars are aligned perfectly, where three out of four of our allocations under-performed their benchmark. This is unusual. However, if you look at the one-year, three-year, and five-year averages, you are going to see returns that beat the benchmark,” he explained.

Mike Mueller from the State Treasury Department added that, “If you are an index fund, actually you don’t want to see any deviation from that benchmark. To get excess returns, you have to take some risk in the portfolio and this portfolio does that. It was a relatively poor quarter; I’ll admit that. They try to find managers that beat their benchmark more than half of the time. In fact, this manager has outperformed on a quarterly basis about 55 percent of the time. I would just caution the Board, whether you are a personal investor, or you are running a pension fund or an endowment fund, look at the long-term.

“If you just look at this three-month period, you don’t get the whole picture. So I think that we at the Treasury are comfortable with the portfolio. It was restructured in August, not in terms of the underlying managers, but in an asset allocation space. That will take some time to work itself out,” he concluded.
Mr. Green pointed out that there were significant transactions in the fund this quarter to implement the new asset allocation that the OIC approved in December.

Director von Schlegell moved to accept the Report on Investments. The motion was seconded by Director Lorenzen. Motion passed.

3. **ADJOURNMENT**

With no further business proposed, Director Lorenzen adjourned the meeting at 9:24 a.m.

Henry Lorenzen  
Board President

Ryan J. Hagemann  
Board Secretary