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REGULAR MEETING OF THE
STATE BOARD OF HIGHER EDUCATION

October 21, 1999

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OREGON STATE BOARD OF HIGHER EDUCATION
MINUTES OF REGULAR MEETING
OREGON INSTITUTE OF TECHNOLOGY METRO CENTER
ROOM 178
CLACKAMAS, OREGON

CALL TO ORDER
The meeting of the State Board of Higher Education was called to order at 1:12 p.m. by President Imeson.

ROLL CALL
On roll call, the following answered present:

Dr. Herb Aschkenasy    Mr. Jim Lussier
Mr. Shawn Hempel       Dr. Geri Richmond
Mr. David Koch         Mr. Jim Willis
Ms. Leslie Lehmann     Ms. Phyllis Wustenberg
                       Mr. Tom Imeson

Absent: Mr. Don VanLuvanee (business conflict) and Mr. Bill Williams (out of the country)

MINUTES APPROVED
The Board dispensed with the reading of the September 13, 1999, Board meeting minutes. Mr. Lussier moved and Ms. Wustenberg seconded the motion to approve the minutes as submitted. The following voted in favor: Directors Aschkenasy, Hempel, Koch, Lehmann, Lussier, Richmond, Willis, Wustenberg, and Imeson. Those voting no: none.

Dispensing with the reading of the September 17, 1999, Executive Committee minutes, Mr. Imeson asked Executive Committee members if they had any corrections. Ms. Wustenberg moved and Dr. Aschkenasy seconded the motion to approve the minutes as submitted. Those voting in favor: Directors Aschkenasy, Wustenberg, and Imeson. Those voting no: none.

PRESIDENT’S REPORT
Mr. Imeson highlighted issues discussed at the earlier meeting with representatives from the OIT President’s Advisory Council, saying that he looked forward to future dialogue with that group.

New Board Members
Introducing the newest members of the Board, Shawn Hempel, Leslie Lehmann, and Bill Williams (who was unable to attend), Mr. Imeson said that he was grateful to have a full Board in place again. "Now
we'll be able to conclude some business that's been put off as a result of the delay in Senate confirmations due to the lengthy legislative session," he observed.

Renewal Facilitator

Mr. Imeson introduced Dr. David Nygren, renewal facilitator. "I foresee us beginning to develop further clarity on our priorities for the year, including the specific roles for the Board, the Chancellor, and the presidents on issues of accountability and collaboration versus competition within the new budget and governance models. I also urge that we look at the kinds of things we want to come back to in a year and say that we've completed what we started at this meeting," Mr. Imeson shared.

CHANCELLOR'S REPORT

E-Board Funds

Chancellor Cox stated that the Emergency Board recently released $5 million to further support Engineering and Computer Science expansion.

Enrollment Growth

The Chancellor noted what appeared to be strong, Systemwide enrollment growth of four percent or more, although exact figures had not been calculated. OSU seemed to be experiencing the most growth, which was considered very good news following a decade of fluctuating enrollments.

New Partnerships

Highlighting recent negotiations between SOU and Rogue Community College pertaining to a jointly-leased or possibly jointly-purchased facility in Medford, the Chancellor pointed out that entrepreneurialism is being realized in all areas of the state.

Asia-Pacific Conference

Chancellor Cox announced OUS' co-sponsorship of the Asia-Pacific Educational Conference along with Waseda University in Tokyo. The conference was scheduled from October 28-30 in Portland. Attendees include representatives from across the Pacific Rim. Strong corporate support from Oregon companies was instrumental, he said, in ensuring the success of the event.

SMILE and MESA Programs

One campus program that works with minority youth, SMILE (coordinated by OSU), was recently singled out by President Clinton for special commendation, reported the Chancellor. He also complimented the MESA program at PSU. Both programs aim to guide minority youngsters toward careers in education, science, and math.
Prior to IFS President John Cooper's report, Chancellor Cox said that staff have been working closely with faculty representatives in researching the possibility of extending the System's educational employee benefits to spouses and dependents. This resulted from a request made by the Association of Oregon Faculties to the Board in December 1998. The Chancellor said that it was recently reviewed by the Administrative and Academic Councils, with a review by Presidents' Council forthcoming.

Concluding his remarks, the Chancellor reported that work related to presidential salaries was not yet completed. A first priority of the presidents, said the Chancellor, was to address the faculty salary issue.

Following is an excerpt of IFS President John Cooper's remarks:

"The Institutional Faculty Senate had its regular meeting on the Eastern Oregon University campus on October 1-2. We were greeted by Provost Bruce Shepard and addressed by Gail McAllister, former OUS Board member. She argued emphatically for the need for the System to continue as a system, pointing to the successful result of the united lobbying of the last legislature. Further, she thought the new budget model was useful in getting the legislature to understand what we were doing and allowing institutions to serve their distinctive missions. Ms. McAllister spoke to the value of performance measures and she suggested they would continue to influence the budget process.

"We then had an interactive video conference with Vice Chancellor Anslow. He summarized the budget for the biennium as applied to the new model, pointing out the speed with which the new model had to be adopted. Mr. Anslow acknowledged that the legislative mandate to serve all qualified undergraduate students is in tension with the costs of graduate programs and graduate research.

"On the subject of faculty salaries, Mr. Anslow shared that in California and Washington, faculty salaries are moving up faster than inflation and faster than Oregon's. Classified salaries in the System are much closer to the market than faculty and administrative salaries."
"Provost Shepard addressed us again to discuss how the new models are being applied at Eastern. Eastern is the leader in the entrepreneurial approach by providing distance education to one-third of its students. Because the established programs produce revenue under the new model, Eastern is setting up an investment fund for new initiative programs.

"On October 2, we had a lengthy discussion of the future relationship of the System to individual campuses. We recognized the new budget model has an inherently centrifugal effect by giving a great deal more budgetary control and responsibility to campuses. In many ways that seems like a positive development. At the same time, it is a unanimous belief and a strongly held belief, that the System needs to remain a system and not just a group of autonomous campuses.

"I was given to understand this issue would be discussed by the Board and I was instructed to convey to you our feelings on the issue. I do so with a statement that I will read." (The statement is on file in the Board's office.)
INVESTMENT OBJECTIVES AND POLICY GUIDELINES

Summary

The Investment Committee reviewed the Investment Objectives and Policy Guidelines for the Oregon State Board of Higher Education Pooled Endowment Fund. The Investment Committee, with the assistance of OUS staff and R.V. Kuhns and Associates, then drafted a revised policy for Board consideration.

Since the Oregon Investment Council (OIC) has ultimate authority over all state investments, any actions by the Board would need to be approved by the OIC, as noted in the following Investment Objectives and Policy Guidelines.

The Investment Committee recommended that the Board approve for recommendation to the OIC the following Investment Objectives and Policy Guidelines for the OUS pooled endowment funds.

Final Draft Version

OREGON STATE BOARD OF HIGHER EDUCATION POOLED ENDOWMENT FUND

Investment Objectives and Policy Guidelines

I. INTRODUCTION

This statement governs the investment of the Pooled Endowment Fund (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, so 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 this 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 distribution per unit (under Exhibit A) is determined by the Board 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 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 which 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 or appear to 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). Under no circumstance shall the principal, as adjusted for inflation, be diminished.

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 investment, exchange and liquidation of the 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 at 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 managers 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 investment 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 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, and (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

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

A. **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. Investment-grade bonds are those bonds rated in the four highest grades assigned by Moody’s Investors Service, Inc. (Aaa, Aa, A, or Baa) or Standard & Poor’s Corporation (AAA, AA, A, or BBB).


Fixed-income managers have full discretion over the allocation between long-term, intermediate, or cash equivalent investments, provided that the duration of any manager’s portfolio shall not exceed the duration of the Lehman Aggregate Bond Index by more than one and one-half (1-1/2) years.

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 ten 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 security issues.

Small-Cap Equity Requirements:
Investments in smaller companies with market capitalization similar to the Russell 2000 index (subject to the small-cap equity limitations of Schedule I). Portfolios should be comprised of at least 30 security issues.
International Equity Requirements:
Investments in the 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 five 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 five 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 ten 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 investment manager selection, shall be the responsibility of the Investment Committee, subject to the necessary approvals of the Board and the OIC.

This Policy shall be reviewed by the Board at least every two years.
**SCHEDULE I**

**ALLOCATION OF ASSETS**

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

Allocation of asset by class:

<table>
<thead>
<tr>
<th>Class</th>
<th>Target Allocation</th>
<th>Ranges</th>
</tr>
</thead>
<tbody>
<tr>
<td>Equity Category</td>
<td>70%</td>
<td>60%-80%</td>
</tr>
<tr>
<td>Fixed Income Category</td>
<td>25%</td>
<td>20%-40%</td>
</tr>
<tr>
<td>Cash</td>
<td>5%</td>
<td>0%-10%</td>
</tr>
<tr>
<td>Alternative Assets</td>
<td>0%</td>
<td>0%-10%</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>
</tr>
</thead>
<tbody>
<tr>
<td>Large-Cap Equity</td>
<td>65%</td>
<td>50%-75%</td>
</tr>
<tr>
<td>Small-Cap Equity</td>
<td>20%</td>
<td>10%-30%</td>
</tr>
<tr>
<td>International Equity</td>
<td>15%</td>
<td>10%-30%</td>
</tr>
</tbody>
</table>
EXHIBIT A

Performance Monitoring Return Expectations

Spending Policy

The distribution rate for the Fund is 5.0 percent of the five-year moving average unit market value.

Total Fund

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

1. Exceed the level of inflation by 5.0 percent or more as measured by the Consumer Price Index (CPI) over a market cycle;

2. 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

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

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

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

U.S. Equities - Small Capitalization

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

1. Equal the return of the Russell 2000 (before fees) over a market cycle;
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 1.0 percent (after fees) over a market cycle; and

2. Rank in the 40th 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; and

2. Rank in the 40th percentile of a nationally recognized universe of fixed income managers possessing a similar style.

Approved by the Investment Committee on October 5, 1999.

Original Version with Changes

Added language in bold; deleted/relocated language in [brackets]

OREGON STATE BOARD [SYSTEM] OF HIGHER EDUCATION POOLED ENDOWMENT FUND

Investment Objectives and Policy Guidelines

I. INTRODUCTION

This statement governs the investment of the Pooled Endowment Fund (the "Fund") of the Oregon State Board of Higher Education (the "Board") of the Oregon University System ("OUS").
[This statement documents for investment managers the policy of the Board with regard to the investment of the Fund's assets, the investment objectives, and the expectations and requirements with respect to the managers' performance.]

This statement is set forth in order that the Board, the Investment Committee, its investment advisor and 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 [THE] FUND

The Oregon University System Pooled Endowment Fund (Fund) is a permanent fund and is expected to operate in perpetuity, so 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 [(with the concurrence of the Oregon Investment Council (OIC))] and to recommend to the OIC broad investment guidelines, selection of investment
managers, and determination or approval of asset allocation. [The investment managers are responsible for optimizing the return on assets within these guidelines.]

[The Board will assure that a procedurally prudent investment process is followed. The elements included in, but not limited to, this process are an asset allocation strategy that addresses risk/reward considerations, a written statement of investment policy, selection of "prudent experts" or money managers charged with implementation of investment decisions, control of the investment expenses, monitoring the performance of investment managers and other service providers, and identifying and avoiding conflicts of interest.]

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 this process, the Board may retain a registered investment advisor/consultant. The duties of this investment advisor/consultant are in Section X.

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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 [current year] distribution per unit (under Exhibit A) is determined by the Board [and is currently 5.5 percent of the five year moving average unit market value] 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 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 which 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 or appear to create a conflict of interest in their unbiased involvement in the investment process.

[IV. FUND MANAGEMENT

Recognizing that investment competence must be measured over a complete market cycle, the Board does not expect to react to short-term investment developments. Nevertheless, the Board may act on interim qualitative judgements. Qualitative factors that will be reviewed on an ongoing basis include any fundamental changes in a manager’s investment philosophy, any changes in a manager’s organizational structure, financial condition (including any significant changes in total assets under management), personnel, and any change, relative to their peers, in the manager’s fee structure.]

[V.] 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 [amount of these assets by exceeding the level of inflation by five percent or more as measured by the Consumer Price Index (CPI)]. The Investment
Committee shall set the goal for maintaining the purchasing power of the principal value of the assets (under Exhibit A). Under no circumstance shall the principal, as adjusted for inflation, be diminished.

[Investment portfolio's performance shall exceed the median fund in a universe of other endowment funds over a complete market cycle. A market cycle is defined as an investment period lasting three to five years.]

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 investment, exchange and liquidation of the 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 at 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
managers 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 investment 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 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, and (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.

[VII. ASSETS GUIDELINES, PERFORMANCE OBJECTIVES, AND DIVERSIFICATION] 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. Investment-grade bonds are those bonds rated in the four highest grades assigned by Moody's Investors Service, Inc. (Aaa, Aa, A, or Baa) or Standard & Poor's Corporation (AAA, AA, A, or BBB).

2. U.S. Treasury Securities shall consist of bills, notes and bonds.


Fixed-income managers have full discretion over the allocation between long-term, intermediate, or cash equivalent investments, provided that the duration of any manager's portfolio shall not exceed the duration of the Lehman Aggregate Bond Index by more than one and one-half (1-1/2) years.
[The performance of fixed income securities shall exceed the performance of the Lehman Aggregate Index by 0.50 percent or more after manager fees on a total return basis and shall also exceed the median in a universe of other fixed income portfolios over a market cycle.]

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 ten 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 security issues.

[Performance of equity securities shall exceed the S&P 500 Index by one percent or more after manager fees and should exceed the median in a universe of other equity portfolios over a market cycle.]

*Small-Cap Equity Requirements:*
Investments in smaller companies with market capitalization [less than one billion dollars shall be permitted] **similar to the Russell 2000 index** (subject to the small-cap equity limitations of [Section VIII.] Schedule I). Portfolios should be comprised of at least 30 security issues. [If such investments are segregated into a separate, smaller company portfolio, the performance of the securities shall exceed the performance of the Russell 2000 Index by one percent or more after manager fees over a market cycle.]

*International Equity Requirements:*
Investments in the equity securities of companies located outside the United States are permitted (subject to the international equity limitations of [Section VIII.] Schedule I). Portfolios should be comprised of at least 30 security issues.
[Performance of non-U.S. international equity portfolios shall exceed the performance of the EAFE (Europe, Australia, and Far East) Index and should exceed the performance of the median in a universe of other actively managed international equity portfolios over a market cycle.]

D. Diversification

1. Not more than five 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 five percent of the total value of the issue, security, or property.

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

XII. OTHER INVESTMENTS

The Board and the Investment Committee recognize[s] that the addition of other investment classes may reduce total fund volatility. [It is the intent of] The Board and the Investment Committee may, with the concurrence of the OIC, place up to ten 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.

[X.] XIII. OTHER GUIDELINES AND REQUIREMENTS

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

[XI. INVESTOR RESPONSIBILITY

The Board is to meet as often as necessary with the investment managers. The frequency of meetings is to be determined in part by the performance evaluation results compared to predetermined objectives and manager characteristics. The Board is to meet with each manager at least once a year.]
[XII. INVESTMENT MANAGERS

The Board, with the concurrence of the OIC, allocates funds to individual managers and from time to time may withdraw funds or reallocate funds between managers. Each manager’s performance is to be compared regularly with the performance of the appropriate market indices and with other universe portfolios managed with similar assets in a similar manner. As a general guideline that applies to all assets managed, transactions are to be entered into on the basis of “best execution,” which means best realized price.

Subject to the terms and conditions of this Policy, manager(s) shall have full discretionary authority to direct investments, exchange, and liquidate the assets of the Fund. The Board expects that the investment manager(s) will recommend changes to this policy when the manager(s) view any part of this Policy to be at variance with overall market and economic conditions. The Board shall direct all managers to vote proxies in the interest of the Fund.]

XIV. CONCLUSION

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

This Policy shall be reviewed by the Board at least every two years.
SCHEDULE I
[VIII.] ALLOCATION OF ASSETS

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

Allocation of asset by class:

<table>
<thead>
<tr>
<th>Class</th>
<th>Target Allocation</th>
<th>Ranges</th>
</tr>
</thead>
<tbody>
<tr>
<td>Equity Category</td>
<td>70%</td>
<td>60%-80%</td>
</tr>
<tr>
<td>Fixed Income Category</td>
<td>25%</td>
<td>20%-40%</td>
</tr>
<tr>
<td>Cash</td>
<td>5%</td>
<td>0%-10%</td>
</tr>
<tr>
<td>Alternative Assets</td>
<td>0%</td>
<td>0%-10%</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>
</tr>
</thead>
<tbody>
<tr>
<td>Large-Cap Equity</td>
<td>65%</td>
<td>50%-75%</td>
</tr>
<tr>
<td>Small-Cap Equity</td>
<td>20%</td>
<td>10%-30%</td>
</tr>
<tr>
<td>International Equity</td>
<td>15%</td>
<td>10%-30%</td>
</tr>
</tbody>
</table>
EXHIBIT A

Performance Monitoring Return Expectations

Spending Policy

The distribution rate for the Fund is 5.0 percent of the five year moving average unit market value.

Total Fund

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

1. Exceed the level of inflation by 5.0 percent or more as measured by the Consumer Price Index (CPI) over a market cycle;

2. 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

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

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

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

U.S. Equities - Small Capitalization

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

1. Equal the return of the Russell 2000 (before fees) over a market cycle;
International Equities

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

1. Exceed the Return of the EAFE Index by 1.0 percent (after fees) over a market cycle; and

2. Rank in the 40th 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; and

2. Rank in the 40th percentile of a nationally recognized universe of fixed income managers possessing a similar style;

Approved by the Investment Committee on October 5, 1999.

Recommendation to the Board

The Investment Committee recommended that the revised policy be approved as submitted.

Board Discussion and Action

Mr. Koch questioned the motivation for reinstating the policy. Mr. Willis responded that the Committee felt the old policy needed revision, and the role of the Investment Committee required definition.

Mr. Lussier asked to confirm that if the Investment Committee were abolished, the Board would be able to act on all matters without a major policy revision. OUS Controller Mike Green indicated that was correct.
President Imeson explained that staff would modify the corresponding Internal Management Directives (IMDs) and submit recommendations to the Board at a later date.

Dr. Richmond moved and Mr. Willis seconded the motion to approve the revised investment policy as submitted. The following voted in favor: Directors Aschkenasy, Hempel, Koch, Lehmann, Lussier, Richmond, Willis, Wustenberg, and Imeson. Those voting no: none.
AMENDMENT
OF OAR
580-010-0086,
ENROLLMENT
OF SPOUSE
AND
DEPENDENT
CHILDREN

Staff Report to the Board

On December 9, 1998, the Oregon Court of Appeals ruled, in Tanner v. OHSU, that the denial of benefits to domestic partners of homosexual employees, when those same benefits were available to married employees, violated Article I, Section 20, of the Oregon Constitution. At its April 16, 1999, executive session, the Board received legal advice and conferred with legal counsel regarding the effect of Tanner v. OHSU.

The original language of OAR 580-010-0086 allowed that spouses and dependent children of OUS staff members could enroll as students at OUS institutions at resident fee rates. Since this rule did not provide the same benefits to unmarried domestic partners of homosexual employees as was available to married employees, the rule was deemed inconsistent with the requirements of the Oregon constitution. At the June 18, 1999, meeting of the Board, OAR 580-010-0086 was revised to include temporary language that would bring the rule into conformity with Oregon law. Since that time, further rulemaking procedures were undertaken so that a permanent rule would be in place prior to the expiration of the temporary rule. A public hearing will be conducted on October 19, 1999, in order to receive public comment on the proposed rule change. Additionally, criteria defining "same sex domestic partnership" have been developed and a process established by which individuals may qualify for benefits offered under this rule.

The summary of public comment offered on the proposed rule change was made available at the October 21, 1999, meeting of the Board.

It is more difficult to document the existence of a same sex domestic partnership than it is to document a marriage. Hence, organizations offering benefits to domestic partners have relied on the development of criteria that seek to systematically define what such a relationship is. In the quest to identify criteria that would define domestic partnerships for OUS' purposes, staff researched similar criteria published in other states, as well as the criteria used in defining domestic partnership, for the purposes of receiving health benefits, per the Oregon Public Employees' Benefits Board. The utilization of such criteria offers assurances to both the Oregon University System and its employees that the benefits are offered only to eligible individuals, and that such benefits are distributed in a fair and
equitable manner. Based on staff research and consultation, the criteria to be utilized by OUS in defining a same sex domestic partnership, for the purposes of OAR 580-010-0086, follow.

**Individuals claiming a same sex domestic partnership must affirm that:**

(1) Each are of the same sex and are 18 years of age or older; and

(2) They share a close personal relationship and consider themselves responsible for each other's welfare; and

(3) They are currently each other's sole domestic partner and that neither has had another domestic partner within the preceding six months; and

(4) Neither one is married to another partner nor are they related by blood closer than would bar marriage in the State of Oregon; and

(5) They have jointly shared the same regular and permanent residence for at least six months and have plans to continue this arrangement on an indefinite basis; and

(6) They are jointly financially responsible for basic living expenses defined as the cost of food, shelter, and any other costs associated with the maintenance of a household. (Domestic partners do not necessarily have to share household expenses equally, as long as they agree that both are jointly responsible.)

The process to be followed to receive benefits under the rule follows.

To claim resident tuition rate benefits under this rule, the OUS staff member and his/her same sex domestic partner must complete and sign an "affidavit of domestic partnership" (currently under development, to be available at campus business, registrar, admission, and/or other offices designated by the institution) which is based on the criteria stated above, and submit the affidavit to the designated office of the OUS institution where the domestic partner is enrolled. Resident tuition rates for same sex domestic partners under this rule cannot be offered without a completed and signed affidavit. Supporting documents will not routinely be collected in support of the affidavit. Should questions or challenges to the
existence of a valid domestic partnership arise, however, documentary proof to support the claim to domestic partnership would be required. Examples of acceptable documentary evidence include, but are not limited to, the following:

- Joint mortgage, lease, utility bills, phone listing, or other documents that would conclusively establish residency at the same address;
- Designation of the domestic partner as primary beneficiary for a life insurance policy or a retirement contract;
- Designation of the domestic partner as the primary beneficiary in the OUS staff member's will;
- Durable power of attorney for health care or financial management;
- Joint ownership of a motor vehicle, a joint checking account, or a joint credit account;
- A relationship or cohabitation contract which obligates each of the partners to provide support for the other.

Recommendation to the Board

Staff recommended the Board amend OAR 580-010-0086, Enrollment of Spouse and Dependent Children, as a permanent rule, as follows (new language in bold text):

580-010-0086(1) The spouse and dependent children of regular Department staff members with a full-time equivalent of at least .50 may enroll as students at resident fee rates in Department institutions. Effective January 1, 1999, for purposes of this rule, “spouse” includes the same sex domestic partner of an employee. The Chancellor or designee shall establish criteria to determine domestic partner eligibility.
(2) The spouse and dependent children of Department visiting instructors from other countries or other states with a full-time equivalent of at least .50 may enroll in Department institutions at resident fee rates during the terms that the parent, guardian, or spouse is serving a Department institution as a visiting instructor.

Board Discussion and Action

OUS Director of Legal Services Ben Rawlins reviewed the reasoning for the amendment to the rule and the criteria developed to address same sex domestic partner cases.

Mr. Koch asked if staff had looked into the criteria recently approved by the Ashland City Council recognizing domestic partnership. Mr. Rawlins responded that research included a review of that particular case, as well as seeking reactions from affected groups. He added that at the October 19 public hearing on the rule amendment, two persons appeared and endorsed the new language.

Asking if any lawsuits or challenges to the policy had been raised by heterosexual domestic partners, Mr. Koch said that should probably be something the Board remains mindful of. Mr. Rawlins explained that the dictates of Tanner v. OHSU pertain only to same sex partners, but that future discussions will likely occur. Continuing, Mr. Rawlins said, "Staff have been looking into the issue. Given the economic impact, administrative plans would need to be made in an orderly manner if the Board determined it wanted to pursue extending those benefits."

President Imeson reminded Board members that they were not making policy by amending the rule, but rather following a policy decision made by the Oregon Supreme Court. He reiterated that the criteria established would make it difficult for people to take advantage of the benefits.

Mr. Willis moved and Mr. Koch seconded the motion to approve the rule amendment as submitted. On roll call vote, the following voted in favor: Directors Aschkenasy, Hempel, Koch, Lehmann, Lussier, Richmond, Willis, Wustenberg, and Imeson. Those voting no: none.
Staff Report to the Board

Portland State University requested authorization to award an honorary doctorate to General Colin L. Powell when he visits PSU in November 1999.*

General Powell was born to immigrant Jamaican parents in Harlem. He was educated in the New York City public school system and graduated from the City College of New York with a bachelor's degree in geology. He also participated in ROTC and received a commission as an Army second lieutenant upon graduation from college. His further academic achievements include an MBA degree from George Washington University.

General Powell was a professional soldier for 35 years, during which time he held myriad command and staff positions. His latest assignment was as the 12th Chairman of the Joint Chiefs of Staff, the highest military position in the Department of Defense. During that time, he oversaw 28 crises including Operation Desert Storm in the victorious 1991 Persian Gulf War. General Powell currently serves as chairman of America's Promise — The Alliance for Youth, a national crusade to improve the lives of our country's young people. Established at the President's Summit for America's Future in April 1997, America's Promise aims to ensure that all children in the United States have access to the fundamental resources needed to build and strengthen them to become responsible, productive citizens. General Powell is a member of the board of trustees of Howard University and a member of the board of directors of the United Negro College Fund. General Powell also serves on the board of governors of the Boys and Girls Clubs of America and is a member of the advisory board of the Children's Health Fund.

Besides numerous U.S. military awards and decorations, General Powell has received many civilian awards, including two Presidential Awards of Freedom, the Congressional Gold Medal, and others. In addition, he is the recipient of an honorary knighthood bestowed by H.M. Queen Elizabeth II of Great Britain.

Staff Recommendation to the Board

Staff recommended Board authorization to Portland State University to award an honorary doctorate to General Colin L. Powell at a special event in November 1999.
Board Discussion and Action

Dr. Aschkenasy moved and Ms. Wustenberg seconded the motion to grant the honorary doctorate as submitted. The following voted in favor: Directors Aschkenasy, Hempel, Koch, Lehmann, Lussier, Richmond, Willis, Wustenberg, and Imeson. Those voting no: none.

* The Board of Higher Education permits institutions, with the concurrence of their faculties, to award honorary degrees. Each institution wishing to award honorary degrees must adopt criteria and procedures for selection that will ensure the award honors distinguished achievement and outstanding contributions to the institution, state, or society. Criteria and procedures for selection must be forwarded to the Chancellor or designee for approval and, when approved, filed with the Secretary of the Board. Institutions are required to forward their recommendations for honorary degrees for the Board's approval 90 days before the award date.

CONFIRMATION OF INSTITUTIONAL DEGREE LISTS

Staff Report to the Board

In accordance with Board regulations, the following members represented the Board in approving candidates for degrees and diplomas for the graduating classes at the designated institutions during the 1998-99 academic year and summer session:

Eastern Oregon University
Diane Christopher

Oregon Health Sciences University
Tom Imeson

Oregon Institute of Technology
Jim Lussier

Oregon State University
Phyllis Wustenberg

Portland State University
Don VanLuvanee

Southern Oregon University
Gail McAllister
Staff Recommendation to the Board

Staff recommended that the Board confirm the actions of Board members in approving degrees and diplomas.

Board Discussion and Action

Mr. Lussier moved and Mr. Willis seconded the motion to approve the degree confirmations as submitted. The following voted in favor: Directors Aschkenasy, Hempel, Koch, Lehmann, Lussier, Richmond, Willis, Wustenberg, and Imeson. Those voting no: none.

Background

In 1997, Oregon legislation (SB 487) increased educational requirements for certified public accountants (CPAs) from 180 quarter hours to 225 quarter hours. This change, which will go into effect January 2000, is aligned with statutory changes in 40 other states and will make it easier for Oregon CPAs to practice in other jurisdictions.

The increased educational requirement essentially constitutes a fifth year of preparation, which may be performed at the postbaccalaureate or master's level. When this statutory change was being considered by the legislature, OUS faculty in business and accounting carefully studied how best to respond. Three OUS institutions (OSU, PSU, and UO) have developed programs responsive to the legislation. The University of Oregon's re-established Master of Accounting has been approved by the Board and will be implemented in fall 1999. Portland State University's M.S. in Financial Analysis is undergoing an external review, after which it will be presented to the Board for final approval. OSU's proposed
program, which will be implemented in fall 2000, is described below. Although all three programs have been developed concurrently, each has a slightly different emphasis, providing a broader set of choices for Oregon students.

**Staff Report to the Board**

Oregon State University requested Board authorization to establish the Master of Business Information Systems (MBIS), with an option in financial systems and analysis. This program targets students with undergraduate degrees in business, specifically those with options in accounting and finance. The program recognizes that, in addition to accounting skills, accountants must understand information systems and possess the ability to perform more complex analyses. This fifth-year graduate degree meets the learning objectives outlined by the Oregon Society of CPAs, as well as fulfilling the educational requirements to be a licensed CPA.

The MBIS has two objectives, the first of which is to provide an advanced education that prepares undergraduate degree holders for careers in accounting, finance, and information systems management. The second objective is to provide an advanced education that enhances the abilities of people already employed in those professions.

Competencies expected, and coursework leading to those competencies, are highly structured and cover such areas as cost management; auditing; budgeting, forecasting, and business planning; taxation, including corporate taxation; valuation methods; risk management; mergers and acquisitions; financial and accounting information systems; data telecommunications and networks; and human and ethical issues. The curriculum has been designed with close assistance from the Management Information Systems Advisory Council and the Accounting Advisory Council in OSU’s College of Business. The members of both councils represent industries that hire such graduates.

The program will require the development of 12 new graduate courses. With the addition of three new faculty members and 1.0 FTE support staff, resources will be sufficient to offer this program. Funding will come from monies accruing to the University from students enrolled in the MBIS program.
The enrollment target is 45 new students annually. The program is designed to primarily meet the needs of business baccalaureate graduates, particularly those with accounting, finance, or information systems emphases. The MBIS will secondarily be available to non-business majors, depending on the applicant's qualifications and the program's space availability. Because the program is designed to satisfy the educational requirements of accounting majors, accounting-degree holders will have priority for 20 of the 45 positions in the MBIS program.

Employment prospects are bright for graduates of this program. Increasingly, accounting and finance professionals are expected to possess the skills and abilities to serve as business advisors and business partners, providing a high level of business analysis and decision support. The proposed program will provide just such preparation.

All appropriate University committees and the Academic Council have positively reviewed the proposed program. The external review team stated that it "is impressed with the program concept, curriculum design, and opportunities for success." The team concurred with OSU's assessment of the direction in which accounting and information technology has been evolving, and the team also concurred that there are strong employment prospects for graduates of this program.

Staff Recommendation to the Board

Staff recommended that the Board authorize Oregon State University to establish a program leading to the Master in Business Information Systems. The program would be effective fall 2000, and the OUS Office of Academic Affairs would conduct a follow-up review in the 2005-06 academic year.

Board Discussion and Action

Mr. Lussier moved and Mr. Willis seconded the motion authorize the program proposal as submitted. The following voted in favor: Directors Aschkenasy, Hempel, Koch, Lehmann, Lussier, Richmond, Willis, Wustenberg, and Imeson. Those voting no: none.
Staff Report to the Board

The University of Oregon proposed to offer the M.S. degree in Applied Physics, effective fall term 1999. It is designed to serve physics students whose primary interest is applied research and development, rather than basic research. Students with the latter interest may continue to choose the M.S. in Physics for which UO has authorization. This Applied Physics degree will serve as a professional credential that will help graduates obtain jobs in the high-technology industry. In consultation with industry representatives, UO will establish areas of concentration (e.g., optics/electronics or computational focus) so that graduates will have an area of specialized knowledge, thus enhancing their attraction to potential industry employers.

This program requires successful completion of 45 graduate credits. A research practicum or thesis will be required in the student's chosen area of specialization. The practicum may be fulfilled by one of three means: (1) participation in an industrial internship program, (2) development of a new project in the teaching lab, or (3) a research thesis in the UO lab. In the internship or teaching lab option, students will be required to write a high-quality technical report for, and verbally present it to, an applied physics oversight committee. The thesis option will be conventional. In addition to the 9 credits of research practicum, degree requirements include 12 core credits in device physics, 8 core credits in design of experiments, and 16 credits of approved relevant electives. The new courses in this proposal are, in reality, applied revisions of existing courses.

It is anticipated that this program will attract 12 to 15 students per year. Employment prospects for graduates of traditional physics programs have changed during the past decade. State and federal budgetary restrictions, coupled with increased international economic competition, have resulted in fewer research and academic job opportunities. To be viable in the current and projected job market, scientists must have broader training; consequently, communication skills will be emphasized in this program. The required writing portion of the practicum is a technical exposition describing the practicum components, and the expected standard will be the same as that required for publication in a technical journal.
This program is a response to recent widespread criticism leveled at Ph.D. programs, asserting that such programs train students too narrowly and inadequately for careers in the private sector. Students graduating from this program will be prepared in technology-based fields for which existing doctoral degrees do not provide sufficient training. This program, and the OSU program in Applied Physics authorized by the Board in February 1999, is directly responsive to the Associated Oregon Industries' request that OUS produce greater numbers of graduates for this state's high-technology industry.

With faculty in optical science, materials science, solid-state physics, biophysics, high-energy physics, and astrophysics, UO has the versatility and expertise to provide guidance in areas of industry needs. UO also has instructional laboratories and a wide array of state-of-the-art instrumentation to support this program. Additional faculty, facility, and equipment resource needs will be met through internal reallocation in the Physics Department.

All appropriate University committees and the Academic Council have positively reviewed the proposed program. The requirement for an external review was waived because the proposed Applied Physics major does not represent a significant new graduate major.

**Staff Recommendation to the Board**

Staff recommended that the Board authorize the University of Oregon to establish a program leading to the M.S. degree in Applied Physics. The program would be effective fall term 1999, and the OUS Office of Academic Affairs would conduct a follow-up review in the 2005-06 academic year.

**Board Discussion and Action**

Dr. Aschkenasy asked for clarification on the statement made referring to widespread criticism being leveled on limited Ph.D. programs. "Does it mean that you're going to train fewer Ph.D.s in Physics in the future?" he continued.

UO Provost Moseley responded that it really depended on student demand. "The purpose of this new applied degree is to provide a vehicle for students who are not interested in the more academic Ph.D., but are more inclined to a securing strong applied physics
background that is appropriate for industry," Dr. Moseley explained. "We see this as a good opportunity for a significant number of students," he concluded.

Mr. Lussier moved and Mr. Willis seconded the motion authorize the program proposal as submitted. The following voted in favor: Directors Aschkenasy, Hempel, Koch, Lehmann, Lussier, Richmond, Willis, Wustenberg, and Imeson. Those voting no: none.

TWO NEW U.S. DEPARTMENT OF EDUCATION GRANTS

Introduction

Recently, the Chancellor's Office was notified by the U.S. Department of Education of the award of two three-year grants: one totaling $4.8 million, the other, $1.4 million. Both grants will further the work of the Oregon University System and its partnerships with other institutions, educational sectors, government agencies, and private enterprise. The larger grant, which Oregon submitted to the Title II Teacher Quality Enhancement Program, is a state grant involving the Governor's Office, the Teacher Standards and Practices Commission (TSPC), the Oregon University System, and numerous other educational partners. The other grant was submitted to the Learning Anywhere Anytime Program (LAAP), whose objective is to provide innovation to distance education and broaden student access to education. Dr. Holly Zanville, Associate Vice Chancellor for Academic Affairs, serves as principal investigator on both grants. Each grant is described in more detail below.

Title II Grant: Oregon Quality Assurance in Teaching Program (O-QAT)

Oregon was one of 24 states (out of 41 that applied) to receive funding for this Title II grant. In spring 1999, a statewide planning committee for O-QAT developed eight goals related to improving teacher licensure preparation and workforce in Oregon. These goals were developed out of the need to align teacher licensure requirements with Oregon's K-12 standards-based school reform plan and to ensure high-quality teacher preparation. The five project objectives are:

- to develop methods to hold institutions accountable for high-quality teacher education;
• to implement redesigned initial licensure programs;

• to assist institutions with developing and implementing components of the redesigned continuing license and professional development programs;

• to expand the state’s capacity to address critical teacher shortage areas, particularly through new recruitment strategies and nontraditional teacher preparation programs; and

• to improve state-level planning and policy development relating to teacher quality.

O-QAT will strive to achieve six key outcomes:

1. Oregon’s capacity to hold 16 institutions (6 public and 10 independent) accountable for high-quality teacher preparation will be enhanced by completion of Institutional Report Cards on new teacher candidates, and a State Report Card, as required by federal legislation.

2. Six thousand teacher candidates completing approved preparation programs leading to the initial licence between 1999 and 2002 (and beyond) will be well-prepared to assume responsibilities as beginning teachers in standards-based classrooms.

3. Performance-based measures for the new continuing license will be developed and pilot tested with several hundred teachers, and will be implemented collaboratively by O-QAT partners.

4. Several model continuing license programs will be implemented by higher education institutions throughout Oregon and widely available to current teachers.

5. Oregon’s capacity to address critical teacher shortage areas by 2002 (and in the future) will be enhanced by serving more diverse target populations via new alternative pathway programs.
6. Interagency studies and policy development in teacher quality will be enhanced, leading to more effective statewide planning after the grant.

O-QAT will be advised by an interagency team reporting to the Joint Boards of Education and TSPC. Members will include representatives from the Governor's Office, TSPC, Oregon Department of Education, Office of Community College Services, Oregon Education Association, Proficiency-based Admission Standards System project, and the Teaching Research Division at Western Oregon University. The deans and directors of Oregon's Schools and Colleges of Education, both public and independent, will play a major role in implementing O-QAT initiatives and monitoring progress in meeting O-QAT goals and objectives.

**LAAP Grant: Second-Generation University System Distance Education Model via Public/Private Partnerships**

The LAAP grant generated large-scale interest nationwide. More than 650 preliminary proposals were submitted; 122 were invited to the final round. OUS is one of only 29 selected for an award.

For nearly a decade, OUS has delivered degree programs via ED-NET. With the state's distance education network changing and student demand increasing for asynchronous education delivery, OUS must transition from first- to second-generation distance education practices, providing "anywhere/anytime" access to courses, programs, and services. This three-year grant will help make that goal a reality.

There are four major project activities:

- A statewide committee will develop OUS guidelines for second-generation distance education, covering academic, technical, and service standards, as well as identifying responsibilities of the System, institutions, and programs. All eight Oregon public universities will participate in this committee.

- About 100 courses, core to 14 distance education programs in six fields (nursing, agriculture, arts and sciences, business/information management, human services, and
teacher education), will be redesigned for second-generation
distance education modes. Each program will use the OUS
guidelines and a variety of outsourcing services (e.g.,
eCollege.com, Blackboard).

- Partnering with the Oregon Network for Education (ONE) effort
  funded by yet another federal grant to develop a "virtual
  university," staff will identify and develop System-level
  services to better serve institutions’ redesigned distance
  education courses and programs.

- An in-depth, external evaluation will be conducted by the
  National Center for Higher Education Management Service
  (NCHEMS). A key component of the evaluation will be
  assessment of the feasibility and cost-effectiveness of
  universities partnering with commercial providers to design
  and deliver second-generation distance education.

Board Discussion

Following a review of the grant awards by Vice Chancellor Clark, Dr.
Richmond inquired about monies moving to campuses versus being
used for administration and planning. Dr. Clark responded that most
funds would move to campuses, in the form of support for faculty,
who, on an overload basis, will be given work in redeveloping courses
and establishing standards for distance education.

Summary

The President of Oregon Institute of Technology reported her
decision to rename one of OIT’s academic classroom buildings, South
Hall, after the late State Senator Harry Boivin, in recognition of the
important role he played in OIT’s history. OIT plans a dedication
ceremony for the spring of 2000.

Staff Report to the Board

OAR 580-050-0025 sets forth the policies concerning naming of
campus facilities. No building may be named for a living person
unless the Board makes an exception in accordance with the
provisions of the OAR. In all other circumstances, a campus president
is authorized to name buildings and structures.
In concert with this OAR, President Martha Anne Dow announced her decision to rename South Hall, an academic classroom building at OIT, for the late State Senator Harry Boivin who passed away March 15, 1999, at age 95.

Senator Boivin was trained as an attorney in Oregon. In 1935, he was elected State Representative from Klamath Falls, and subsequently became the youngest Speaker of the House in Oregon history. During World War II, he left the legislature, returning in the 1950s as a member of the Senate. Elected President of the Senate, he was instrumental in securing legislative support and funding to locate the OIT campus in Klamath Falls.

In recognition of Senator Boivin's many contributions, the State Board of Higher Education conferred an honorary doctorate degree to him in June 1992. He received OIT's Greatest Service Award twice, in 1960 and again in 1995. To honor his memory, OIT will hold a renaming dedication ceremony in spring of 2000.

Board Discussion

OIT President Dow shared her memories of Mr. Boivin since assuming the presidency in May 1998. "I spent at least four hours a week in dialogue with him. This was an incredible experience for me," said Dr. Dow.

On a related subject, Chancellor Cox shared that on October 24, a dedication and building naming at OSU was planned for the late John Owen, former dean of Engineering at OSU and vice chancellor of the Oregon Center for Advanced Technology Education (OCATE).

ANNUAL REPORT ON INVESTMENTS

Report to the Board

A comprehensive report on the Oregon University System's entire investment portfolio, consisting of endowment funds (both pooled and separately invested), donation funds, and plant funds, was incorporated in the System's Investment Report, which was included with the supplemental materials (on file in the Board's office).

The annual report on the System's pooled endowment funds is presented in two parts: (1) a brief narrative that delineates the annual performance results of our investments, and (2) a table comparing
investment performances for fiscal year ending June 30, 1999, to prior periods and to related benchmarks.

The June 30, 1999, market value and asset allocation of the System’s pooled endowment fund investments are summarized as follows:

**Pooled Endowment Fund Investments**

<table>
<thead>
<tr>
<th>Fund Title</th>
<th>Market Value 06/30/99</th>
<th>% of Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Barclays Global Investors Alpha Tilts Fund B</td>
<td>$28,797,319</td>
<td>46.3%</td>
</tr>
<tr>
<td>Barclays Global Investors Russell 2000 Index Fund B</td>
<td>8,600,929</td>
<td>13.8%</td>
</tr>
<tr>
<td>T. Rowe Price Foreign Equity</td>
<td>6,276,962</td>
<td>10.1%</td>
</tr>
<tr>
<td>The Commonfund Multi-Strategy Bond Fund</td>
<td>12,790,469</td>
<td>20.5%</td>
</tr>
<tr>
<td>The Commonfund Real Estate Investment Trust</td>
<td>1,482,050</td>
<td>2.4%</td>
</tr>
<tr>
<td>The Commonfund Endowment Energy Partners</td>
<td>33,410</td>
<td>0.1%</td>
</tr>
<tr>
<td>The Commonfund Endowment Partners Fund</td>
<td>204,537</td>
<td>0.3%</td>
</tr>
<tr>
<td>The Commonfund Endowment Venture Partners</td>
<td>391,556</td>
<td>0.6%</td>
</tr>
<tr>
<td><strong>TOTAL Investments</strong></td>
<td><strong>$58,577,232</strong></td>
<td><strong>94.1%</strong></td>
</tr>
<tr>
<td>Cash Invested in State Treasury’s Short Term Investment Pool</td>
<td>$ 3,682,080</td>
<td>5.9%</td>
</tr>
<tr>
<td><strong>TOTAL Pooled Endowment Funds</strong></td>
<td><strong>$62,259,312</strong></td>
<td><strong>100.0%</strong></td>
</tr>
</tbody>
</table>

**Summary**

**Equity:**

*Commonfund Multi-Strategy Equity Fund, sold on December 31, 1998 at a fair value of $38,264,388. The CF Multi-Strategy Equity Fund returned 1.9 percent for the period of July through December, 1998, compared with 9.3 percent for the S&P 500 Index. Large U.S. companies with strong earnings comprised the most secure asset class during this period, and drove the performance of the S&P 500.*
The Multi-Strategy Equity Fund is highly diversified over all asset classes. Its diversification into small cap and international investments caused the fund to severely lag the S&P 500.

Following approval by the Board and the Oregon Investment Council (OIC), the Commonfund Multi-Strategy Equity Fund was sold on December 31, 1998, and the proceeds were invested with new managers during January and February 1999. The proceeds were allocated as follows: 65 percent to Barclays Global Investors, Alpha Tilts Fund; 20 percent to Barclays Global Investors, Russell 2000 Index Fund; and 15 percent to the T. Rowe Price International Mutual Fund.

Barclays Global Investors (BGI) Alpha Tilts Fund B (6/30/99 market value $28.8 million, 46.3 percent of total). BGI's Alpha Tilts Fund B is a large-cap enhanced index fund that is designed to achieve above S&P 500 returns. Risks and costs are controlled by applying the infrastructure of index fund management to the goals of active management.

The Alpha Tilts portfolio returned 11.9 percent for the period of January through June 1999, while the S&P 500 Index returned 12.3 percent for the same period. The Alpha Tilts Fund utilizes tight risk controls that will primarily produce returns in line with the S&P 500. The Fund just slightly underperformed for the six-month period.


The Russell 2000 Index Fund B had a return of 8.6 percent for the six months ending June 30, 1999. This was below the Russell 2000 index return of 9.3 percent for the same period. An index fund should perform in line with the benchmark that it tries to replicate; however, investment management fees will drive the performance slightly lower. While fees account for a small portion of BGI’s underperformance, it is primarily due to the timing of our purchase in January and the manager’s inability to exactly track the index. Manager’s can have difficulties exactly replicating the performance of such a large index as the Russell 2000.
T. Rowe Price Foreign Equity (6/30/99 market value $6.3 million, 10.1 percent of total). The Foreign Equity Fund is an international mutual fund that is comprised of stocks from Europe, Pacific Basin (Australia, China, Hong Kong, India, Japan, New Zealand, Singapore, South Korea, and Taiwan), and the Americas (Argentina, Brazil, Canada, Chile, Mexico, and the United States).

The Foreign Equity Fund returned 5.5 percent and outperformed the MSCI EAFE Index return of 4.1 percent for the six-month period ending June 30, 1999. T. Rowe Price outperformed the EAFE Index during the six-month period due primarily to stock selection. They also have added value through a 5.0 percent allocation to Latin American countries. The economies of these underdeveloped countries rebounded dramatically in the first half of 1999.

Fixed Income:

Commonfund Multi-Strategy Bond Fund (6/30/99 market value $12.8 million, 20.5 percent of total). The Multi-Strategy Bond Fund is a "Fund of Funds," which means that it is a fund made up of allocations to other fixed income funds of the Commonfund. These funds include the High Quality Bond Fund, The Global Bond Fund and the International Bond Fund.

For the fiscal year, the fund gained 2.2 percent, while the Lehman Aggregate Index advanced 3.1 percent. The Multi-Strategy Bond Fund invests 27 percent of the portfolio in corporate bonds compared to the Lehman Aggregate allocation of just 15 percent. Corporate bond performance has slightly trailed the performance of treasuries, agencies and mortgage backed securities in the last year. Thus, the over weight of corporate bonds has not added value to the fund. Furthermore, the fund has a slightly more aggressive duration than the Lehman Aggregate, which has hurt the fund in the rising interest rate environment.

Other Investments:

Commonfund Capital Real Estate Investment Trust (6/30/99 market value $1.5 million, 2.4 percent of total). Through March 31, 1999, Real Estate Investment Trust's total return since inception stood at
6.81 percent, slightly ahead of the 5.75 percent total return for the benchmark, National Council of Real Estate Investment Fiduciaries Index, over the same period.

The fund returned 12.63 percent for the fiscal year compared to the benchmark return of 14.38 percent. The total liquidation of the fund is scheduled for December 31, 2000.

Commonfund Capital Endowment Energy Partners (6/30/99 market value $33,410, 0.1 percent of total). Endowment Energy Partners I (EEP I) has produced a net internal rate of return of 9.0 percent since its inception in October 1989 through June 30, 1999. EEP I completed its five year investment phase on December 31, 1994, and is scheduled for liquidation by December 31, 1999.

Commonfund Endowment Partners Fund I (6/30/99 market value $204,537, 0.3 percent of total). Endowment Partners I (EDF I) has an internal rate of return of 13.4 percent since its inception in October 1998 through March 1999. This fund was scheduled for liquidation by December 31, 1998, but has been extended to December 31, 1999.

Commonfund Endowment Venture Partners I (6/30/99 market value $391,556, 0.6 percent of total). The net internal rate of return on capital received from Endowment Venture Partners I (EVP I) participants since inception in 1990 through March 31, 1999, stood at 26.0 percent. This fund is scheduled for liquidation by June 30, 2002.

The following table summarizes the investment performance results for the fiscal year ending June 30, 1999, for the OUS Pooled Endowment Fund:
### OREGON UNIVERSITY SYSTEM
### POOLED ENDOWMENT FUNDS
### PERFORMANCE COMPARISON
(Based on Total Return)

<table>
<thead>
<tr>
<th>Annual Performance</th>
<th>94-95</th>
<th>95-96</th>
<th>96-97</th>
<th>97-98</th>
<th>98-99</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Total Endowment</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>OUS Total Endowment</td>
<td>15.8%</td>
<td>16.4%</td>
<td>18.9%</td>
<td>21.6%</td>
<td>10.0%</td>
</tr>
<tr>
<td>NACUBO, Pools $25m to $100m</td>
<td>15.8%</td>
<td>16.7%</td>
<td>20.1%</td>
<td>17.7%</td>
<td>—</td>
</tr>
<tr>
<td><strong>Equity:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>CF Multi Strategy Equity Fund (1)</td>
<td>17.6%</td>
<td>23.5%</td>
<td>25.4%</td>
<td>25.0%</td>
<td>1.9%</td>
</tr>
<tr>
<td>Benchmark-S&amp;P 500 Stock Index (1)</td>
<td>26.0%</td>
<td>26.1%</td>
<td>34.7%</td>
<td>30.2%</td>
<td>9.3%</td>
</tr>
<tr>
<td>BGI Alpha Tilts Fund B (2)</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>11.9%</td>
</tr>
<tr>
<td>Benchmark-S&amp;P 500 Stock Index (2)</td>
<td>26.0%</td>
<td>26.1%</td>
<td>34.7%</td>
<td>30.2%</td>
<td>12.3%</td>
</tr>
<tr>
<td>BGI Russell 2000 Index Fund B (2)</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>8.6%</td>
</tr>
<tr>
<td>Benchmark-Russell 2000 Index (2)</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>9.3%</td>
</tr>
<tr>
<td>T. Rowe Price Foreign Equity (2)</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>5.5%</td>
</tr>
<tr>
<td>Benchmark-MSCI EAFE Index (2)</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>4.1%</td>
</tr>
<tr>
<td><strong>Fixed (Bond) Investments</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>OUS Multi-Strategy Bond Fund</td>
<td>13.7%</td>
<td>6.3%</td>
<td>10.0%</td>
<td>11.3%</td>
<td>2.2%</td>
</tr>
<tr>
<td>Lehman Aggregate Bond Index</td>
<td>12.5%</td>
<td>5.0%</td>
<td>8.2%</td>
<td>10.5%</td>
<td>3.1%</td>
</tr>
<tr>
<td><strong>Other Investments</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Real Estate Investment Trust</td>
<td>8.5%</td>
<td>8.8%</td>
<td>8.5%</td>
<td>13.1%</td>
<td>10.7%</td>
</tr>
<tr>
<td>Endowment Energy Partners</td>
<td>33.0%</td>
<td>1.5%</td>
<td>0.5%</td>
<td>-39.5%</td>
<td>-40.9%</td>
</tr>
<tr>
<td>Endowment Partners Fund</td>
<td>9.2%</td>
<td>4.9%</td>
<td>11.3%</td>
<td>19.4%</td>
<td>14.9%</td>
</tr>
<tr>
<td>Endowment Venture Partners</td>
<td>40.4%</td>
<td>53.2%</td>
<td>12.6%</td>
<td>23.9%</td>
<td>75.1%</td>
</tr>
</tbody>
</table>

(1) CF Multi-Strategy Equity Fund was sold on December 31, 1998. Returns for the fund and its benchmark are for six months only, July-December 1998.

(2) BGI Alpha Tilts Fund B, BGI Russell 2000 Index Fund B, and T. Rowe Price Foreign Equity were purchased in January 1999. Returns for the funds and their benchmarks are for six months only, January-June 1999.
Board Discussion

Controller Mike Green summarized the investment report. He pointed out that return information on pooled endowment funds was different, due to a divestiture from the Commonfund Equity investment to the BGI Alpha Tilt Fund. Those monies had a market value of $49 million, or about 46 percent of the total fund, explained Mr. Green.

Referring to a change in the alternative investments (oil and gas, real estate, and venture capital totaling no more than ten percent of the Fund), Mr. Green said that, with the help of investment advisors, the Committee determined that funds would not be reinvested as they did not provide much benefit. Significant administrative costs was another reason behind the decision.

Staff Report to the Board

The Internal Audit Division's (IAD) Semi-Annual Audit Report January-June 1999, included in the supplemental materials (on file in the Board's office), summarized audit results from projects completed over the past six months and provided an update on the status of IAD’s 1998-99 Audit Plan. As part of the risk assessment program identified in the 1998-99 Audit Plan, departmental audits were completed at three OUS institutions. These audits focused on the business and administrative functions normally performed by campus departments. IAD also completed audits of the human resource function at five institutions, concentrating on operations impacted by Senate Bill 271. IAD dedicated significant consulting resources to provide support and information to the Board in three critical areas: (1) the remodel of the OUS budget system for allocating education and general funds to the institutions, (2) the policy related materials that govern OUS's fiscal operations, and (3) the conversion status of OUS’s new Human Resources Information System.

Board Discussion

OUS Internal Audit Division Director Marv Wigle reviewed the information provided to Board members. Updating the Board on the OUS audits, which total more than 700 departments, Mr. Wigle reported that nearly one-third had been completed. Human resources audits, conducted at each institution, have been virtually completed.
Staff Report to the Board

The Internal Audit Division (IAD) presented its audit plan for the 1999-00 fiscal year, which was included in the supplemental materials (on file in the Board's office). This plan incorporates selected best audit practices endorsed by the Institute of Internal Auditors, the American Institute of Certified Public Accountants, and other professional audit organizations. These practices have been integrated by IAD into three core programs designed to help address OUS's audit-related needs for the upcoming year: (1) the 1999-00 Risk Assessment Audit Program, which includes departmental audits, as well as reviews related to human resources, the OUS Resource Allocation Model, OUS performance indicators, Hyperian software, and Banner HRIS payroll; (2) the Consulting Services Program, which includes provisions for consulting on both campus and Systemwide issues; and (3) the Control Assessment and Training Program, which makes available combined risk assessment and internal control training sessions to campus departments. In addition to these programs, the plan provides for such other projects and services as campus request audits, audit follow-ups, outsourcing, fraud audits, and liaison for Federal, Oregon Audits Division, and other external audits and reviews.

Board Discussion

Mr. Wigle pointed out three specific priority items: (1) continuation of the 12-month audits, considered to be the backbone of IAD’s field work; (2) identification of areas in the Resource Allocation Model and performance indicators that will lend themselves to audit, in an attempt to validate the integrity of those processes and programs; and (3) payroll audits at each institution.

Ms. Wustenberg remarked that as more responsibility is turned over to campuses, the role of IAD is vital in ensuring appropriate business practices.

Mr. Wigle agreed, explaining that in a recent risk assessment, it was clear that resources needed to be allocated to that end. Furthermore, he said that IAD is beginning to assist with the establishment of interim audit programs at the institutions. "We think that is going to
significantly extend the audit coverage that we get in the System. It also has a tendency to engender an increase in attention to control issues in the departments."

Mr. Koch asked if the recommendations submitted by IAD were ever questioned or challenged by departments. Mr. Wigle said that, for the most part, compliance is very good. He added that in his experience, the recommendations were taken seriously and staff respond positively.

Pointing out that much of IAD’s staff time over the past 18 months was redirected to work on the new Resource Allocation Model, Vice Chancellor Anslow commended IAD staff for their work, saying that it was the highest and best use of the division at that moment and time.

**Summary**

The Oregon University System recently received a grant from the U.S. Department of Commerce Experimental Program (EPSCoT). EPSCoT is a matching grants program that supports technology development, deployment and diffusion in eligible states by promoting partnerships between state and local governments, universities, community colleges, non-profit organizations and the private sector.

OUS serves as the lead applicant for this grant that seeks to re-orient Oregon’s economic development strategy and reduce barriers between higher education and emerging technology businesses. It is focused on three areas: research and development, knowledge transfer, and industry cluster identification and assistance. Under the direction of the Governor, the state has moved away from a strategy of industrial recruitment and is instead focusing its efforts on growing Oregon-based companies. The proposed activities flow naturally out of a planning and coalition-building process and thus enjoy the strong support of the Governor, business community and higher education system. Partner organizations include the Oregon Economic Development Commission, the Board of Higher Education, the Board representatives from Oregon Independent Colleges Association, and community colleges.

The grant-related activities will improve the climate for entrepreneurs and provide a model for other states seeking to re-orient their
economic development strategies. The $250,000 grant will be matched by $350,000 in state funds ($175,000 in-kind) for a total grant of $600,000. The grant supports the activities of the Economic Development Joint Boards Working Group.

**Economic Development Joint Boards Working Group**

The Economic Development Joint Boards Working Group (EDJBWG) was appointed by Governor Kitzhaber on May 6, 1999. EDJBWG is the governing body for the EPSCoT grant. The major areas of focus for both the working group and the grant include research and development, knowledge transfer and industry cluster identification and assistance.

Membership on EDJBWG includes representatives from the following organizations:

- Oregon University System/Board of Higher Education
- Oregon Independent Colleges Association
- Oregon Emerging Business Initiative
- Oregon Economic and Community Development Department
- Oregon Entrepreneurs Forum
- Software Association of Oregon
- Oregon Bioscience Association
- Oregon Bar Association
- Oregon Society of Certified Public Accountants
- International Sustainable Development Foundation

A 1999-00 Work Plan and timeline for the EDJBWG were included in the supplemental materials (on file in the Board’s office).

**Board Discussion**

Dr. Vines reviewed the grant award, noting that it was symbolic of a great deal of cooperation among several organizations.

Mr. Lussier reported that the group continues to meet at least monthly. Current work includes consolidation of the vision for Central Oregon, reviewing governments and potential structures, and ways and means assessment.
Meeting #685—Minutes

October 21, 1999

Noting that it had been nearly one year since CORAB was formed, Mr. Lussier asked that the Advisory Board present a more comprehensive report at the December Board meeting.

Investment

Ms. Wustenberg deferred to Mr. Green for further comment. He indicated that the Committee convened on September 16 and October 5 to review policy guidelines as approved by the Board earlier in the meeting.

Joint Boards

Mr. Lussier said that at a meeting on September 17, Working Group members received many reports, including an analysis of legislative actions affecting both Boards.

Nominating

Dr. Aschkenasy announced that the Committee nominated Mr. Imeson to serve as president in 1999-00. However, a candidate for vice president was still subject to future discussion. Executive Committee members nominated included Dr. Aschkenasy, Mr. VanLuvanee, Mr. Willis, Ms. Wustenberg, and Mr. Imeson. Due to the postponement in naming a vice president, Dr. Aschkenasy said that final action on the full slate of officers would be deferred to a later date.

OHSU

Dr. Hallick for a reported that at a recent Board retreat, intense dialogue ensued on everything from mission and vision, core values, business plans, and research program development.

System

According to Mr. Willis, recent activities included review of a conflict of interest statement, discussion on the specific role of Board members, and creation of Board member position descriptions. Dr. Vines added that the Committee had also worked on plans for the renewal.

PUBLIC INPUT

SESSION

No one signed up to speak at the public input session.

ITEMS FROM

BOARD MEMBERS

Mr. Willis expressed his appreciation to OSU staff for their hospitality at a recent football game, where he hosted two youngsters from the Salem Boys and Girls Club. Ms. Wustenberg echoed Mr. Willis' comments, as she had recently attended a game at the invitation of President and Mrs. Risser. She welcomed new Board members to their first official meeting.
Dr. Aschkenasy commended President Dow for OIT's renewed vigor in the System. He thanked her for her hospitality during the Board's visit to the Metro Center.

Citing her recent visits to several institutions, including OIT, PSU, SOU, and UO, Dr. Richmond expressed her gratitude to all of the presidents for their time. "I have a much better appreciation for the campuses because of the visits," she said.

Mr. Hempel shared that he was extremely happy to be a part of the Board, adding that, "It's going to be a terrific learning experience for me and I hope that I can provide some benefit to the System."

Reporting that he had recently attended a regional planning conference, Mr. Lussier said that the keynote speaker urged participants to look at regions and not operate in silos or political entities as now so many things in the new global economy cross traditional lines. "Certainly, this is a lesson for us in higher education as well," he observed.

DELEGATION OF AUTHORITY TO THE BOARD'S EXECUTIVE COMMITTEE

President Imeson read the statement pertaining to delegation of authority to the Board's Executive Committee:

"Pursuant to Article II, Section 5 of the Bylaws of the Board of Higher Education, the Board delegates to the Executive Committee authority to take final action as here designated or deemed by the Committee to be necessary, subsequent to the adjournment of this meeting and prior to the Board's next meeting, which is scheduled for December 17, 1999. The Executive Committee shall act for the Board in minor matters, and any matter where a timely response is required prior to the next Board meeting.

Although no specific items were brought forth, Board members agreed to the delegation of authority as stated.

WORK SESSION/ENVIRONMENTAL SCAN

President Imeson led off the discussion by expressing his gratitude to Vice Chancellor Clark and her staff for their efforts on compiling the Environmental Scan. (A full copy of the Environmental Scan is on file in the Board's office.)
Indicating that the impetus for compiling a scan came from the System Strategic Planning Committee, Vice Chancellor Clark said that it drew from available information, including data developed by campuses, the OUS Office of Institutional Research, and by other Chancellor's Office staff who worked on the new budget model. "The purpose of the scan is to learn about the environment in which we are operating, and our position within that environment," explained Dr. Clark.

Dr. Clark pointed out that overall diversity of students in OUS institutions is increasing, not only in terms of ethnicity, but age, gender (woman are attending in record numbers), and number of part-time students. Nationally, college attendance patterns are less linear than expected. Recent literature describes students "swirling" among various institutions. "It becomes very difficult to talk about graduation and transfer rates in any simple way because of the real complexity of the picture," she observed.

Briefly reviewing some of the economic indicators used in the study, Dr. Clark remarked that the regional rural/urban divisions in Oregon continue to affect overall economic health of the state. Some regions of Oregon thrive, while others continue to languish.

Vice Chancellor Clark commended Academic Affairs staff Dr. Nancy Goldschmidt and Ms. Vicki Falsgraf, and all Institutional Research staff for their contributions to this project.

Dr. Goldschmidt said that a kind of industry analysis was implemented in order to get a notion of the competition. Internal focus was placed on strengths and limitations, while external focus was on opportunities and turbulence.

When discussing competitive forces, Dr. Goldschmidt reported that five primary issues emerged:

- Rivalry among current competitors;
- New entrants into higher education;
- Presence of substitute products;
- Bargaining power of buyers; and
- Bargaining power of providers.
“The question now is, how do you respond?” said Dr. Goldschmidt. She described three possible responses: (1) position—focus on the System’s strengths, (2) move strategically to improve position—create brand recognition, and (3) exploit change—anticipate shifts before they occur.

Dr. Richmond, while saying the information was interesting, asked for a better reference point or comparative figures with other states. Dr. Goldschmidt noted that some comparisons are made with peer institutions. Continuing her line of questioning, Dr. Richmond asked, “Are we lower than comparable states in terms of the number of business degrees we award? Are our students more or less educated in higher education than in other states? That’s the kind of information I was seeking.”

Vice Chancellor Clark responded that the data were not in the report before them, but that staff could try to obtain them.

Summarizing her report, Dr. Goldschmidt pointed out that peer institutions had been used in recent reports, including the new budget model and faculty compensation study, which is why that information was drawn upon once again. “They will be used to compare outcomes, develop improvement targets, and define best practices,” observed Dr. Goldschmidt. “The definition of success is changing for OUS. The old factors, including tight geographic boundaries, are now loosening. Size used to be important while speed is now a priority.”

Dr. Aschkenasy remarked that the statistics seem to indicate that humanities are trending upward, while computer sciences and engineering are leaning downward. Dr. Goldschmidt confirmed Director Aschkenasy’s observation, noting that the trend was being experienced nationally. Building on Dr. Aschkenasy’s thoughts, Dr. Richmond said, “The question really is, are Oregon students who are interested in science and engineering disproportionately leaving the state, or is it the national trend?”

Vice Chancellor Clark indicated data are not available that would precisely answer that question. “We can’t say that more science and engineering students leave the state versus students with other interests.” Reporting on OSU’s situation, President Risser said that
engineering enrollment was up 12 percent this fall and that it is the largest college at OSU, the second largest being the College of Liberal Arts. “I don’t see OSU as reflecting national trends at all,” Dr. Risser observed.

Posing some final policy questions for the Board’s consideration at the upcoming renewal work session, Vice Chancellor Clark asked the following:

→ Can we identify five or more of the critical challenges and opportunities for us to address in light of these kinds of data in the Environmental Scan?

→ When does differentiation or coordination contribute to the greater good of the System?

→ What do you see as the areas of the market that we’re not responding to adequately with respect to preparation for employment?

→ Should we be engaging in macro-level planning about academic program directions and the capital master planning so the facilities and infrastructure follow the academic directions of the institutions in the fulfillment of their missions?

ADJOURNMENT  The Board meeting adjourned at 3:47 p.m.

Diane Vines
Secretary of the Board

Tom Imeson
President of the Board