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February 25, 2008

The Honorable Max Baucus, Chairman
The Honorable Charles Grassley, Ranking Member
Committee on Finance
United States Senate
Washington, DC 20510

Dear Senators Baucus and Grassley:

We are pleased to provide the enclosed responses to the questions you sent to us in your letter dated January 25. These data highlight the University of Michigan's deep commitment to maximizing both the quality and accessibility of a University of Michigan education through a combination of aggressive fundraising, prudent investment policy, careful stewardship of endowment funds, and on-going operational cost cutting measures.

At the University of Michigan, the payout from the 6,200 separate funds in our endowment helps us serve a very broad population. About $1.9 billion or 27 percent of our $7.1 billion endowment is restricted for use by our health system, for example, which serves the needs of more than 1.6 million patients a year. And the portion available for university operations supports the education of more than 40,000 students.

The following points are particularly relevant to the concerns outlined in your letter:

- Fundraising for student aid is one of our highest priorities. Over $442 million raised during our current capital campaign is earmarked for student aid, bringing total endowment for this purpose to $1.4 billion, or about 20 percent of our total endowment. The market value of endowment funds for scholarships has increased by 90 percent at University of Michigan over the last 7 years.
- Nearly 80% of our undergraduate students who are Michigan residents receive some form of institutional financial aid (including grants, work-study, and loans). They receive an average of $10,330 a year, an amount equal to 96% of our resident tuition and required fees.
- Just over $94 million of undergraduate aid received in 2006-2007 was in the form of grants and scholarships from the University itself, and another $45 million in grants came from state and federal sources.
- The average year-to-year increase in the amount spent for centrally awarded undergraduate financial aid has been 6.6 percent over the last ten years, compared to an average increase of tuition and fees of 6 percent for in-state undergraduates over the same period.

- The actual average effective annual spending rate from our endowment over the last ten years, including payout and withdrawals, has consistently met or exceeded 5 percent.
- Over the last five years, the Ann Arbor campus has been able to trim more than $117 million from its annual budget through a wide variety of cost cutting measures.

Many challenges remain if we are to achieve our goal of increasing the accessibility of a University of Michigan education in the face of the steady upward pressure on costs and the decrease in our state appropriation. The 11 percent decline of our state appropriation over the last 6 years — a $40 million drop that translates to $100 million when adjusted for inflation — has been a central factor in tuition increases, and we are working hard to encourage the governor and the legislature to reverse this trend. At the same time, we are strengthening our appeal to alumni and friends to endow more funds to support student aid, while also initiating a number of measures to further control operational costs.

In addition to supporting student aid, endowment income provides critical support to our research activities, which over the years have made countless contributions to the well-being of society by laying the foundations for everything from today's internet to novel treatments for heart disease. It is important to note that the primary way this emerging knowledge is transferred to society is via our graduating students. They are the ones who carry new ideas and insights on to their careers in engineering, science, business, law, medicine, government, and the arts, and build the future for us all.

America's universities are one of its greatest assets. The University of Michigan is nearly 200 years old, and through our educational and research programs, we have served as a critical source of the people and ideas that fuel our state, regional, and national economies. As one of our nation's top universities, and particularly as a public institution, the University of Michigan has a responsibility to diversify and strengthen its financial base through its endowment in order to maintain its quality and accessibility in the face of inflation, inevitable fluctuations in the financial markets, and tightening state and federal budgets.

Please let me know if you need any further information. I am confident that, working together, we can promote effective policies to ensure the continuing excellence of our universities and to enhance their accessibility for generations to come.

Sincerely,

Mary Sue Coleman

Mary Sue Coleman
President

MSC:SMC



UNIVERSITY OF MICHIGAN

Response to United States Senate Committee on Finance
Senator Max Baucus, Chairman
Senator Charles Grassley, Ranking Member

Founded in 1817, the University of Michigan is a public research university that serves the people of Michigan, the nation, and the world through preeminence in creating, communicating, preserving, and applying knowledge, art, and academic values. More than 40,000 students are enrolled at the Ann Arbor campus, which has 19 schools and colleges, 24 libraries, eleven museums, and over 100 centers and institutes. The University is also home to a world-class health system, which serves more than 1.6 million patients a year at its four hospitals, 30 health centers, and 120 outpatient clinics. U-M has achieved a global reputation for academic excellence in a broad variety of disciplines, and is among the leading universities in the country in terms of research volume and activity.

1) Please provide the number of undergraduate and graduate students year-by-year for the last ten years.

The data for enrollment on the Ann Arbor campus is displayed in Table 1.

Table 1 - University of Michigan - Ann Arbor Campus
Headcount Enrollment by Level, Fall 1998 through Fall 2007

	FALL 1998	FALL 1999	FALL 2000	FALL 2001	FALL 2002	FALL 2003	FALL 2004	FALL 2005	FALL 2006	FALL 2007
Undergraduate	23,977	24,475	24,412	24,547	24,472	24,517	24,828	25,467	25,555	26,083
Graduate and Professional	13,174	13,353	13,691	13,701	14,500	14,515	14,705	14,526	14,470	14,959
Extension	46	18	0	0	0	0	0	0	0	0
TOTAL	37,197	37,846	38,103	38,248	38,972	39,032	39,533	39,993	40,025	41,042

2) Please provide the total cost of undergraduate tuition (including all fees) — both sticker and average, mean and median — year-by-year for the last ten years. Please provide the amount of tuition assistance (not including loans or work study) that the university has provided to undergraduate students year-by-year for the last ten years. For the most recent year, please provide the percentage of students receiving university grants (for example 25%; 50%; 75% and 100% of tuition and fees). Please provide the average grant amount.

About 64% of undergraduates at the University of Michigan are residents of Michigan. Our non-resident students come from every state in the U.S. and from many countries around the world. Those students who are not residents pay a different tuition rate, and are served by a different financial aid policy. Since aggregating the data from these two groups would have little meaning, we have reported the data separately in many of our responses.

Table 2, on the next page, displays our tuition and required fee rates for undergraduates for the last ten years.

Table 2 - University of Michigan - Ann Arbor Campus
Undergraduate Academic Year Full-Time Tuition and Fees

		1996-97	1997-98	1998-99	1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
GENERAL UNDERGRADUATE RATE													
Lower Division	Resident	$5,710	$5,878	$6,098	$6,271	$6,449	$6,867	$7,411	$7,895	$8,119	$9,121	$9,723	$10,447
	Non-resident	$17,916	$18,444	$19,156	$19,699	$20,259	$21,575	$23,289	$24,695	$25,941	$27,509	$29,131	$31,301
Upper Division	Resident	$6,438	$6,628	$6,880	$7,075	$7,275	$7,747	$8,361	$8,907	$9,159	$10,289	$10,959	$11,775
	Non-resident	$19,178	$19,742	$20,504	$21,087	$21,687	$23,097	$24,931	$26,437	$27,771	$29,451	$31,177	$33,499
Note: The General Rate category applies to undergraduates in Archtiecture & Urban Planning; Art & Design; Education; Music, Theatre, & Dance; Natural Resources & Environment; Nursing; and Public Policy.													
LS&A													
Lower Division	Resident	$5,710	$5,878	$6,158	$6,333	$6,513	$6,935	$7,485	$7,975	$8,201	$9,213	$9,723	$10,447
	Non-resident	$17,916	$18,444	$19,216	$19,761	$20,323	$21,645	$23,365	$24,777	$26,027	$27,601	$29,131	$31,301
Upper Division	Resident	$6,438	$6,628	$6,940	$7,137	$7,339	$7,815	$8,435	$8,987	$9,243	$10,383	$10,959	$11,775
	Non-resident	$19,178	$19,742	$20,564	$21,149	$21,751	$23,165	$25,005	$26,517	$27,855	$29,539	$31,177	$33,499
ENGINEERING & LS&A COMPUTER SCIENCE													
Lower Division	Resident	$6,080	$6,260	$6,496	$6,681	$6,871	$7,317	$7,897	$8,413	$8,651	$9,719	$10,403	$11,177
	Non-resident	$18,086	$18,612	$19,330	$19,879	$20,445	$21,773	$23,503	$24,923	$26,181	$27,763	$29,303	$31,485
Upper Division	Resident	$7,854	$8,084	$8,392	$8,631	$8,875	$9,451	$10,201	$10,869	$11,177	$12,557	$13,441	$14,441
	Non-resident	$20,292	$20,884	$21,692	$22,309	$22,943	$24,435	$26,377	$27,971	$29,383	$31,159	$32,887	$35,337
BUSINESS													
Lower Division	Resident											$9,723	$10,447
	Non-resident											$29,131	$31,301
Upper Division	Resident	$6,700	$6,898	$7,160	$7,363	$7,571	$8,063	$8,703	$9,273	$9,537	$10,713	$11,713	$12,585
	Non-resident	$19,516	$20,090	$20,866	$21,459	$22,069	$23,503	$25,371	$26,905	$28,263	$29,971	$31,633	$33,989
KINESIOLOGY													
Lower Division	Resident	$6,080	$6,260	$6,496	$6,681	$6,871	$7,317	$7,897	$8,413	$8,651	$9,719	$10,257	$11,021
	Non-resident	$19,106	$19,668	$20,428	$21,007	$21,605	$23,009	$24,837	$26,339	$27,669	$29,341	$30,969	$33,275
Upper Division	Resident	$6,976	$7,182	$7,454	$7,665	$7,883	$8,395	$9,061	$9,653	$9,927	$11,153	$11,771	$12,647
	Non-resident	$20,870	$21,486	$22,316	$22,949	$23,603	$25,137	$27,135	$28,773	$30,225	$32,053	$33,831	$36,351
DENTISTRY													
Lower Division	Resident	$5,874	$6,046	$6,274	$6,451	$6,633	$7,063	$7,623	$8,121	$8,351	$9,381	$9,901	$10,637
	Non-resident	$18,080	$18,612	$19,330	$19,879	$20,445	$21,773	$23,503	$24,923	$26,181	$27,763	$29,303	$31,485
Upper Division	Resident	$6,606	$6,800	$7,058	$7,259	$7,465	$7,949	$8,579	$9,139	$9,399	$10,559	$11,145	$11,975
	Non-resident	$19,344	$19,912	$20,682	$21,271	$21,877	$23,299	$25,151	$26,671	$28,017	$29,711	$31,359	$33,695
NURSING ACCELERATED SECOND CAREER													
Upper Division	Resident												$13,181
	Non-resident												$37,441
PHARMACY													
Upper Division	Resident	$7,310	$7,526	$7,812	$8,033	$8,261	$8,797	$9,495	$10,115	$14,991	$15,897	$16,857	$17,707
	Non-resident	$19,178	$19,742	$20,504	$21,087	$21,687	$23,097	$24,931	$26,437	$28,115	$29,533	$30,993	$32,557

Note: As of 2004-05, Upper Division Pharmacy students are considered Grad/Professional students instead of undergraduates

Average and Median tuition and fee rates for the last ten years are shown in Table 3:

Table 3 - University of Michigan - Ann Arbor Campus
Average and Median Tuition and Fees for a Full-Time Undergraduate

	Average Resident Tuition & Fees	Average Non-Resident Tuition & Fees	Median Resident Tuition & Fees	Median Non-Resident Tuition & Fees	Median Overall Tuition & Fees
1997-98	$6,495	$19,281	$6,628	$19,742	$6,628
1998-99	$6,786	$20,095	$6,880	$20,504	$6,940
1999-00	$7,006	$20,592	$7,075	$21,007	$7,137
2000-01	$7,220	$21,138	$7,275	$20,445	$7,339
2001-02	$7,673	$22,584	$7,747	$23,009	$7,815
2002-03	$8,273	$24,486	$8,361	$24,931	$8,435
2003-04	$8,800	$25,968	$8,907	$26,437	$8,987
2004-05	$9,041	$27,193	$9,159	$27,669	$9,243
2005-06	$10,132	$28,798	$10,289	$29,341	$10,383
2006-07	$10,786	$30,502	$10,959	$31,177	$10,959
2007-08	$11,589	$32,830	$11,775	$33,499	$11,775

Table 4 below presents the total assistance provided to undergraduates over the last ten years, showing aid in the form of loans and work-study as well as need-based and merit-based grants in order to provide the full context of aid.

Note that because total aid awarded cannot be determined until the completion of the academic year, the ten-year span for aid runs from 1997-98 to 2006-07.

Table 4 - University of Michigan - Ann Arbor Campus
Total Aid Awarded to Undergraduates

	1997–98	1998–99	1999–00	2000–01	2001–02	2002–03	2003–04	2004–05	2005–06	2006–07
U-M Grants & Scholarships	$41,982,657	$52,054,757	$53,132,672	$55,462,665	$61,078,323	$66,783,290	$70,140,827	$73,875,761	$87,509,240	$94,013,942
Private, State, & Federal Grants & Scholarships	19,805,556	20,829,383	21,322,925	29,757,094	33,519,323	35,166,004	36,116,018	42,036,620	44,261,420	44,857,644
Total Grants & Scholarships	61,788,213	72,884,140	74,455,597	85,219,759	94,597,646	101,949,294	106,256,845	115,912,381	131,770,660	138,871,586
Total Loans	51,649,772	53,032,509	56,344,059	56,479,869	62,867,740	72,032,017	83,061,049	89,329,590	96,712,751	101,491,901
Total Workstudy	3,600,166	3,469,496	3,191,478	3,048,235	3,614,461	4,011,360	4,160,675	4,199,383	4,275,407	4,319,966
Total Aid	$117,038,151	$129,386,145	$133,991,134	$144,747,863	$161,079,847	$177,992,671	$193,478,569	$209,441,354	$232,758,818	$244,683,453

Nearly 16,000 (62%) of our undergraduates received need or merit grant aid in 2006-07. Overall, 71% of our undergraduate students receive financial aid in some form, including loans and work-study. Table 5 displays average net tuition cost for undergraduate resident and non-resident students who receive some form of financial aid.

This table highlights the University's commitment to enhancing accessibility by alleviating the cost of tuition. Through all forms of aid, the University is able to cover an amount equal to 96% of tuition and required fees on average for the resident students who received aid, and 71% of tuition and fees for the non-resident students who received aid.

Our retention and graduation rates show the effectiveness of our financial aid policies. One measure of student retention is the percent of entering freshmen who are still enrolled one year later. The figures in Table 6 show that the University of Michigan has a very high one-year retention rate of 96% and that that rate has improved by 1.1% over the decade.

Over the last decade, our graduation rates have continued to improve as well. More students are graduating in 4 years than ever before (72.7% -- almost a 12% increase over the decade), and more students are graduating overall (6-year graduation rate of 88.3% for an increase of 5.1%). When taking into account students who are still enrolled after 6 years, almost 90% of the students who initially enroll are expected to eventually earn a degree from this University. This is among the highest rates nationally for public four-year universities. While there are a number of factors that contribute to the University's success in this area, we would not be able to maintain or improve on these rates if our financial aid policies were not effective in helping our lower income students remain in school and graduate on time.

Table 5 - University of Michigan - Ann Arbor Campus
Average Net Tuition Cost for Undergraduate Aid Recipients

	Resident	Non-Resident
Average Tuition & Fees	$10,786	$30,502
Average U-M Institutional Grant Aid	$3,522	$9,465
Average Grant Aid from other Sources	$2,169	$3,236
Average Total Grant Aid	$5,692	$12,700
Average Net Cost of Tuition After Grant	$5,094	$17,802
% of Tuition covered by Grant	53%	42%
Average Loan & Work Study	$4,638	$8,887
Average Net cost of Tuition after All Aid	$456	$8,914
% of Tuition Covered by All Aid	96%	71%

Table 6 - University of Michigan - Ann Arbor Campus
Retention and Graduation Rates for Entering Freshman Cohorts
Over the Last Ten Years

	Rates as of:	
	Fall 1998	Fall 2007
Still enrolled after 1 year	94.9%	96.0%
Graduated in 4 years	60.8%	72.7%
Still enrolled after 4 years	21.6%	15.7%
Total retained or graduated after 4 years	82.3%	88.4%
Graduated in 5 years	79.5%	85.5%
Still enrolled after 5 years	3.1%	2.5%
Total retained or graduated after 5 years	82.7%	88.0%
Graduated in 6 years	83.2%	88.3%
Still enrolled after 6 years	0.9%	0.7%
Total retained or graduated after 6 years	84.1%	89.0%

Note: Figures represent the rate for the most recent cohort for which the statistic was applicable as of the given Fall term
The percent graduated and the percent still enrolled may not add to the total percent retained or graduated due to rounding.

3) Please explain your university's financial aid policy. How do you inform students and parents of that policy? What outreach efforts does your university take to recruit potential low-income students? How is low-income defined? What is the amount spent on these efforts?

The University provides the most comprehensive financial aid package of any public university in the state of Michigan. The policy is to meet 100% of the demonstrated financial need for resident undergraduate students who file appropriate paperwork and apply by standard deadlines through a combination of grants, scholarships, loans, and work-study. Demonstrated financial need is defined as the cost of attendance for the full academic year (two semesters) minus the expected family contribution (EFC) as determined by the institutional methodology.

In 2005, the University announced M-Pact, a new initiative designed to make a U-M education even more accessible and affordable by increasing grant assistance for resident low-income students. Although low income is an elusive figure because family circumstances can significantly affect a family's financial strength, we typically consider low income to be $60,000 or less. For students from families with incomes at or below that level, in addition to our standard grant, M-Pact replaces loans with grants in the package ranging from $500 to $1,500, depending on the specific situation.

For students from our very lowest income households, M-Pact allows us to award a need-based package without any loan component. The lowest income household is defined as family from whom no contribution to educational expenses is expected (EFC = $0).

For resident undergraduates, centrally provided aid works in conjunction with funds awarded by the University's schools and colleges to meet the students' full need. For non-resident students, we are working toward meeting the full demonstrated need, as we do for our resident students. When possible, higher levels of institutional need-based grants will be awarded.

Students and parents are informed about financial aid policies in the following ways:

- The Office of Financial Aid maintains an extensive web site with information about financial aid policies, procedures and program descriptions (www.finaid.umich.edu)

- A comprehensive University of Michigan publication, Required Reading, contains information on financial aid policies, procedures, eligibility determination, aid program eligibility requirements, and aid recipient rights and responsibilities, and is available on the Office of Financial Aid web site and sent electronically each year to all students who complete an application for financial aid

- Time sensitive notifications are sent to students and their families about application procedures, aid eligibility, policies and procedures used to determine family contribution and eligibility for assistance, and information intended to provide families with options for financing their education. Examples include:

  - Reapplication instructions sent annually in January (to 13,000 students and 18,000 parents in January, 2008)
  - Financial Aid Newsletter sent three times per year (to 16,000 students and 15,000 parents)
  - Personalized financial aid options for students with past due University charges are sent each term (to approximately 1,700 students)
  - Students and parents are notified if applications are incomplete and provided with information about how to complete the application and potential consequences if they fail to do so (messages sent weekly)
  - Award notifications with extensive information about how eligibility was determined, program descriptions and rights and responsibilities of aid recipients are provided to students when their aid eligibility is finalized. (A copy of this information is provided to parents if authorized by the student)
  - Information about federal educational loan terms, conditions and personalized borrowing history are made available to students each academic year
  - Students not making satisfactory academic progress are notified and provided with requirements for successfully completing a probationary period
  - All enrolled university students are notified annually, as required under the Consumer Protection Requirements, about university policies as they relate to financial aid or related consumer protection and campus safety issues.

The University of Michigan has a strong commitment to a campus that embraces diversity of all kinds, including economic diversity. Outreach activities extend to the highest office at the University and across the schools and colleges. Our President, Mary Sue Coleman, has made personal phone calls to prospective students from lower socioeconomic backgrounds. She has gone out to the economically-stricken city of Detroit to meet with students, parents, and community leaders and communicate the University's commitment to affordability for all families. Important outreach activities also take many forms, and are so varied and decentralized that cataloguing them would be a major task. Some are a part of other forms of outreach. For example, the College of Engineering sends doctoral candidates into underserved high schools in the area with the aim of supplementing the math and science curriculum, and also to encourage students from underprivileged backgrounds to go on to pursue undergraduate math, science, and engineering degrees on our campus.

Below is a description of some of the University's major outreach efforts.

THE OFFICE OF FINANCIAL AID OUTREACH UNIT

This unit engages in activities that are designed to target our underserved populations including low-income students. This staff of four participated in 180 different events during 2006-2007. These activities included:

- 24 high school financial aid night presentations
- 8 events sponsored by churches in underserved areas
- 17 College Fairs
- 62 Campus Programs
- 43 high school visits
- 26 events at the University of Michigan's office in Detroit

THE OFFICE OF FINANCIAL AID (OFA)

In addition to the work of the Outreach Unit, specific efforts by OFA support the University's efforts to recruit students from low socioeconomic backgrounds:

- Significant portions of our website are available in Spanish and English
- M-Calc, an online calculator available in Spanish and English, allows a family to calculate cost of attendance, family contribution and an estimated financial aid package based on responses to just 10 questions
- Communication designed to assist with the completion and understanding of the financial aid application process is provided to all applicants with special focus on students with the greatest financial need
- OFA staff volunteer for College Goal Sunday and numerous high school nights to carry the message of affordability into the community

THE UNIVERSITY OF MICHIGAN JACK KENT COOKE FOUNDATION GRANT

An effort is under way to increase the number of high achieving, low income students who successfully transfer from community colleges. The University is investing $3 million over three years to supplement $1 million in grant funding for programming and financial aid to support this initiative. OFA staff meet with administrators and students from community colleges and work with students to facilitate their transition to the University. Through a combination of targeted recruiting, specialized services, need based aid, and an enhanced scholarship program, the University is working to increase the number of low income community college transfer students.

THE OFFICE OF UNDERGRADUATE ADMISSIONS

Recruitment efforts support the University of Michigan's goal to enroll a diverse student body. Programs and services designed to identify and recruit talented students from lower socioeconomic backgrounds include:

- Maintaining a satellite office in the city of Detroit, with full time staff and programming, to work closely with the Detroit Public Schools and their students
- Providing high school counselor workshops designed to familiarize participants with the University and its programs and to focus on encouraging students from all backgrounds to apply
- Inviting over 5,000 students participating in programs such as Gear Up, Horizons and Upward Bound to campus for visits designed to encourage academic preparation and provide information about the college application process
- Participating in college fairs, high school visits, and presentations at church and community groups to reach thousand of students and their families each year; all designed to encourage all students to consider college in general and the University of Michigan in particular
- Conversion events sponsored throughout the late winter and spring target underserved populations, including students from low socioeconomic backgrounds

4) Who determines and decides when tuition increases are necessary? What is the process for making this decision? Does the full Board of Trustees vote on tuition increases? Are students, parents and the public provided an opportunity to comment on tuition increases prior to final decisions being made? What role does your university endowment play in providing financial assistance to students?

Tuition decisions are guided by the University's mission. As a public institution, U-M is expected to provide an accessible education to qualified citizens of Michigan, and to provide financial support to make it possible for students regardless of family income. As a world-class research institution, the University is expected to provide an educational experience that prepares its students for success in such diverse fields as science, engineering, law, medicine, education, management, and the arts. Such an education requires a critical mass of respected faculty, clinical researchers, and state-of-the art laboratories. It requires expansive library holdings and museum collections. It requires widespread access to research experiences, service opportunities, and academic and career advising. These priorities all require significant on-going investment.

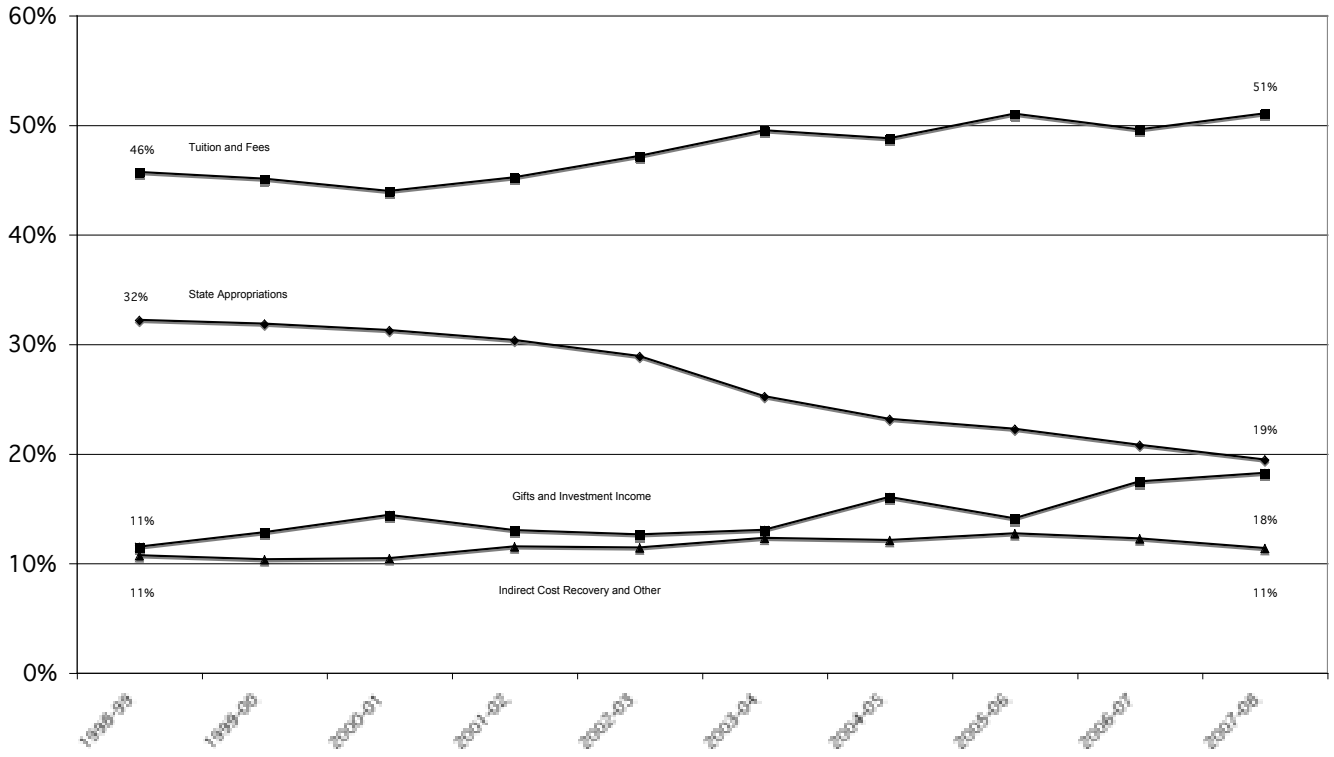
To determine appropriate and reasonable tuition and fee rates that can maintain access and affordability, the University and the Regents take into account the needs it must meet over both the short term and the long term to fulfill its mission, the changing costs of doing business, and the expectations of income from all revenue sources. Their planning is supported by the Provost's office, whose responsibilities include close monitoring and overall management of the University's academic fiscal resources.

Tuition is set as part of the University's annual budgeting process. As illustrated in Chart 1 below, tuition is just one source of revenue for the University's operations, which also include state appropriations, gifts and endowment income, and indirect cost recovery for federal research.

The chart shows that the share contributed by tuition and gifts and investment income has risen while the share contributed by state appropriation has steadily declined. The 2007-2008 base appropriation for the Ann Arbor campus was $40 million less than it was six years earlier, and during that period the campus has also had to weather one-time rescissions in funding.

At the same time, costs have been rising steadily, driven primarily by the competitive salary environment, particularly for faculty (65% of the University's total costs are for labor); health benefits, which have soared by more than 300% over the last ten years; our commitment to attract a diverse group of talented students, regardless of their ability to pay; utility costs, which have doubled in the last ten years; facility replacement; new technology investments, particularly for state-of-the-art laboratories to support education and research in emerging fields; and capital maintenance.

Chart 1 - Historic Revenue Shares from Four Primary Sources:
State Appropriations, Tuition and Fees, Gifts and Investment Income, and Indirect Cost Recovery and



The University has made significant strides in controlling some costs as part of its effort to maximize accessibility. In the last five years, it has trimmed over $117 million in annual operating costs by employing best practices in back office operations, introducing more strategic procurement processes, eliminating non-core activities, and increasing productivity. Moreover, careful management of funds functioning as endowment, along with direct capital fundraising from private donors has made it possible for the University to build and maintain state-of-the-art facilities while shielding a large portion of those costs from tuition.

Ultimately tuition rates are set by the University of Michigan Board of Regents, a body of eight individuals elected by Michigan citizens on a statewide ballot. Tuition is reviewed on an annual basis, with rates approved in a public vote by the full Board. Board of Regents meetings are open to the public, with meeting agendas published in advance. Every meeting contains a "public comments" session during which members of the public have an opportunity to address the Board.

The endowment plays a crucial and growing role in providing financial assistance to students. Over $442 million raised during our on-going fundraising campaign is earmarked for student aid, bringing the total endowment for student aid to $1.4 billion. Plans call for strengthening the University's outreach to alumni to support this area. Overall, the market value of endowment funds for scholarships has increased by 90% at U-M during the last seven years.

These funds provided approximately $50 million in FY2007 for student scholarships and fellowships. This is a significant portion of the University's total expenditure of $170 million in grants for undergraduates and graduates.

5. Please explain how your university's endowment is managed and the role of the Board of Directors? What are your university's endowment payout and investment policies? What is the mission of your university's endowment? When was the last time that the university's endowment policy was reviewed? When will it next be reviewed?

The purpose of the endowment is to enable the University to fulfill its mission as a public educational and research institution by providing sustained support for its core operating expenses in perpetuity. Income from the endowment provides critical on-going support for academic programs, faculty salaries, student aid, building maintenance and infrastructure, health system needs, and strategic initiatives.

The University of Michigan's endowment is currently valued at $7.1 billion dollars. About $1.9 billion of that is restricted for use by the University's health system, which serves more than 1.6 million patients a year at its four hospitals, 30 health centers, and 120 outpatient clinics. The remaining portion supports the needs of the full university, which includes campuses at Flint and Dearborn as well as Ann Arbor, with a total student population of 56,531.

The University manages its endowment funds in a way that strikes a careful balance between generating a steady and predictable stream of annual support for current needs and preserving the purchasing power of the endowment funds for the future in the face of inflation and fluctuations in financial markets. The University's permanent endowment funds are received by Schools and Colleges and other units of the University from donors with the stipulation that the principal remain untouched, and that it be invested to produce income that provides on-going support for the purposes they specify. Donors who make endowment contributions do so because they want to support our programs not just for a short period of time, but in perpetuity, allowing them to have a sustained impact on U-M students and academic programs 25, 50 or 100 years from now, and beyond.

The major portion of the endowment is maintained in the University Endowment Fund, a unitized pool which represents a collection of more than 6,200 individual (separate) funds, the majority of which are restricted for specific purposes. The University's investment policies are governed and authorized by University Bylaws and the Board of Regents, a body of eight individuals elected by popular vote by Michigan citizens on a statewide ballot.

The University collectively invests the assets of the University Endowment Fund in a single diversified portfolio called the Long Term Portfolio. The long-term investment horizon of this portfolio allows for an equity-oriented strategy to achieve higher expected returns over time, and permits the use of less-liquid alternative investments, providing for equity diversification beyond the stock markets. The Long Term Portfolio includes investments in domestic and non-U.S. stocks and bonds, commingled funds, and limited partnerships consisting of venture capital, private equity, real estate, energy and absolute return strategies. The approved asset allocation policy for the Long Term Portfolio sets a general target of 80 percent equities and 20 percent fixed income securities, within a permitted range of 65 to 90 percent for equities and 10 to 35 percent for fixed income securities. Since diversification is a fundamental risk management strategy, the Long Term Portfolio is broadly diversified within these general categories.

The Board of Regents also approves the use of all new investment managers and receives a monthly report of investment performance. In addition, the University's Chief Investment Officer (the CIO) presents an annual Report of Investments to the Finance, Audit and Investment Committee of the Board of Regents. The CIO also formally meets twice a year with an Investment Advisory Committee, a non-policy generating advisory group comprised of eight highly accomplished and recognized

investment experts from outside the University community, to review the University's investments and help set the strategic direction for coming years' investments activities.

The University's endowment spending rate policy is approved by the University's Board of Regents and provides for an annual distribution of 5 percent of the one-quarter lagged, moving average fair value of University Endowment Fund assets, with distributions limited to a maximum of 5.3 percent of current fair value to protect endowment principal in the event of a prolonged market downturn. Any capital gains or income generated above the spending rate are reinvested so that when the investment portfolio experiences negative returns, funds will still be available for distribution.

University management and the Board of Regents review the investment and endowment spending policies on an ongoing basis and adjust the policy as appropriate. The Board of Regents has adjusted the spending rule policy three times in the last 40 years. In 1986, the University changed its spending rule to a fixed percentage (5.5% of total three-year average market value) from an income-based approach which had resulted in an effective spending rate of 6.8% over the prior decade and an erosion of the corpus. In 1995, to protect the value of the endowment in down markets, the Board adopted a change in the distribution rate from 5.5% to 5% and also limited distributions to a percentage of the current market value equal to the distribution rate in effect at the time plus 0.3 percentage points.

As of July 1, 2006, the moving average period was extended from three years to four years, and it is being extended by one quarter each subsequent quarter until it reaches seven years. This change is expected to reduce distribution volatility and provide more predictable streams of financial support to operating budgets from the endowment year over year, as well as to better preserve and grow the endowment corpus over time. Prior to making this change, the range of endowment share increases and decreases and related distributions experienced wide swings due to investment volatility. Under the previous spending rule, the year-over-year increases or decreases in distributions per share ranged from -0.4% to +16%. The revised spending rule reduces the volatility to a narrower range of +4.8% to +12.8% over the last ten years, which allows for improved planning and budget processes.

6. Please provide the year-by-year net growth of the university's endowment for the last ten years (in both percentage and dollars). What is the amount of donations the endowment has received year-by-year for the last ten years? Please provide the percentage of investment in each asset class (equity, fixed income, hedge funds, private equity, venture capital, etc.) and the amount invested outside the United States.

The net growth of the University's endowment, including the amount of donations and other activity, for each of the last ten years is provided in Table 7 and Table 8 below.

Table 7 - Growth of University of Michigan Endowment in Dollars — 1998 - 2007

FY	Balance at Beginning of Year	Gifts*	Net Investment Income	Endowment Payout Distributions	Other**	Balance at End of Year	Total Endowment Percent Increase
	(in millions)						
2007	$5,652	$83	$1,433	-$212	$134	$7,090	25.44%
2006	4,931	75	891	-191	-54	5,652	14.62%
2005	4,163	71	768	-169	98	4,931	18.45%
2004	3,465	62	696	-161	101	4,163	20.14%
2003	3,376	54	95	-151	91	3,465	2.64%
2002	3,614	53	-130	-149	-12	3,376	-6.59%
2001	3,468	78	-122	-131	321	3,614	4.21%
2000	2,526	96	1,079	-112	-121	3,468	37.29%
1999	2,303	65	278	-105	-15	2,526	9.68%
1998	1,988	67	277	-91	62	2,303	15.85%

Table 8 - Percent Growth of University of Michigan Endowment in Dollars — 1998 - 2007

FY	Gifts*	Net Investment Income	Endowment Payout Distributions	Other**	Total Endowment Percent Increase
2007	1.47%	25.35%	-3.75%	2.37%	25.44%
2006	1.52%	18.07%	-3.87%	-1.10%	14.62%
2005	1.71%	18.45%	-4.06%	2.35%	18.45%
2004	1.79%	20.09%	-4.65%	2.91%	20.14%
2003	1.60%	2.81%	-4.47%	2.70%	2.64%
2002	1.47%	-3.60%	-4.12%	-0.33%	-6.59%
2001	2.25%	-3.52%	-3.78%	9.26%	4.21%
2000	3.80%	42.72%	-4.43%	-4.79%	37.29%
1999	2.82%	12.07%	-4.56%	-0.65%	9.68%
1998	3.37%	13.93%	-4.58%	3.12%	15.85%

* Represents gifts received from donors in the current year for the explicit purpose of establishing a true endowment, as well as gifts received from donors in the current year where the gift instrument did not specify a permanent endowment needed to be established but the individual department that is the beneficiary of the gift opted to establish the gift as funds functioning as endowment.

** Primarily represents funds transferred into the endowment to establish funds functioning as endowment offset by withdrawals of endowment funds to be expended for planned initiatives.

The percentage of investment in each asset class for the University's endowment at June 30, 2007 is summarized in Table 9.

Approximately 40 percent of the endowment is invested outside of the United States in investments generally expected to produce higher returns than comparable investments in the United States.

Table 9 - University of Michigan Endowment: Investment by Asset Class

Equities	33%
Absolute Return	21
Private Equity	12
Real Estate	11
Fixed Income	10
Energy	7
Venture Capital	5
Cash	1
Total	100%

7. Please explain how you determine what is considered part of the university endowment. In other words, how is your endowment defined? Are there any other long term investments that are not included in the endowment as reported to NACUBO? If so, what are they and what are their values?

The University's endowment funds consist of both permanent endowments and funds functioning as endowment. Permanent endowments are those funds received from donors with the stipulation that the principal remain inviolate and be invested in perpetuity to produce income that is to be expended for the purposes specified by the donors. Funds functioning as endowment consist of amounts (restricted gifts or unrestricted funds) that have been allocated by the individual units of the University for long-term investment—to support on-going core operating needs, long-term capital investment needs such as building renewal and replacement, or to fund special initiatives—but are not limited by donor stipulations requiring the University to preserve principal in perpetuity.

Other long-term investments that are not included in the endowment as reported to NACUBO are life income investments and the non-current portion of insurance and benefits obligations. The composition of the University's long-term investments at June 30, 2007 is summarized in Table 10.

Table 10 - University of Michigan Long-Term Investments (in millions)

Endowment investments	$ 7,090
Life income investments	120
Noncurrent portion of insurance and benefits obligations	170
	$ 7,380

Establishing funds functioning as endowment is a strategic and fiscal stewardship matter decided on by individual schools, colleges and units. Funds functioning as endowment may be withdrawn and spent for current operating purposes or for capital renewal, but in order to establish a fund functioning as endowment, a unit must commit to investing funds for a minimum of five years to support the long-term investment strategy that is intended for endowment funds. The University's hospitals and health centers, for example, strategically invest a portion of their operating margin in funds functioning as endowment so that it will be able to support future equipment, building, and capital infrastructure needs. As another example, the University invested a portion of the proceeds from the December 2006 sale of M-CARE, the University's wholly-owned health maintenance organization, to support strategic health care initiatives. And to spur fundraising for need-based scholarships, the President's Donor Challenge, which commenced in the Fall of 2006, provides matching funds for new donor contributions for need-based student aid (both undergraduate and graduate). The President's Donor Challenge also matches dollars for donor gifts that establish endowed professorships, which are vital for recruiting and retaining faculty.

8. What has been the cost of management of the endowment year-by-year for the last ten years?

The cost of managing the endowment, which includes the University's internal management costs as well as custodian and other professional service fees, for the last ten years, is summarized in Table 11.

Table 11 - Cost of Managing the University of Michigan Endowment, 1998 - 2007

FY	Total Cost	Percent of Endowment*
2007	$4,718,525	0.07%
2006	3,717,453	0.07
2005	3,182,099	0.07
2004	3,254,342	0.09
2003	2,984,432	0.09
2002	2,928,486	0.08
2001	3,137,503	0.09
2000	2,800,264	0.09
1999	2,150,019	0.09
1998	2,035,143	0.09

* Based on average endowment value during the year -- (Beginning of Year + End of Year)/2

This low cost incurred by the University in managing its endowment compares favorably with typical industry charges where the largest outsourcing firm charges 0.5% of assets and also shares in investment gains.

9. What was the payout (both in dollars and percentage) from the endowment year-by-year for the last ten years? What is the targeted payout (in percentage) from the endowment year-by-year for the last ten years? If either the actual and/or targeted payout is below 5%, please explain how this meets the needs of the current student body. If there is a material variation between actual and targeted, please explain. What were the top 10 major expenditures from the endowment last year?

The University does not have a targeted payout percent from the endowment for any one individual year. Funds are distributed through two mechanisms: (1) a pre-defined payout rate, and (2) withdrawals for strategic purposes from funds functioning as endowment.

The University uses an endowment spending rate policy which provides for an annual distribution of 5 percent of the one-quarter lagged, moving average fair value of University Endowment Fund assets, with distributions limited to a maximum of 5.3 percent of current fair value. Effective July 1, 2006, the moving average period was extended from three years to four years and it is being extended by one quarter each subsequent quarter until it reaches seven years. This change is expected to better insulate recipients of the endowment distributions from the volatility inherent in financial markets by creating a more stable and reliable stream of distributions that will keep up with inflation over time as well as better preserve the purchasing power of the corpus of the endowment.

In addition to the endowment spending rate distributed to all participating units in the University Endowment Fund (UEF), schools, colleges and departments may also use their funds functioning as endowment to support capital expenditures and operations.

As mentioned previously, funds functioning as endowment consist of amounts (restricted gifts or unrestricted funds) that have been allocated by the individual University schools, colleges and departments for long-term investment purposes, but are not limited by donor stipulations requiring the University to preserve principal in perpetuity. Individual departments use these funds functioning as endowment to support on-going core operating activities, and also for strategic capital initiatives. Some recent capital initiatives have included a new Cardiovascular Center, a replacement of the Children's and Women's Hospital, replacement and enhancement of facilities at the Ross School of Business, a new Biomedical Science Research Building, and a renovation of the Museum of Art.

Table 12 below summarizes scheduled endowment payouts pursuant to the spending rate policy and additional UEF spending for the past ten years. Total spending from the endowment has averaged 6.7% annually in the last ten years, ranging from a high of 12.1% to a low of 5.0% when all endowment spending is included.

Table 12 - Total Endowment Spending, 1998 - 2007

	Spending Rule Payout			Withdrawals		Total Payout & Withdrawal	
FYE	Amount* ($M)	Spending Policy Rate	Effective Rate**	Amount* ($M)	Effective Rate	Amount* ($M)	Effective Rate
2007	$205	5.0%	3.8%	$57	1.2%	$262	5.0%
2006	190	5.0	4.1	46	1.1	236	5.2
2005	168	5.0	4.3	31	0.9	199	5.2
2004	160	5.0	4.8	19	0.6	179	5.4
2003	151	5.0	5.4	52	2.0	203	7.4
2002	152	5.0	5.1	55	1.9	207	7.0
2001	131	5.0	4.0	118	3.6	249	7.6
2000	112	5.0	3.9	213	8.2	325	12.1
1999	105	5.0	4.6	35	1.5	140	6.1
1998	91	5.0	4.1	42	1.9	133	6.0

* Amount of endowment distributions available to support operations pursuant to the University's endowment spending rule.

** Endowment distributions are made quarterly. The annual effective distribution rate is calculated by compounding the effective distribution rates for the four quarters included in a fiscal year. Effective distribution rate is the quarterly endowment share distribution divided by the most current endowment share value (similar to a current yield).

Note that because the 5% spending rate policy is based on a multiple-year trailing moving average fair value, it reflects the overall performance of the markets over that full period of years. Thus, the actual percent distributed for operating purposes in a particular year (column 4) can be higher or lower than 5% because it is calculated in the context of the current endowment fair value for that year.

The ten most significant expenditures from the University Endowment Fund last year (fiscal year 2007) were spending rate distributions and endowment withdrawals for the purposes summarized in Table 13 below. Spending for instruction, scholarships/fellowships, and research accounted for a large majority of the endowment expenditures last year outside of spending for the hospital and health centers, which is supported by separate endowments. Overall, such spending—which goes to the heart of the University's academic mission—amounted to 76% of all non-hospital/health center related spending.

Table 13 - Significant Spending Areas from the University Endowment Fund, Fiscal Year 2007

Purpose	Endowment Payout ($M)	Endowment Withdrawals ($M)	Total ($M)	Percent	Percent Excluding Health System
Health System	$43	$30	$73	27.9%	
Instruction	59	5	64	24.4%	33.9%
Scholarships/Fellowships	47	8	55	21.0%	29.1%
Research	24	1	25	9.5%	13.2%
Academic support (including academic deans and course and curriculum development)	8		8	3.1%	4.2%
Maintenance	2	6	8	3.1%	4.2%
President initiatives	1	5	6	2.3%	3.2%
Health System outreach	5		5	1.9%	2.6%
Development	4		4	1.5%	2.1%
Libraries and museums	3	1	4	1.5%	2.1%
Other	9	1	10	3.8%	5.3%
Total	$205	$57	$262	100.0%	

It is important to note that the endowment balances and their distributions are restricted and/or committed to essential activities to support ongoing core operating activities. Redirecting distributions from one core operating activity to another (for example, from "instruction" to "financial aid") does not in any way immediately reduce the need for a specific revenue stream such as tuition. Reducing the need for a specific revenue stream such as tuition can only be accomplished by generating additional revenue from another source, such as gifts or state appropriation, or by reducing costs through such steps as eliminating non-core activities or increasing productivity of back-office support services.

10. How much of the endowment is subject to permanent spending restrictions or limitations set by the original donor? Of the portion subject to permanent limitations, what percentage is restricted for need-based scholarships? What portion is restricted for undergraduate financial aid? Please provide the top five types of restrictions on the endowment by category. What percentage of the endowment is subject to significant limitations placed on it due to a decision by the board (or a subcommittee of the board) or a college or university official – such as a set-aside for a specific program? Please provide the investment return to the endowment year-by-year for the last ten years.

Of the University's total endowment funds, 54%, or $3.8 billion, are subject to restrictions or limitations set by the original donor, as shown in the table below. Of the funds that are available for academic operation (non-health system), 73 % are restricted, as shown in Table 14.

The remaining 46 percent of the University's total endowment funds—those that are not subject to spending restrictions by the donor—are all funds functioning as endowment that were established as a strategic and fiscal stewardship matter decided on by individual units. These are restricted for use as designated by the unit which set aside the funds. The University's health system, which holds over half of these funds functioning as endowment from operations, strategically invests a portion of its operating margin in funds functioning as endowment so that it will be invested for the long-term and be able to support future equipment, building and capital infrastructure needs. While these amounts are not "donor restricted", they were generated by healthcare operations and accordingly will be used for healthcare purposes. The University's hospitals and health centers, like other health systems, uses its operating margin to fund future, critical capital needs, such as a new Children's and Women's Hospital.

Table 14 - University of Michigan Endowment Spending Restrictions

Endowment funds consists of the following at June 30, 2007 ($M)		Percent Total Endowment	Percent Excluding Health System
Permanent endowment funds (subject to permanent spending restrictions by donor)	$2,417	34.1%	46.3%
Donor restricted funds functioning as endowment (subject to spending restrictions set by the original donor)	1,411	19.9%	27.0%
SUBTOTAL - funds with restrictions set by the original donor	3,828	54.0%	73.3%
Other funds functioning as endowment:			
Health System	1,865	26.3%	
Life Sciences Institute	182	2.6%	3.5%
Other campus units	1,215	17.1%	23.3%
SUBTOTAL - funds invested by units	3,262	46.0%	26.7%
TOTAL endowment funds at June 30, 2007	$7,090	100.0%	100.0%

Of those endowments with permanent spending or other donor restrictions, the top five restrictions all support essential core operation of the University, shown in Table 15.

Table 15 - Top 5 Types of Restrictions on Endowment Spending

Type of Restriction	Amount ($M)	Percent of Total Endowment	Percent of Endowment Excluding Health System	Percent Restricted
Scholarships/Fellowships	$1,386	19.5%	26.5%	36.2%
Instruction	1,243	17.5%	23.8%	32.5%
Research	606	8.5%	11.6%	15.8%
Academic support	365	5.1%	7.0%	9.5%
Libraries and museums	82	1.2%	1.6%	2.1%
Total	$3,682	51.9%	70.5%	96.2%

Of those endowments with permanent spending or other donor restrictions, 15%, or $479 million, are restricted for undergraduate financial aid. In addition, $257 million of other funds functioning as endowment are designated for undergraduate financial aid. In total, $736 million, or 10% of the endowment, is restricted or designated for undergraduate financial aid, and an additional 10% is restricted for graduate financial aid. The University's endowment system does not separately classify endowments for need-based scholarships.

As previously discussed, the University collectively invests substantially all of the assets of its endowment funds together with a portion of its insurance and benefits reserves and gift annuity program in a single diversified portfolio called the Long Term Portfolio. The investment return for the University's Long Term Portfolio for the last ten years is summarized in Table 16.

Table 16 - Long Term Portfolio Investment Return, 1998 - 2007

FY	Investment Return*
2007	25.6%
2006	16.3
2005	19.1
2004	20.7
2003	5.4
2002	- 4.4
2001	- 5.5
2000	43.7
1999	13.4
1998	13.7

* These investment returns represent the final returns as reported in the annual university investment report. They may differ slightly from the Annual Financial Report due to final valuations from alternative investments received after year end.

11. Please explain the fee arrangement to investment advisors. How is the fee and compensation measured and determined? What is the process to review reasonableness of the fee and compensation and what comparables are used? Who reviews and approves the fee? Who pays the fee (the endowment, general funds)? Please explain what relationship, if any, exists between endowment size and/or growth and the compensation given to the college or university president and the endowment manager. Please list what endowment-related bonuses, if any, either the college or university president or the investment manager has received year-by-year for the last ten years.

Fees charged by investment advisors vary with the complexity of the relationship. It is of crucial importance that the investment advisor is focused on and provided with the incentive to generate the best returns for the endowment, so the University's focus on alignment of interest between the investment manager and the University often extends to the way an investment advisor is compensated for its services.

Investment advisors that invest in traditional asset classes such as fixed income and equities typically charge fees that are a percentage of the asset that the manager manages for the University. Investment advisors in alternative assets, such as absolute return, real estate, private equity and energy, who generally manage smaller sums than their traditional counterparts, typically charge a fee that is a percentage of assets under management and also participate in the gains they generate for the University.

The University measures its investment success after considering the impact of fees on investment returns. An investment advisor is considered successful only to the extent that its performance exceeds the appropriate benchmark for performance after all fees and expenses are considered. Likewise, investment advisors that share in the gains they generate for the University only begin to share in the gains after all fees and expenses are netted against the performance and any pre-defined minimum performance hurdle has been met and exceeded.

Manager fees and compensation are reviewed by the Investment Office on an investment- by-investment basis and are compared to industry standards. Professional staff in the finance and accounting department review and reconcile fees paid to managers according to their contracts. The Board of Regents approves the hiring of all new investment managers, and the University's Chief Financial Officer and the Chief Investment Officer approve the fee arrangement under their delegated authority with the advisement of the University's General Counsel.

Investment manager fees are netted against investment returns and are borne by the endowment for fees incurred by endowment related investment strategies.

The compensation paid to the President of the University of Michigan is not based on or related to the size and/or growth of the endowment in any form or manner. However, a significant portion of the compensation that is paid to the endowment manager, also referred to as the Chief Investment Officer (CIO), is related to the endowment's performance relative to established market benchmarks, but not size per se.

Based on the fiduciary responsibility to safeguard its assets, the University works to preserve and protect the growth and development of its endowment. The University is under a heavy obligation to the community and future generations to ensure that an asset worth billions of dollars is managed properly to the satisfaction of all parties. The Chief Financial Officer and Executive Vice President (CFO) developed, a few years back, an incentive compensation plan for the CIO to ensure that CIOs are appropriately recruited and retained, that their compensation fairly reflects the appropriate value in the market, and that the endowment is growing at a rate that is as good as or better than can be reasonably expected. In addition to base salary, the plan provides incentives based on how well the CIO manages the University's investment program (including the endowment) and his or her individual performance as the CIO. These incentives are structured to attract and keep professionals that have the appropriate background, experience, skills, talent, and other necessary qualifications to manage this multi-billion dollar asset.

The incentive plan is compliant with federal and state laws, and includes limitations and caps to ensure that the incentives are reasonable and fair in comparison to similar endowment managers with similar responsibilities at other institutions. For instance, the total compensation for the CIO will be capped at 90% of the maximum total cash compensation for similar positions as defined by relevant market surveys.

Further, the process to determine these amounts includes the proper levels of review and supervision. For example, the plan administrator shall review the plan at least every three years (sooner if requested by the CFO) to determine if the plan's stated objectives are being achieved, and shall issue a report that covers at least each of the following: (1) an opinion from the Investment Advisory Committee regarding the appropriateness of the benchmarks used to measure the performance of the investment pools; (2) an opinion from the Human Resources Department regarding the appropriateness of the benchmarks used to measure individual performance; and (3) an overall evaluation of whether the plan is furthering the educational mission of the University as well as meeting its purposes. An external consultant assists the Investment Advisory Committee in determining the appropriateness of these benchmarks.

The President of the University of Michigan has not received any endowment-related incentive compensation over the past ten years. The CIO did not receive any endowment-related incentive compensation until the calendar year 2005, when the incentive compensation plan was implemented. Based on the responsibilities of managing a large and complex investment

program, including the endowment, and its top-level investment results relative to target benchmarks and peer institutions, the CIO received $290,212 as incentive compensation payments for the calendar year 2005, $378,498 for the calendar year 2006 and $466,778 for the calendar year 2007. Importantly, incentives at this level are not guaranteed, as sub-par or poor performance in any year or over a period of years can significantly reduce the CIO's total compensation.