

University of Michigan University Endowment Fund Profile

June 30, 2008



INVESTMENT PERFORMANCE

Net of Fees and Expenses

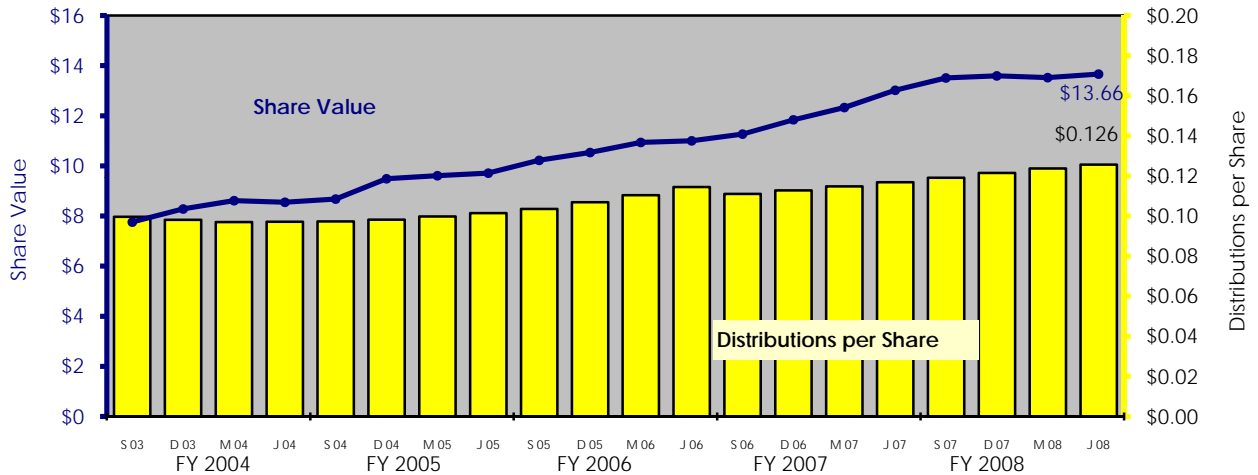
Periods Ended June 30, 2008

	1 Year	3 Years Annualized	5 Years Annualized
University Endowment Fund	6.4%	15.8%	17.5%
Median College and University Endowment*	-1.2%	10.2%	11.8%

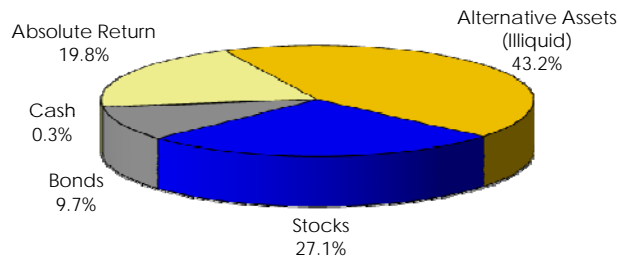
* Based on Cambridge Associates' endowment survey of about 130 college and university endowments.

QUARTERLY SHARE VALUE AND DISTRIBUTIONS

The University Endowment Fund is organized similar to a mutual fund. Over time, growth in share value results in increased distributions.



ASSET ALLOCATION*



* Alternative Assets (illiquid) include venture capital, private equity, real estate, and energy investments. Absolute return investments emphasize manager skill rather than market movements.

POLICY FRAMEWORK

- The endowment's **long-term investment horizon** allows for an equity-oriented investment strategy, which should provide higher returns over time.
- The long-term investment horizon also permits the use of less liquid **alternative assets** providing for equity diversification beyond the stock market and greater expected returns.
- The investment program relies on carefully selected **external investment managers** to implement investment strategies.
- The University's tax-exempt status which gives equal treatment to income and capital appreciation, enables the University to **invest for total returns**.
- The endowment distribution policy **insulates the University's budget from market volatility** by setting distributions at a 5 percent annual rate, based on the trailing seven year average market value of endowment shares.
- The distribution policy also provides for **intergenerational equity** by requiring adequate reinvestment of returns to protect the purchasing power of the endowment and its future distributions.

ADDITIONAL INFORMATION

The University Endowment Fund is the unitized investment pool for the University of Michigan's 6,200 separately administered endowment and quasi-endowment funds.

Objective. The University manages the fund to meet donors' expectations that their endowment gifts will provide support to the University in perpetuity. The objective is to maintain and enhance the value of endowment gifts and to secure the future purchasing power of the quarterly distributions.

Size. Michigan's endowment was valued at \$7.6 billion at June 30, 2008. In a June 30, 2007, survey, it was eighth in size among U.S. higher education endowments and second among public universities.

Distributions. Distributions are made quarterly and are computed at 1.25 percent (which is one-quarter of 5 percent) of the trailing average market value of University Endowment Fund shares. To protect the endowment in a declining market, quarterly distributions are capped at 1.325 percent of the current market value of University Endowment Fund shares, or a 5.3% annual rate. Under the spending rule five percent of the trailing average market value is distributed for operating purposes in any given year. Effective July 1, 2006, the moving average period was extended from being 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 the volatility of distributions to University departments for operations, as well as to better preserve and grow the endowment corpus over time.

Additions and Redemptions. Additions to the University Endowment Fund can be made quarterly, priced on the last business day of the quarter. Redemptions of quasi-endowment shares can be made quarterly, with one month's prior notice to Financial Operations. True endowment shares cannot be redeemed.

Establishment of New Endowment and Quasi-Endowment Funds. Legal review by the Development Office and approval of the Controller are required. Quasi-endowment funds entail a five-year investment commitment.

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