The Trustee Finance Committee and Trustee Policy Committee meetings were held in the Board Room of the Administration Building beginning at 2:05 p.m. on Friday, November 14, 2003. Minutes of the meetings are on file in the Office of the Secretary of the Board of Trustees.

President Peter McPherson called the meeting of the Board of Trustees to order at 3:10 p.m. in the Board Room.

Trustees present: Dolores M. Cook, Dorothy V. Gonzales, Colleen M. McNamara, Donald Nugent, Randall L. Pittman, David L. Porteous and G. Scott Romney.

Trustee absent: Joel I. Ferguson.

University officers present: President Peter McPherson, Provost Simon, Vice President Poston, Secretary Carter, Vice President and General Counsel Noto, Vice Presidents Denbow, Huggett, June and Webster. Faculty Liaisons present: Robert Maleczka, Michael Moch, Arjun Sing and Jon Sticklen. Student Liaisons present: Jared English, Missy Kushlak, Misty Staunton and Kimberly Yake.

All actions taken were by unanimous vote of the Trustees present, unless otherwise noted.

1. On a motion by Mr. Romney, supported by Ms. McNamara, THE BOARD VOTED to approve the amended agenda.

2. On a motion by Mr. Porteous, supported by Mr. Pittman, THE BOARD VOTED to approve the minutes of the meeting of October 10, 2003.

3. President’s Report

President McPherson noted that:

-- The Broad Foundation pledged $6 million to fund a partnership between Michigan State University’s College of Education and the
Detroit Public Schools to recruit and train the next generation of teachers for the Detroit Public Schools.

-- MSU’s debate team continues to excel. It is one of the many jewels at the University.

-- Dr. Ruth Hamilton, who passed on earlier this week, will be sorely missed. President McPherson knew her through her work with international development projects. She was an outstanding faculty member.

-- Secretary of Energy Spencer Abraham on Monday set forth the Department of Energy’s priorities for the next 20 years. In the cluster of highest priorities is the RIA Project (Rare Isotope Accelerator). The University continues to work diligently to secure a role in that project.

4. Public Participation on Items Germaine to the Agenda

All public participation germane to the agenda was held during the Policy Committee meeting.

5. Personnel Actions

Provost Simon indicated there were no Personnel Actions to come before the Board.

6. Gift, Grant and Contract Report

Vice President Huggett indicated there was no report as to grants and gifts.

Vice President Huggett referred the Trustees to a resolution distributed prior to the meeting relating to the donation of patents from General Motors. A copy of the resolution is attached as Exhibit A.

On a motion by Mr. Porteous, supported by Mr. Nugent, THE BOARD VOTED to adopt the resolution.

7. The Trustee Finance Committee report and recommendations were presented by Committee Chairperson Pittman.
A. Construction Manager Award

It was recommended that the Barton Malow/Clark Construction Company joint venture be appointed as the construction manager for the project entitled: IM West Fitness Center – Courtyard Renovation.

B. Architect/Engineer Appointment:

It was recommended that Hamilton Anderson Associates of Detroit, Michigan, be appointed as the architect/engineer for the project entitled: Administration Plaza Renovation.

On a motion of Mr. Porteous, supported by Mr. Nugent, THE BOARD VOTED to approve the recommendations.

C. New Investment Managers

1) It was recommended that Reed, Connor & Birdwell be selected as a U.S. small cap value investment manager.

2) It was recommended that Mangan & McColl Partners, LLC, be selected as an absolute return manager.

3) It was recommended that Texas Pacific Group be selected as a private equity manager.

On a motion of Mr. Nugent, supported by Mr. Porteous, THE BOARD VOTED to approve the recommendations.

Mr. Porteous indicated that the longstanding policy of the University is to have a diversified portfolio of investments. The track record of this University and its investment advisors has been excellent.

D. Revised Statement of Investment Objectives

It was recommended that the Board adopt the attached revised Statement of Investment Objectives for Michigan State University’s Common Investment Fund (“CIF”).

(Attachment B) The asset allocation range for foreign common stocks in the Statement of Investment Objectives will be changed from 7.5% - 12.5% to 7.5% - 14%.
On the motion of Mr. Nugent, supported by Mr. Porteous, THE BOARD VOTED to approve the recommendation.

Mr. Nugent clarified that this does not change the target of 10%, but gives the University more latitude within which to work.

E. Funds Functioning as Endowments

1) It was recommended the Board establish a fund functioning as an endowment entitled: Dr. Ellen Brown Endowment in the Department of English. This endowment will provide scholarships to students majoring in English, and to English majors pursuing Secondary English Certification, as well as funds for faculty and student enhancement.

2) It was recommended that the Board establish a fund functioning as an endowment entitled: The Minnie E. Newman Memorial Scholarship. This endowment will provide scholarships in memory of Minnie E. Newman for the benefit of graduates of public or private high schools in Ingham County, having a scholastic average of B or better, leadership qualities and such additional qualifications as the MSU Board of Trustees may establish.

On the motion of Ms. McNamara, supported by Ms. Gonzales, THE BOARD VOTED to approve the recommendations.

8. The Trustee Policy Committee report and recommendations were presented by Committee Chairperson McNamara.

A. Revision of Ordinance 21.00 – Alcoholic Beverages

It was recommended that the Board approve a change to Ordinance 21.00 so that Ordinance 21.02 will read as follows:

.02 The use or possession of alcoholic beverages is prohibited in classrooms, lecture halls, laboratories, the libraries and the chapel.
On the motion of Ms. McNamara, supported by Mr. Romney, THE BOARD VOTED to approve the recommendation.

B. Proposal to Restructure and Integrate Three Departments in the College of Agriculture and Natural Resources

It was recommended that the Board approve the proposal to restructure and integrate three departments in the College of Agriculture and Natural Resources: the Departments of Agriculture and Natural Resources Education and Communication (ANRECS), Resource Department (RD) and Park, Recreation and Tourism Resources (PRTR) shall be eliminated and restructured to create the Department of Community, Agriculture, Recreation and Resource Studies (CARRS).

[It is noted that during the Policy Committee meeting, the Board heard comments germane to the issue.]

On the motion of Ms. McNamara, supported by Mr. Romney, THE BOARD VOTED to approve the recommendation.

Mr. Nugent said that he had served as a State Officer of the Future Farmers of America (FFA) in his younger years. He commended everyone who worked to develop the restructuring proposal, and he thanked everyone who came to speak before the Board and those who wrote letters expressing their views. There is no question that the agriculture industry is important to this State and its economy, and there is no question that agriculture education is vital to this institution. When Mr. Nugent became a member of the Board of Trustees, he traveled to Cornell University, Texas A & M, U-C Davis and Iowa State to explore their agriculture education programs. He was very discouraged by what he saw at other universities. This institution is absolutely dedicated to the preservation of agriculture, the agriculture industry and agricultural sciences.

There is no question of the importance of the FFA and FFA leadership. Rural communities are changing and the number of farmers continues to drop dramatically. In today’s society agriculture and other community enterprises must be integrated.
Mr. Porteous thanked everyone who sent letters and e-mails, who called and who made personal visits to discuss the issue of restructuring the CANR Departments. Mr. Porteous has seen enthusiasm, passion and leadership from the teachers who addressed this issue. The significance of FFA and the agri-science programs are not questioned in our State. Agriculture is the second largest industry in Michigan. Mr. Porteous is supporting the proposal which includes a provision for review in one year and allows the Board to ask for a review at any time in the future to help assure that the concerns that the students, the teachers and the stakeholders have are being addressed appropriately. Dean Armstrong has also demonstrated his love and compassion for FFA and agri-science. His commitment to help ensure the survival of this program is strong.

President McPherson personally affirmed the need to continue to have a strong agricultural education program at MSU. It is part of the commitment that this University has to agriculture and natural resources.

C. Notice of Intent to Negotiate Contract

Pursuant to state law, the Chair of the Policy Committee gave public notice to the full Board of the University’s intention to negotiate agreements regarding technology licensing, research and related matters with C-Cure, LLC, a Michigan firm based in Petoskey. Mr. Jeffrey S. Monroe, Assistant Director of Intercollegiate Athletics; Ms. Sally Nogle, an Athletic Trainer in Intercollegiate Athletics; and Dr. Clarence Underwood, an Outreach Consultant in Admissions & Scholarships, and their immediate families, own or have options to buy equity interests of more than 5% of the company.

9. Chairman’s Report

Trustee Porteous said the Board was very grateful that when President McPherson took his leave to serve his country, Lou Anna Simon was available to assume the role of Interim President and Provost. At the annual retreat, Dr. Simon requested that she receive no additional compensation. However, the Board wanted to acknowledge Dr. Simon’s extraordinary performance as Interim President and Provost. To that end, the attached Resolution was recommended to honor Dr. Lou Anna Simon and Dr. Roy Simon. (Attachment C) Undesignated gift income in the amount of $30,000
is to be used to establish a fund functioning as an endowment, called the Drs. Lou Anna K. and Roy J. Simon Scholarship Fund, with the proceeds of this fund to be used to provide financial aid to students in the School of Music, especially students in the Jazz Studies Program.

On the motion of Mr. Porteous, supported by Ms. Gonzales, THE BOARD VOTED to adopt the Resolution.

10. Trustees’ Comments

A. Trustee Cook said that Mr. Broad spoke very glowingly of the College of Education and his love for Michigan State University when the $6 million Broad Foundation gift to the College of Education was announced. The gift will help train prospective students from the inner city to be teachers; they will then return to their home community to teach. Mr. Broad said that the College of Education at Michigan State University is the number one teacher training institution in the country. Mr. Broad’s interest has broadened and is now focused on other areas of excellence within the University community. Dean Ames and her faculty are to be commended. This is also a very important gift for the City of Detroit and public education, which Mr. Broad stated was significant to his success.

B. Trustee Gonzales added that the program was very moving and it was very generous of Mr. Broad to award that gift. It means a great deal to people in Wayne County.

Ms. Gonzales also remembered a dear friend who was lost this past week. She asked for a moment of silence to remember Dr. Ruth Hamilton. Dr. Hamilton was a mentor and supporter of young people and will be missed by those who knew her and loved her. An appropriate memorial should be considered at a future time.

C. Trustee McNamara passed.

D. Trustee Nugent said that AutumnFest would be held three hours before kickoff of the Penn State football game on November 22nd in the Pavilion. He urged everyone to support this fundraiser for the College of Agriculture and Natural Resources.
E. Trustee Romney thanked Dr. Simon for her excellent service and devotion during the time she served as Interim President. Mr. Romney also attended the Eli Broad event and was impressed with what Michigan State University, in his view, has contributed to Mr. Broad’s life.

Mr. Romney said that the University will again face severe budget challenges. He was proud of the way those involved in the budget process worked together and cooperated with each other and involved everyone most recently. He is pleased with the innovation and creativity that is being demonstrated – even before the process begins.

F. Trustee Pittman passed.

11. Public Participation on Issues Not Germane to the Agenda

A. Benyamin Tsedaka spoke on Samaritan Studies. He is Chancellor of the High Priest of the Samaritan people in Israel. The Samaritans are the last people of the Israelite Kingdom.

MSU received one of the largest collections in the world of Samaritan manuscripts; they are located in the Library. He encouraged the University to utilize this collection to promote Samaritan Studies.

B. Arnold Stieber spoke on behalf of Veterans for Peace. He encouraged the Board to develop conflict resolution policies – if war can be avoided, the government will save massive amounts of money. He encouraged the audience to read “The Plan for the New American Century” that is available on the Internet.

He also addressed the topic of depleted uranium.

Mr. Steiber urged the Board to work toward a policy of conflict resolution and to also take a position on depleted uranium.

C. Dale Savage appeared on behalf of The Greenhouse of Ferndale. He spoke on access to higher education. There is a national program in place at MSU that can help students who face financial challenges. The program is College Level Examination Program (CLEP) which allows a student to get credit for a class if he or she passes an exam for that class. He
encouraged the Board to consider a broader use of the CLEP to increase accessibility without raising tuition.

12. An Executive Session was not requested.

13. President McPherson thanked the Trustees and others who participated in the Board meeting. Mr. McPherson thanked General Motors for the donation of the patent for removal of contaminants from the soil.

On a motion by Mr. Pittman, supported by Ms. McNamara, THE BOARD VOTED to adjourn at 4:02 P.M.

Respectfully submitted,

L. Susan Carter
Secretary of the Board of Trustees
November 11, 2003

MEMORANDUM

TO: MSU Board of Trustees

FROM: Dr. Lou Anna K. Simon, Provost
Dr. Robert J. Huggett, Vice President for Research & Graduate Studies

RE: Acceptance of Donation of Patents from GM

Recommendation:

BE IT RESOLVED that the Board of Trustees gratefully accepts from the General Motors Corporation the donation of a set of patents dealing with environmental remediation, a surface generating device patent for die, mold, and surface applications, plus two years’ legal expense support for the ongoing maintenance of the donated patents.

Background:

General Motors Corporation has a long, exemplary history of philanthropic support for Michigan State University. In this gift, GM will donate patents that complement both University research strengths and existing technologies within the MSU intellectual property portfolio.

The set of environmental remediation patents being donated by GM cover aspects of *in situ* soil sampling and the removal of underground contaminants with microbial agents. Related research by Professor James Tiedje and his colleagues has gained national recognition and resulted in the licensing of MSU inventions. Thus, existing institutional relationships with potential licensees may assist MSU in licensing the GM patents and obtaining a royalty stream from the donation. If royalties are obtained, it is the intention of the donor that they be directed by MSU to support research and instruction in environmental studies and environmental remediation, including the support of graduate fellowships in those areas.

The device patent for generating a die, mold, or fixture surface is relevant to mechanical engineering research and instruction. The patented technology
permits contour-following surfaces to be generated that support and secure workpieces during machining or welding operations. If royalties are obtained by MSU through licensing of this technology, it is the intention of the donor that they be directed by MSU to support research and instruction in Engineering, including the support of graduate fellowships.

GM has committed to defray the legal expenses associated with maintenance of the environmental remediation patents and the surface generating device patent for a period of two years.

These patents are a very welcome contribution to the Capital Campaign by GM -- a truly outstanding, long-term supporter of the University.

c:  Dr. Charles H. Webb
     Dr. Paul M. Hunt
     Dr. Janie M. Fouke
     Dr. George E. Leroi
     Ms. Loraine J. Hudson
November 5, 2003

MEMORANDUM

TO: Trustee Finance Committee
FROM: Fred Poston
RE: Revised Statement of Investment Objectives for the CIF

RECOMMENDATION:

BE IT RESOLVED that the Trustee Finance Committee recommends to the Board of Trustees the adoption of the attached revised Statement of Investment Objectives for Michigan State University’s Common Investment Fund (“CIF”).

BACKGROUND:

The current Statement of Investment Objectives was last revised in May of 2003. At the September meeting, the Trustee Finance Committee asked Cambridge Associates to revisit the question of whether the overall asset allocation set forth in the Statement and the allocation to absolute return-oriented strategies were appropriate for the market environment over the next several years. Cambridge believes they are appropriate for the following reasons:

- Historical volatility of the total MSU portfolio over ten years has been comparable to the long-term volatility of U.S. bonds, which should be tolerable for operational/budget planning, particularly when combined with the 12-quarter smoothing formula for spending. Cambridge sees no reason to believe that the volatility of this portfolio will be materially different in the future.

- Cambridge believes there is adequate protection against deflation and inflation to forestall having to liquidate equities at the bottom of a market cycle just to meet spending needs.

- The illiquid and quality based strategies are large enough (when fully funded) to add to long-term returns, offsetting the potential drag from the various hedges in the portfolio.

- The long-only portion is of comparable size to peer and larger institutions, so MSU should not be at a comparative disadvantage should we enter a new bull market (not a high likelihood, in Cambridge’s view).
• There is ample diversification of the sources of return to moderate most of the risks inherent in an equity-oriented portfolio.
Cambridge compared MSU’s asset allocation with a group of peer institutions (similar size), the largest 25 colleges and universities and a group of “thought leaders” (9 of which are in the top 25 group). Compared with the average of the large institutions and “thought leaders”, the primary allocation differences are modest. Relative to the peer group, MSU has a lower U.S. equity allocation and a higher absolute return allocation (by about 10 percentage points). Relative to the “Thought Leaders”, MSU has a higher U.S. equity allocation, lower venture/private equity, lower real estate and higher fixed income. However, all allocations are well within the ranges of these institutions and none would be considered an outlier.

One issue that needs to be addressed is how to handle the current underallocation to venture/private equity relative to MSU’s long-term targets. In the past, this has been handled by simply overallocating some or all of the other equity strategies. However, an overallocation coupled with strong market performance has resulted in the current allocation to non-U.S. equities being above the allowable range. Cambridge believes that U.S. equities are more overvalued than most other asset classes, and is not inclined to shift assets to the U.S. They believe REITs and oil and gas are more fairly valued, as are Asian equities, while Emerging Markets continued to be undervalued, but these are also overallocated currently. Absolute return strategies are currently modestly underallocated (largely a function of the strong equity run), but given the large capital flows into these strategies, they are not inclined to add much capital to that asset class. Their preference would be to raise the allowable target range for non-U.S. to 14% at the upper end. As other attractive strategies/managers in the absolute return area are identified, MSU could use non-U.S. equities as a source of funds, bringing it back toward target.

Based on this analysis, it is proposed that the asset allocation range for Foreign Common Stocks in the Statement of Investment Objectives be changed from 7.5% to 12.5% to 7.5% to 14%.

Attached are a clean copy of the revised policy statement and a version black lined to the current statement.

c: Policy Committee
   P. McPherson
   L. A. K. Simon
   S. Carter
   K. Lindahl
   D. Brower
   G. Klein
   N. Carter
Statement of Investment Objectives

Michigan State University’s Common Investment Fund

INTRODUCTION

This statement defines the investment objectives of Michigan State University’s Common Investment Fund (“CIF”), which is primarily composed of the University’s endowment funds. While other Institutional Funds, (i.e. the Retirement Fund) may use the CIF as an investment vehicle, these funds should be governed by their separate statements of investment objectives if materially different from that of the endowment funds.

CIF ASSETS

Table No. 1 shows the ownership composition of the CIF as of June 30, 2002.

<table>
<thead>
<tr>
<th>CIF Unit Holder</th>
<th>Market Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Endowment funds</td>
<td>$514</td>
</tr>
<tr>
<td>Retirement Fund</td>
<td>60</td>
</tr>
<tr>
<td>Other (Primarily DCL)</td>
<td>6</td>
</tr>
<tr>
<td>Total</td>
<td>$580</td>
</tr>
</tbody>
</table>

INVESTMENT OBJECTIVES

The investment objectives of the CIF are:

1) to provide a total rate of return sufficient to satisfy the amount annually made available for spending \(^{(1)}\) by the University’s programs supported by endowment funds and still provide a modest increase in the inflation-adjusted unit value, and
2) to achieve the desired return while bearing a moderate amount of risk.

The University will seek to achieve these investment objectives by diversifying across major asset classes (i.e. common stocks, bonds, private equity, absolute return funds, etc.) as well as within each asset class (i.e. by investment style, capitalization, industry, etc.).

SHORT-TERM PERFORMANCE GOALS

Short-term performance goals for the CIF as well as individual managers will be to outperform appropriate market and peer benchmarks over rolling three and five-year periods. Furthermore, adherence to the investment style for which individual managers were hired will also be monitored. Private equity and other non-marketable investments will be expected to outperform their respective median vintage year benchmark.

\(^{(1)}\) The current endowment spending policy is 5.25% of the average market value of the endowment as calculated for the twelve quarters of the three calendar years prior to the beginning of the fiscal year.
LONG-TERM PERFORMANCE GOALS

The following long-term performance goals of the CIF are expected to be achieved over a 5 to 10-year period, measured on a 5-year rolling basis.

1) A total annual return greater than the rate of inflation plus 6.0%, after fees and expenses.
2) To the extent an actively managed strategy is used, a risk-adjusted, excess annual return greater than 1.0%, after fees and expenses. Risk-adjusted, excess return is defined as a portfolio’s actual return over and above that of the benchmark portfolio as predicted by the Capital Asset Pricing Model. (See Figure No. 1.) The Jensen measure is used to calculate the risk-adjusted return.

*The passive index portfolio will be composed of benchmark indices, for which passive index funds exist, and weighted to reflect the CIF’s asset allocation. It should be noted, however, for certain asset classes involving non-marketable securities (i.e. private equity and absolute return) for which passive index funds don’t exist, well-established indices corresponding to marketable securities will be used.

Table No. 2 lists the benchmark indices and long-term performance goals for each major asset class. The long-term performance goal for each individual manager within an asset class will be that of the asset class.
Table No. 2
Benchmarks & L-T Performance Goals

<table>
<thead>
<tr>
<th>Major Asset Class</th>
<th>Benchmark</th>
<th>L-T Performance Goals</th>
</tr>
</thead>
<tbody>
<tr>
<td>U.S. Common Stocks</td>
<td>Russell 3000</td>
<td>If passive, benchmark. If active, risk-adjusted excess return of 1.0% after fees</td>
</tr>
<tr>
<td>Foreign Common Stocks (includes emerging markets)</td>
<td>MSCI All Country World (ex US)</td>
<td>If passive, benchmark. If active, risk-adjusted excess return of 1.0% after fees</td>
</tr>
<tr>
<td>Inflation Hedges- Marketable: Real Estate</td>
<td>NAREIT</td>
<td>If passive, benchmark. If active, risk-adjusted excess return of 1.0% after fees</td>
</tr>
<tr>
<td>Inflation Hedges- Marketable: Natural Resources</td>
<td>Wilshire 5000 Energy Index</td>
<td>Meet or exceed benchmark</td>
</tr>
<tr>
<td>Inflation Hedges- Non-marketable (real estate &amp; natural resources)</td>
<td>Vintage year median IRR for asset class</td>
<td>Meet or exceed benchmark</td>
</tr>
<tr>
<td>Private Equity (venture capital, buyouts, restructuring)</td>
<td>Vintage year median IRR for asset class</td>
<td>Meet or exceed benchmark</td>
</tr>
<tr>
<td>Absolute Return</td>
<td>90-day T-Bill + 6%</td>
<td>Meet or exceed benchmark</td>
</tr>
<tr>
<td>Fixed Income</td>
<td>LB Aggregate</td>
<td>If passive, benchmark. If active, risk-adjusted excess return of 0.50% after fees</td>
</tr>
</tbody>
</table>

ASSET ALLOCATION

Table No. 3 sets forth the policy targets and ranges for each major asset class:

Table No. 3
Asset Allocation

<table>
<thead>
<tr>
<th>Major Asset Class</th>
<th>Target</th>
<th>Range</th>
<th>Rationale</th>
</tr>
</thead>
<tbody>
<tr>
<td>U.S. Common Stocks</td>
<td>30.0%</td>
<td>25.0% - 40.0%</td>
<td>Maximize real returns</td>
</tr>
<tr>
<td>Foreign Common Stocks (includes emerging markets)</td>
<td>10.0%</td>
<td>7.5% - 14.0%</td>
<td>Maximize real returns &amp; diversification</td>
</tr>
<tr>
<td>Inflation Hedges (real estate &amp; natural resources)</td>
<td>7.5%</td>
<td>5.0% - 10.0%</td>
<td>Inflation hedge &amp; diversification</td>
</tr>
<tr>
<td>Private Equity (venture capital, buyouts, restructuring)</td>
<td>12.5%</td>
<td>7.5% - 17.5%</td>
<td>Higher returns than common stocks &amp; diversification</td>
</tr>
<tr>
<td>Absolute Return</td>
<td>22.0%</td>
<td>17.0% - 27.0%</td>
<td>Low volatility &amp; low correlation with common stocks</td>
</tr>
<tr>
<td>Fixed Income</td>
<td>18.0%</td>
<td>13.0% - 23.0%</td>
<td>Deflation hedge &amp; diversification</td>
</tr>
</tbody>
</table>
More detailed descriptions of each asset class are listed below.

**U.S. Common Stocks.** This asset class consists of marketable equity securities of primarily U.S.-based companies. Managers may hold equity securities of non-U.S.-based companies which are traded as American depository receipts (“ADR’s”) on U.S. stock exchanges. It is intended to be a long-term hedge against inflation and provide a real return of about 8%. Several sub-categories of this asset class include: large capitalization companies, small capitalization companies, value-style investing and growth-style investing. While the benchmark for this entire class is the Russell 3000 Index, individual managers may have specific benchmarks corresponding to their investment style and capitalization category.

**Foreign Common Stocks.** This asset class consists of marketable equity securities outside the U.S. It is intended to provide similar long term performance as the U.S. common stocks but will provide some diversification due to lower correlation. This class will be diversified geographically and would include emerging markets.

**Inflation Hedges.** The University will seek to reduce the volatility of the CIF and provide a hedge against sudden, unanticipated inflation by investing a portion of its available funds in real estate and natural resource investments, such as oil and gas. Risks related to the real estate investments will be minimized by diversifying through use of real estate investment pools or partnerships that are varied as to property type, location, investment life cycle and investment manager. This core real estate portfolio may be supplemented with less diversified specialty funds or direct investments. Risks related to natural resource investments will be controlled by diversifying among the number of operators, number of drilling or acquisition prospects and by geography.

**Private Equity.** The University will seek to enhance the total return of the CIF by investing a portion of its funds in private equity, which includes venture capital, buyout and restructuring investments. These investments are illiquid and higher risk/return assets than marketable securities. Risk will be controlled by diversifying across a number of fund managers, geographic focus, industry emphasis, financing stage and vintage year. This core private equity portfolio may be supplemented with less diversified specialty funds or direct investments.

**Absolute Return Funds.** The University will seek equity-like returns while reducing the volatility of the CIF by investing a portion of its funds in absolute return strategies thereby creating a more defensive posture to the portfolio. Absolute return funds have been designed to seek an “absolute” return which is positive regardless of the overall direction of the markets. Managers employing “long/short” strategies invest primarily in equities and mitigate market risk by taking both long and short positions in selected stocks or indexes. Managers employing event-driven strategies seek to maximize returns by investing in publicly announced corporate transactions, such as mergers, tender offers, liquidations, bankruptcies and reorganizations. Additional return is also sought through investment in distressed securities.

**Fixed Income.** This asset class is intended to reduce the portfolio’s exposure to market risk and provide a hedge against sudden, unanticipated deflation. Foreign currency bonds may be held to enhance the funds total return and provide diversification.

**INVESTMENT RESTRICTIONS**

1) All investments, except real estate, private equity, venture capital, restructuring, hedge/absolute return funds and natural resources, will be in marketable securities.

2) Quality Guidelines:
   a. Bonds in the fixed income asset class shall have a weighted average credit quality of (AA/Aa) or better.
   b. Commercial paper will normally be rated no lower than A2-P2. Also acceptable is commercial paper of small issuers with quality credits but who, because of limited financing requirements, have no ratings.
c. Certificates of Deposit generally will be limited to:
   i. U.S. chartered banks with a debt rating of “A” or higher, ready access to
      world capital markets, a demonstrated record of profitability (including the
      avoidance of recent major loan losses), and a sizeable ongoing CD issuance or
      deposit collection program.
   ii. Foreign chartered banks domiciled in nations with strong economies,
       established capital markets, and central banks capable of controlling
       effectively domestic monetary movements. Instruments must be recognized
       as direct obligations of such banks, not as obligations of their subsidiaries.

3) Other restrictions imposed by separate Board action will be communicated to the investment
   manager(s) separately.
Statement of Investment Objectives

Michigan State University’s Common Investment Fund

INTRODUCTION
This statement defines the investment objectives of Michigan State University’s Common Investment Fund (“CIF”), which is primarily composed of the University’s endowment funds. While other Institutional Funds, (i.e. the Retirement Fund) may use the CIF as an investment vehicle, these funds should be governed by their separate statements of investment objectives if materially different from that of the endowment funds.

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The University will seek to achieve these investment objectives by diversifying across major asset classes (i.e. common stocks, bonds, private equity, absolute return funds, etc.) as well as within each asset class (i.e. by investment style, capitalization, industry, etc.).

SHORT-TERM PERFORMANCE GOALS
Short-term performance goals for the CIF as well as individual managers will be to outperform appropriate market and peer benchmarks over rolling three and five-year periods. Furthermore, adherence to the investment style for which individual managers were hired will also be monitored. Private equity and other non-marketable investments will be expected to outperform their respective median vintage year benchmark.

\(^1\) The current endowment spending policy is 5.25% of the average market value of the endowment as calculated for the twelve quarters of the three calendar years prior to the beginning of the fiscal year.
LONG-TERM PERFORMANCE GOALS

The following long-term performance goals of the CIF are expected to be achieved over a 5 to 10-year period, measured on a 5-year rolling basis.

1) A total annual return greater than the rate of inflation plus 6.0%, after fees and expenses.
2) To the extent an actively managed strategy is used, a risk-adjusted, excess annual return greater than 1.0%, after fees and expenses. Risk-adjusted, excess return is defined as a portfolio’s actual return over and above that of the benchmark portfolio as predicted by the Capital Asset Pricing Model. (See Figure No. 1.) The Jensen measure is used to calculate the risk-adjusted return.

*The passive index portfolio will be composed of benchmark indices, for which passive index funds exist, and weighted to reflect the CIF’s asset allocation. It should be noted, however, for certain asset classes involving non-marketable securities (i.e. private equity and absolute return) for which passive index funds don’t exist, well-established indices corresponding to marketable securities will be used.

Table No. 2 lists the benchmark indices and long-term performance goals for each major asset class. The long-term performance goal for each individual manager within an asset class will be that of the asset class.
### Table No. 3
**Asset Allocation**

Table No. 3 sets forth the policy targets and ranges for each major asset class:

<table>
<thead>
<tr>
<th>Major Asset Class</th>
<th>Target</th>
<th>Range</th>
<th>Rationale</th>
</tr>
</thead>
<tbody>
<tr>
<td>U.S. Common Stocks</td>
<td>30.0%</td>
<td>25.0% - 40.0%</td>
<td>Maximize real returns</td>
</tr>
<tr>
<td>Foreign Common Stocks (includes emerging markets)</td>
<td>10.0%</td>
<td>7.5% - 12.5%</td>
<td>Maximize real returns &amp; diversification</td>
</tr>
<tr>
<td>Inflation Hedges (real estate &amp; natural resources)</td>
<td>7.5%</td>
<td>5.0% - 10.0%</td>
<td>Inflation hedge &amp; diversification</td>
</tr>
<tr>
<td>Private Equity (venture capital, buyouts, restructuring)</td>
<td>12.5%</td>
<td>7.5% - 17.5%</td>
<td>Higher returns than common stocks &amp; diversification</td>
</tr>
<tr>
<td>Absolute Return</td>
<td>22.0%</td>
<td>17.0% - 27.0%</td>
<td>Low volatility &amp; low correlation with common stocks</td>
</tr>
<tr>
<td>Fixed Income</td>
<td>18.0%</td>
<td>13.0% - 23.0%</td>
<td>Deflation hedge &amp; diversification</td>
</tr>
</tbody>
</table>
More detailed descriptions of each asset class are listed below.

**U.S. Common Stocks.** This asset class consists of marketable equity securities of primarily U.S.-based companies. Managers may hold equity securities of non-U.S.-based companies which are traded as American depository receipts ("ADR’s") on U.S. stock exchanges. It is intended to be a long-term hedge against inflation and provide a real return of about 8%. Several sub-categories of this asset class include: large capitalization companies, small capitalization companies, value-style investing and growth-style investing. While the benchmark for this entire class is the Russell 3000 Index, individual managers may have specific benchmarks corresponding to their investment style and capitalization category.

**Foreign Common Stocks.** This asset class consists of marketable equity securities outside the U.S. It is intended to provide similar long term performance as the U.S. common stocks but will provide some diversification due to lower correlation. This class will be diversified geographically and would include emerging markets.

**Inflation Hedges.** The University will seek to reduce the volatility of the CIF and provide a hedge against sudden, unanticipated inflation by investing a portion of its available funds in real estate and natural resource investments, such as oil and gas. Risks related to the real estate investments will be minimized by diversifying through use of real estate investment pools or partnerships that are varied as to property type, location, investment life cycle and investment manager. This core real estate portfolio may be supplemented with less diversified specialty funds or direct investments. Risks related to natural resource investments will be controlled by diversifying among the number of operators, number of drilling or acquisition prospects and by geography.

**Private Equity.** The University will seek to enhance the total return of the CIF by investing a portion of its funds in private equity, which includes venture capital, buyout and restructuring investments. These investments are illiquid and higher risk/return assets than marketable securities. Risk will be controlled by diversifying across a number of fund managers, geographic focus, industry emphasis, financing stage and vintage year. This core private equity portfolio may be supplemented with less diversified specialty funds or direct investments.

**Absolute Return Funds.** The University will seek equity-like returns while reducing the volatility of the CIF by investing a portion of its funds in absolute return strategies thereby creating a more defensive posture to the portfolio. Absolute return funds have been designed to seek an "absolute" return which is positive regardless of the overall direction of the markets. Managers employing "long/short” strategies invest primarily in equities and mitigate market risk by taking both long and short positions in selected stocks or indexes. Managers employing event-driven strategies seek to maximize returns by investing in publicly announced corporate transactions, such as mergers, tender offers, liquidations, bankruptcies and reorganizations. Additional return is also sought through investment in distressed securities.

**Fixed Income.** This asset class is intended to reduce the portfolio’s exposure to market risk and provide a hedge against sudden, unanticipated deflation. Foreign currency bonds may be held to enhance the funds total return and provide diversification.

**INVESTMENT RESTRICTIONS**

1) All investments, except real estate, private equity, venture capital, restructuring, hedge/absolute return funds and natural resources, will be in marketable securities.

2) Quality Guidelines:
   a. Bonds in the fixed income asset class shall have a weighted average credit quality of (AA/Aa) or better.
   b. Commercial paper will normally be rated no lower than A2-P2. Also acceptable is commercial paper of small issuers with quality credits but who, because of limited financing requirements, have no ratings.
c. Certificates of Deposit generally will be limited to:
   
   i. U.S. chartered banks with a debt rating of “A” or higher, ready access to world capital markets, a demonstrated record of profitability (including the avoidance of recent major loan losses), and a sizeable ongoing CD issuance or deposit collection program.

   ii. Foreign chartered banks domiciled in nations with strong economies, established capital markets, and central banks capable of controlling effectively domestic monetary movements. Instruments must be recognized as direct obligations of such banks, not as obligations of their subsidiaries.

3) Other restrictions imposed by separate Board action will be communicated to the investment manager(s) separately.
MICHIGAN STATE UNIVERSITY
BOARD OF TRUSTEES RESOLUTION
HONORING DR. LOU ANNA K. SIMON AND DR. ROY J. SIMON
November 14, 2003

WHEREAS, the Board of Trustees wishes to recognize the outstanding work of Dr. Lou Anna K. Simon as both Interim President and Provost during President McPherson's recent leave of absence; and

WHEREAS, in keeping with the spirit of the deans and other vice presidents who donated their raises back to the University this year, Dr. Simon prefers not to receive additional compensation for her service as Interim President and Provost during President McPherson's leave of absence.

NOW, THEREFORE, be it

RESOLVED, that, to recognize Dr. Simon's exemplary work and the support of Dr. Roy Simon during her recent service as Interim President and Provost, the Board of Trustees directs the administration to use $30,000 of undesignated gift income to establish a fund functioning as an endowment called the Drs. Lou Anna K. and Roy J. Simon Scholarship Fund, with the proceeds of this Fund to be used to provide financial aid to students in the School of Music, especially students in the Jazz Studies Program.

David L. Porteous, Chairman

Joel I. Ferguson, Vice Chairman

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