

University of Michigan University Endowment Fund Profile

June 30, 2010



INVESTMENT PERFORMANCE

Net of Fees and Expenses

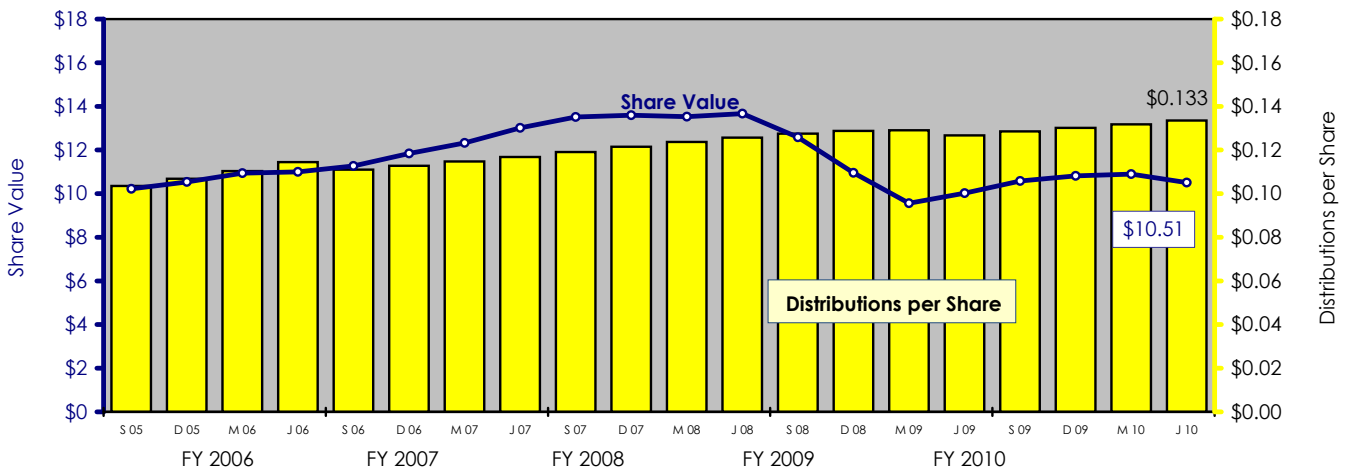
Periods Ended June 30, 2010

	1 Year	3 Years Annualized	5 Years Annualized	10 Years Annualized
University Endowment Fund	12.3%	-2.9%	6.0%	6.2%
Median College and University Endowment*	12.4%	-3.9%	3.8%	3.9%

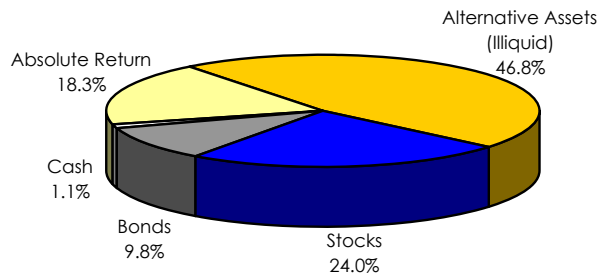
* Based on Cambridge Associates' endowment survey of about 145 college and university endowments.

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 basing the distribution rate on a trailing average market and provides for **intergenerational equity** by setting distributions at a level that approximates the real rate of return of an equity-oriented portfolio.

ADDITIONAL INFORMATION

The University Endowment Fund is the unitized investment pool for the University of Michigan's 7,000 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 \$6.6 billion at June 30, 2010. In a June 30, 2009, survey, it was seventh in size among U.S. higher education endowments and second ranking among public universities.

Distributions. A portion 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 three years to four years, and was extended by one quarter each subsequent quarter which reached the targeted seven years in June 2009. Basing the distribution rate on a trailing average market value instead of the current market value insulates the University's operations from temporary market swings and thereby facilitates prudent planning.

In July 2010, the Board lowered the annual distribution rate to 4.5 percent from 5.0 percent, while maintaining the seven year averaging period, to more effectively protect the purchasing power of the University's endowments and the distributions they provide. The lowering of the distribution rate will be implemented gradually over a number of years in a flexible manner. Distributions will be managed towards the 4.5 percent annual rate by keeping quarter to quarter distributions per share unchanged when distributions would otherwise increase under the prior distribution rate policy.

Distributions are limited to an annual rate of 5.3 percent of current fair value to protect the endowment from over distribution in a declining market. Distributions are made quarterly.

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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