become not only excellent teachers, but excellent leaders as teachers in the field as well.

Associate Vice President Holbrook commented that enormous strides have been made in the school in the last two years. He expressed his appreciation, and that of Vice President Frye, for the dedication and leadership that has been provided by Dean Berger.

Institute for Continuing Legal Education (ICLE) Building

Vice President Brinkerhoff indicated that Frederick Mayer, University Planner, would present the schematic plans for the Institute of Continuing Legal Education (ICLE). He said that approval is sought at this time to authorize architectural drawings for the new building.

Mr. Mayer commented that the Regents had approved the facility and appointed Hobbs and Black, architects, to execute the project. Two potential sites were identified at that meeting which would be appropriate locations. Following an analysis and consideration of both sites, the site on Greene Street was most applicable. He then described the schematic drawings.

Regent Brown moved to approve the schematic plans and elevations of the building as presented, and to authorize the architect to proceed with the completion of architectural drawings and to receive construction bids for the project. Regent Neilsen seconded the motion and it was adopted.

Investment Management Diversification

Vice President Brinkerhoff then indicated that Norman Herbert, the University's Invesment Officer, would review the request recommending authorization to commence a search for investment managers.

Mr. Herbert commented that the recommendation is to diversify the management of the University's endowment funds to the employment of multiple managers and/or index funds. Because of the size of the endowment portfolios, it is prudent to consider the diversification of the investment management. The three major funds are Consolidated Endowment, Rackham Endowment and Funds Functioning as Endowment and represent approximately 94% of the total endowments in custody of the Regents. Stocks represent 44% of the portfolios, bonds, 28% and cash equivalent investments, 21%.

The National Bank of Detroit has served the University since 1952 as both investment advisor and investment manager. The relationship was initiated because the Regents anticipated an increase in the size of the University endowments and also considered it appropriate to shift from basically a fixed income portfolio to one which included equities as well. NBD currently has the investment responsibility for 93% of the endowment assets. The recommendation to diversify the managment of the University's endowment funds is not to be construed as a criticism of NBD. The concern is that the investment performance is linked to a single manager, and it is felt that the University needs to consider a change.

Diversification has been a key factor in the effort to improve the endowment performance. In addition to stocks, bonds and mortgages, the Regents in recent years authorized the use of real estate, venture capital, opportunity fund type stocks, programs involving security lending, and option writing. The capital market history has demonstrated that no organization employing a single investment style has consistently produced above average returns over extended time periods. Diversification by investment style as well as among managers reduces the risk associated with entrusting a portfolio to a single manager. It is felt that management diversification will help the University achieve its goal for the endowment funds which is to maximize total rate of return, protect the endowment against inflation, and to provide a stable level of current income.

Mr. Herbert responded to several questions posed by Regent Baker. He indicated that allocation in various bonds, equities, etc. would be handled in several different ways. NBD as an investment advisor would continue to act in that role and they would be prepared to assist the University in terms of ratios and allocations. The University has retained the firm, Investment Management Consultants since 1978 to assist the University with the review of the performance of the endowment funds. In recent years their role has included dealing with asset allocation, therefore, it would be a combined effort along with the investment office working with Mr. Brinkerhoff and Mr. Matthews to develop the asset allocation issues and to determine the appropriate mix of fixed income and equity securities in a broad asset portfolio. Ultimately, it will be the responsibility of the Regents through the investment office. The University will initiate the final decision because of the role of coordinating the various money managers and determining the allocation of dollars to a particular manager as opposed to another.

Mr. Herbert indicated that there are studies to support this type of approach which will allow the University to improve its performance by approximately 200 basis points per annum. Historically, taking a ten-year period, total return is approximately 10% based on last June's figures. Taking last year alone or perhaps three years, total return can be increased 20%.

Regent Baker commented that a 20% increase was a very large figure. He challenged a 20% increase in returns over a prolonged period.

Regent Smith said it was her understanding that the evaluation of investment management control systems made in 1978 recommended multiple managers. Now the University is saying it would benefit the institution by 200 basis points if we did this. Why did it take from 1978 to 1985 to implement this concept?

Mr. Brinkerhoff replied that there was some reluctance on the part of the Regents to adopt the recommendation to use multiple managers. Then about two years ago the Regents advised us to move in that direction.

Regent Smith commented that she has been asking about this since January and has been told that it was being studied and that the Regents would then be told who had been selected. Instead a process is being recommended by which a money manager will be chosen. It will be another year before a determination is made. It will be difficult to find someone who will not use stocks in companies doing business in South Africa. Regent Smith said that firms such as Standard and Poor issues performance data, and wondered why their recommendations were not being used.

Mr. Herbert remarked that at the time the Regents adopted the policy with regard to investments in companies doing business in South Africa, money managers were not in a position to provide or to accommodate that particular type of policy, and his office was aware of that at the time. Regent Smith remarked that eight years was a long time to study a problem. She could not understand why a resolution to the problem could not have been reached before this.

Regent Baker commented that the resistance to multiple managers was on the part of the Regents and not the administration. The administration had made such suggestions earlier. Regent Power agreed with Regent Baker that this was a regental policy. She indicated that some Regents were more interested in diversification of money managers four or five years ago than two years ago. Regent Power suggested that a summary of recommendations and actions with respect to the portfolio over a ten-year period be prepared to assure Regents Smith and Nielsen that decisions affecting institutions of this nature are not resolved quickly.

Regent Power then asked if diversification of money managers was a growing trend among educational institutions across the country. What percentage of the Univerity's peer institutions have moved in this direction in the last five years?

Mr. Herbert responded that much of the shift to multiple money managers is a recent consideration at a number of educational institutions, but he did not know the percentage involved. He said that a number of institutions, along with the University, have been undertaking the diversification of assets and through that activity there is an introduction to diversification in management. For example, a number of institutions have become involved in venture capital in international security investment programs. The University has not allocated a percentage of the portfolios to those particular investment styles. As more experience is gained, the administration will probably bring to the Regents a request to consider increasing the allocation to some of the different investment assets.

Regent Baker asked what the Regents were being asked to authorize.

Mr. Herbert said the request was asking approval of the concept of the multiple investment managers approach. The evaluation process would then begin and a set of recommendations would be presented to the Regents following the interview process.

In response to Regent Baker's question regarding accomplishing the evaluation first, then seeking approval by the Regents, Vice President Brinkerhoff indicated that there would be a much better response from the manager world if they were aware that the University had decided to take that approach and it was simply a matter of choice who would be retained.

Relating to Regent Smith's comments, Regent Roach said that he recalled when the consultants brought the recommendation to the Regents in 1978, there were a whole series of recommendations and the concept of using multiple versus single investment manager was far from the most important. The most important consideration was the objectives of the endowment. There were recommendations also of changes in policies because the University had never invested in anything except blue chip stocks and bonds. One of the recommendations was a shift to multiple investment managers. He said he doubted whether a vote on the latter recommendation was taken at that time. It appears that most large investment pools, such as major corporate pension funds, are shifting to multiple managers because they get an element of diversification and competition.

Regent Roach said he supported the concept and did not have particular guilt feelings because the University has not been able to move faster. The specific recommendation indicates that the administration and the Regents oversee the management by selection of the manager rather than approval of individual transactions. At the present time the Regents have the option to disapprove the transactions. Once the change to multiple managers has been made, would there no longer be a report of the investment transactions?

Mr. Herbert said information concerning investment transactions would continue to be provided to the Regents, but the opportunity to have an approved list of stocks no longer would be a reasonable request to make of the investment manager. His office, however, would monitor the transactions. If the manager is deviating from what the University expects of them, there would be an interiew with the manager and, if appropriate, a recommendation would be made to the Regents to make a change. The consultant that was retained in 1978 would not tell the University how to invest. They would help the University select the particular manager with whom to invest.

Regent Baker indicated that he wanted the minutes to show that the Regents were advised by the administration that by employing multiple managers the yield from investments could be increased 200 basis points over a ten-year period without additional risks to the University.

Regent Neilsen indicated his agreement with Regent Smith's remarks with respect to the amount of time between the initial discussion of a change in money management procedures and the actual recommendation. The general statement that ''we are working on it'' without the transmittal of other information or guidance does cause frustration.

Vice President Brinkerhoff commented that the investment office is not exclusively concerned with endowment investing. It is also involved with the acquisition and sale of real estate, the development of underwriting characteristics in terms of bond issues, and has a daily operation in terms of the investment of the money market of some $400 million. There is just so much that one can do with a limited staff. The responsibility of the outside firm lies in their expertise in performance review which would help in the selection of but not necessarily the development of the program.

Regent Power indicated that a very important point has been raised. She noted that the administration would agree that any information requested should be promptly supplied. In her judgment, one of the most remarkable guiding principles of this University is the care and the deliberation with which major decisions are made. Perhaps some opportunities over time have been lost, and some of the Board might have been interested in diversified money managers a year or so earlier than it could be provided. But the overall policy with which this university has been run is one of its singularly signficant features.

Regent Smith said she would like a copy of the evaluation that was made in 1978 along with materials that Vice President Brinkerhoff will be submitting. In her view, the matter will be prolonged and another year will pass before a decision is made. She indicated that she would be willing to go along with this if the National Bank of Detroit completes the application so that a comparison can be made with other managers to allow the University to make a decision. She asked if the University would advertise for the appointments, and if a deadline for responses could be included.

Mr. Herbert responded that it will be advertised if the Regents approve the concept. A very large response is expected which means each one must be analyzed, then reduced to a group to begin interviews. Nine months would be considered a very agressive schedule.

Regent Brown commented that the Regents had not asked the investment office to consider diversification of managers in 1978. It is sheer speculation that the University has lost a 2% increase from its investments. In his view, the recommendation has come in a timely fashion after proper deliberation by Mr. Brinkerhoff's office and the Regents are ready to move on it at this time.

Regent Power then moved that the management of the endowment pools be further diversified through the employment of multiple investment managers and/or index funds, and: (1) That the Regents oversee the management of the endowment funds through the establishment of investment goals and policy and the evaluation and selection of investment managers, rather than through such traditional means as the approval of individual investment transactions. (2) That the Investment Office develop a plan for the types of investment managers and/or index funds to be employed and the allocation of investment funds among them. The plan is to be developed in accordance with the goals of maximizing total return, controlling overall risk, and reducing the volatility of returns. (3) That the Investment Office perform an analysis of alternative distribution policies for consideration by the Board of Regents. Objectives will be to provide for stability of distribution (on an inflation-adjusted basis), preservation of the purchasing power of the endowment, equity of benefits among generations of students, and maximizing total returns. (4) That the Investment Office begin an investment manager search with the assistance of Investment Management Control Systems. The search will include an advertisement in *Pensions & Investment Age,* a publication widely read by endowment investment professionals. Respondents and the investment management organizations who have contacted the University in the past will be asked to answer a questionnaire. Candidate's performance records will be evaluated the way the University's funds performance is evaluated, against the performance of peer managers with similar investment styles. The Investment Office will return to the Board of Regents with recommendations in approximately six to nine months. Regent Nielsen seconded the motion.

President Shapiro commented that he wished to have some clarification on an issue before the vote is taken. He wanted to assure himself and the Board that under whatever plan is developed only the Board can decide on the level of risk to which the proposal should be exposed with respect to the nature of income and payout requirements, total return objectives, asset allocation guidelines, manager acquisition criteria, and allocation of assets to particular managers. He asked if it was true that under this plan all of those decisions would be reserved for the Board and only for the Board.

Mr. Herbert replied affirmatively.

President Shapiro then remarked that he does favor the multiple money manager concept, but he did not believe there was any magic to it. It would not be appropriate to anticipate that this move, independent of assuming any extra risk or giving up any extra liquidities, would give 200 basis points per year. That is not the reason for this recommendation. Competition is healthy and effective, however, and it gives other people the opportunity to let the University know what they consider appropriate. The President said, in his judgment, it would be beneficial to the University.

Regent Power noted encouragement to Vice President Brinkerhoff and his colleagues to move with due but deliberate and characteristic caution which in her judgment has characterized their recommendations that have been brought to the Board.

Regent Baker spoke of the economic climate under which the University has operated since 1978. Looking at some of the critical measuring points of the economy when inflation reached about 17%, interest rates were at a high of about 20 to 21-1/2%, the University was excluded two-thirds of the Standard and Poors 500 stock index because of the limitaions of the South African divestment policy, and the state depression, it was a period of extreme difficulty and turmoil for anyone having to make fianancial judgments, including the Regents.

With respect to the issue at hand, Regent Baker indicated that he thought 20% was an overly ambitious figure. He indicated that he was seriously concerned about the lack of control that might develop, and he was not persuaded that he would be acting as a prudent man under the system which was presented. Regent Baker indicated that he would vote against the concept for the reasons mentioned. This did not mean, however, that he was not interested in better investment of University funds, but that he remains to be persuaded by further proposals which are to be brought to the Regents.

Regent Roach thought all of the Regents acted individually and collectively throughout the last eleven years he has been on the Board and in complete conformity with the legal requirements of the prudent man rule. When investment reports are reviewed, one must remember that comparisons depend upon timing. Institutions having a fiscal year ending on June 30 would reflect different measurements of certain stock than those institutions having a December 31 fiscal year. Performances of relevant investment advisors must be judged over a long period of time, not just one year.

The Regents have a very serious responsibility as trustees of a very large endowment and short-term investments. He indicated that he fully supported the recommendation at this time, and agreed with the general thrust that it should not be interpreted as any kind of broad criticism of NBD or any other investment advisor. It is felt that it is better to share the risk.

Mr. Herbert apologized if he gave the impression that the recommendation was based upon 200 basis points. That was a reference to what the University might benefit by retaining multiple money managers. More importantly, the University is concerned about stability of return which is felt could be attainable by this procedure. Mr. Herbert indicated that based on studies, he is of the opinion that as a goal a 2% increase could be realized.

President Shapiro then called for the vote and the motion was adopted with Regent Baker voting no.