

THE UNIVERSITY OF MICHIGAN
SENATE ASSEMBLY
FINANCIAL AFFAIRS ADVISORY COMMITTEE (FAAC)
Advisory to Kevin Hegarty, Executive Vice President and Chief Financial Officer

Date: Monday, October 19, 2020

Time: 11:00 – 12:00 pm

Place: Zoom

Committee Members:

- Doug Richstone (Chair), Professor, College of Literature, Science, and the Arts
- Erik Nielsen, Associate Professor, College of Literature, Science, and the Arts
- Daniel Rife, Director, Facilities and Operations
- Keith Riles, Professor, College of Literature, Science, and the Arts
- Erhan Bayraktar, Professor, College of Literature, Science, and the Arts
- Michael Byers, Associate Professor, College of Literature, Science, and the Arts**
- Nicholas Reed Dunnick, Professor, Medical School
- Adam Matzger, Professor, College of Literature, Science, and the Arts
- Jessica Pasquale, Senior Associate Librarian, Michigan Law
- Nancy Allee, Director, University Library
- Erik Marshall, Lecturer II, College of Arts, Sciences and Letters-UM Dearborn
- Ivo Dinov, Professor, SACUA Liaison, Nursing
- John Mansfield, Undergraduate Student, Business
- Vincent Alessi, Graduate Student, Computational Medicine and Bioinformatics
- Kevin Hegarty, Executive Vice President and Chief Financial Officer
- Jane Jakeway, Staff Support, Executive Assistant to the EVPCFO

Guests:

- Hank Baier, Associate Vice President for Facilities and Operations
- Pam Gabel, Executive Director, Shared Services Center
- Rich Holcomb, Associate Vice President for Human Resources
- Erik Lundberg, Chief Investment Officer
- Brian Smith, Associate Vice President for Finance

** did not attend

Kevin Hegarty, executive vice president and chief financial officer and Doug Richstone, chair of the financial affairs advisory committee welcomed committee members and guests to the first meeting of the 2020-2021 financial affairs advisory committee meeting on Monday, October 19,

2020, at 11 am. Both evp Hegarty and chair Richstone appreciate the committee's participation this year. Committee members and guests introduced themselves.

Evp Hegarty and chair Richstone stated topics for this year would be of value and topics would not only be informational but also provide helpful feedback. Evp Hegarty stated that chair Richstone and he met several weeks ago to discuss possible topics for the committee's collective discussion and agreed on possible topics to propose to the committee. Today's topic would be a review of the investment and endowment performance and Erik Lundberg, chief investment officer would present the last 30 minutes of today's meeting.

Rich Holcomb, associate vp for human resources, reviewed the proposed topic for the November 16, 2020 meeting. AVP Holcomb stated one of the outcomes from the Wilmer Hale report concerning the university's policies and handling of sexual misconduct allegations is that greater efforts be undertaken for new staff and faculty hires to learn of the experiences of their prior employers. AVP Holcomb would like a robust discussion with committee members on the current thinking. Committee members agreed this is a relevant topic and they would be able to add value and they look forward to the discussion.

Evp Hegarty next asked Pam Gabel, executive director of the shared services center, to discuss the proposed topic for the February 15, 2021 meeting. Ms. Gabel explained the university formed a committee, called the Workplace Innovation & Staff Experience (WISE) committee, to examine how the university might want to change the way staff work in the future. Ms. Gabel would like to share the WISE committee's findings and lead a discussion on what staff and managers have learned regarding remote work from the pandemic and how this might shape both the way work is done and the staff experience overall.

The final proposed discussion topic for the March 22, 2021 meeting stems from another outcome of the Wilmer Hale report. AVP Holcomb would like to lead a discussion on finding the complete picture of faculty and staff being promoted into leadership positions. What barriers in our environment cause people not to come forward with concerns they may have of potential leadership candidates and what can we do as an institution to alleviate these barriers. The committee present agreed this would be a welcome and timely topic for discussion.

Evp Hegarty next introduced today's discussion topic, the endowment and state of investment affairs. Erik Lundberg, chief investment officer (cio) shared the Investment and Endowment presentation (attachment A). Cio Lundberg stated the job of the investment office is developing overarching investment strategies and finding best in class investment managers. The presentation reviewed the university's cash and investments; value of endowment funds; LTP actual versus model portfolio; LTP model for one year ended June 30, 2020; and the longer term perspective of the LTP performance.

Professor Dinov asked if it would make sense to invest the UM endowment in an index fund (like NASDAQ, which over the past ¼ century (1995-2020) has increased 6-fold, from 2K to 12K, mirroring the UM endowment growth from about \$2B to \$12B over the same period). Of course, annually UM distributes about 5% of the endowment to support the UM mission, and

there have been over \$6B of new contributions into the UM endowment in the past 25 years. It may be good to re-examine the current approach. CIO Lundberg thanked him for the question and said that the S&P 500 index represents a relatively concentrated portfolio of stocks of large companies in the U.S. that does not provide appropriate diversification needed for the endowment to sustain performance and distributions in periods of weak market returns. To illustrate, CIO Lundberg highlighted the ten year period ended in 2010 when the S&P showed a small loss over the ten years compared to a 9 percent annualized gain for the endowment and noted that the endowment would have been about half as large today had it been invested in just the S&P 500 index for the past 20 years. CIO Lundberg stated he is available via email (lerikl@umich.edu) should anyone have any additional questions.

Evp Hegarty and chair Richstone thanked committee members and guests for their participation. The meeting concluded at 12 pm.

The next meeting of the financial affairs advisory committee is Monday, November 16, 2020 at 11 am via zoom.