

Agenda
Board of Regents
Finance Committee
Monday, March 2, 2009; 12:00 noon – 2:00 p.m.

VIDEOCONFERENCE SITES:

Anchorage: 205 Bragaw Office Building, 1815 Bragaw
Fairbanks: 202H Butrovich Building, UAF Campus
Juneau: Chancellor's Conference Room, Hendrickson Bldg, UAS Campus
Audio: 1-800-893-8850, Pin 4054501

Committee Members:

Carl Marrs, Committee Chair

Fuller Cowell

Mary K. Hughes, Committee Vice-Chair

Erik Drygas

Timothy Brady

Cynthia Henry, Board Chair

I. Call to Order

II. Adoption of Agenda

MOTION

"The Finance Committee adopts the agenda as presented.

I. Call to Order

II. Adoption of Agenda

III. Discussion Regarding Finance Matters

IV. Future Agenda Items

V. Adjourn

This motion is effective March 2, 2009."

III. Discussion Regarding Finance Matters

The Finance Committee will discuss the following with the administration:

1. Present state of the budget at SW.
 - a. Review the makeup of the budget at SW.
 - b. Review the history of the investment earnings at SW both in terms of revenue and expenditures.
 - c. Review the investment portfolio this year and the changes made for the future.
 - d. Discuss the shortfall at SW and how they are being addressed for balancing the future budgets.
 - e. Review the options available to include utilizing reserve funds to balance the SW Budget.

Agenda
Finance Committee
March 2, 2009
VIDEOCONFERENCE

2. Reduced value of the Land Grant Trust Endowment.
 - a. Review the makeup of the Land Grant Trust fund.
 - b. Discuss the recent losses in the fund and the impact on the scholars program.
 - c. Discuss the impact of reducing the spending allowance rate from 5% to 4.5%.
 - d. Discuss the impact of the UA Foundation endowment fee of .5%.

IV. Future Agenda Items

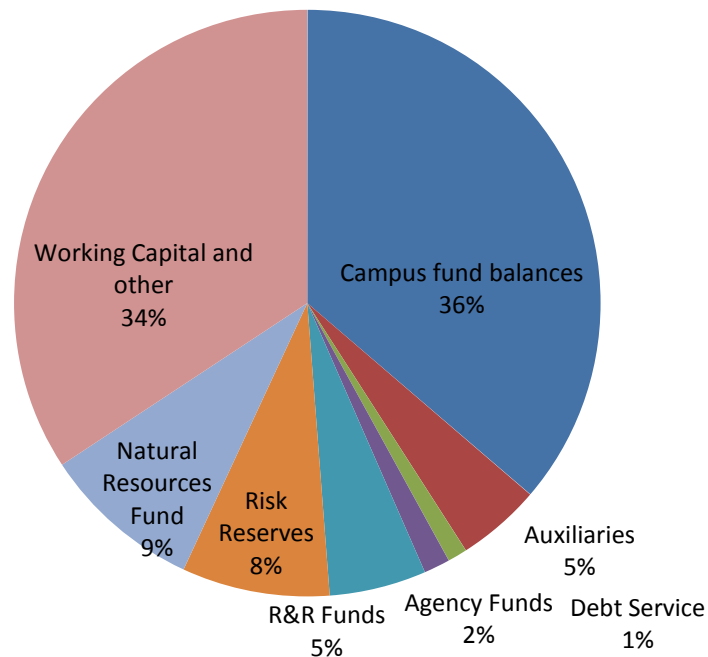
V. Adjourn

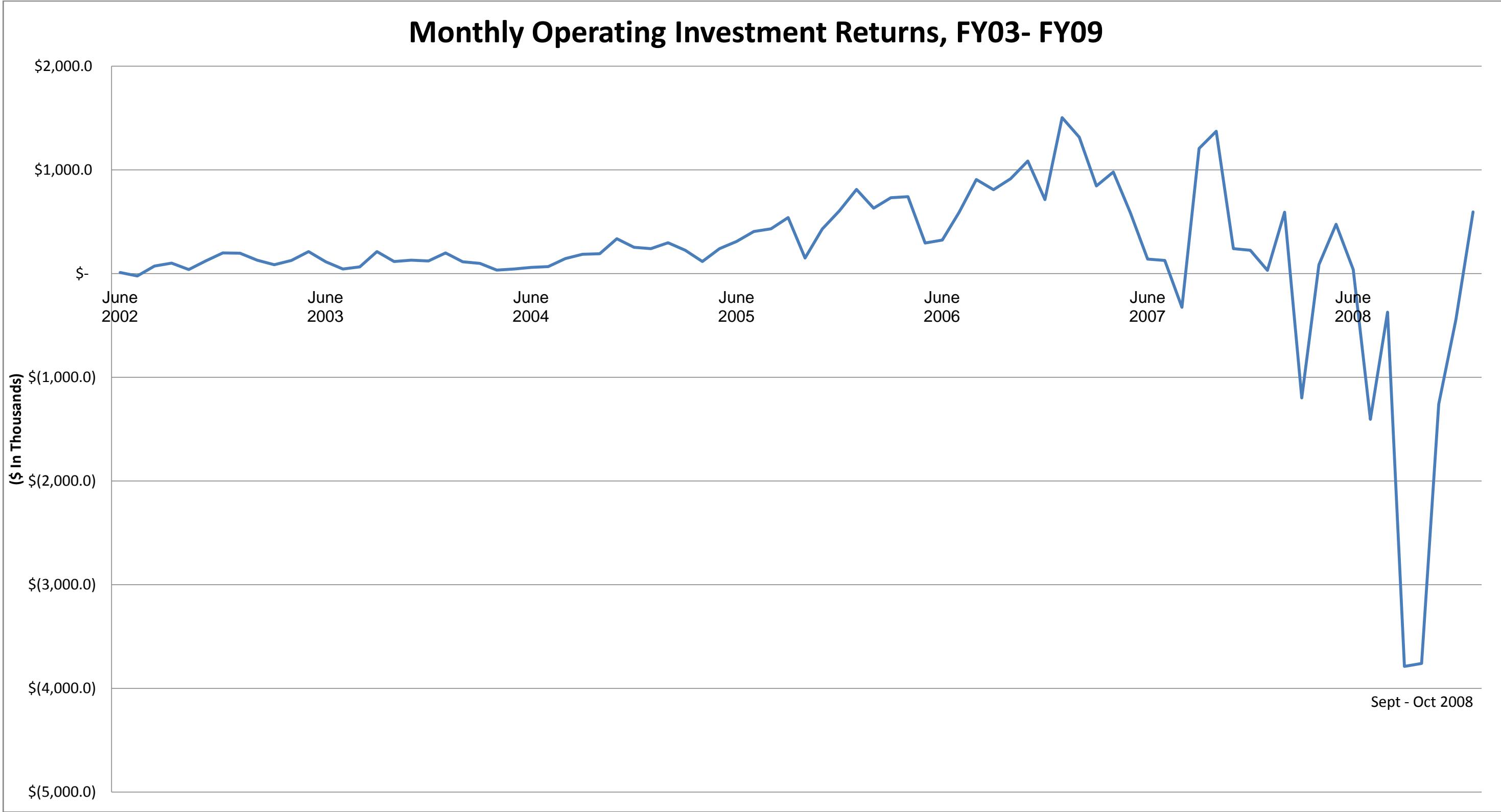
University of Alaska
Investment Summary
Fiscal Year 2009

Attachment A

<u>Operating Investments Summary:</u>	<u>Allocation</u>		
	<u>9/30/08</u>	<u>1/31/09</u>	
Short Term Fund	43.4%	11.4%	Fund was closed 9/26/08; remaining balance will payout as it matures
Absolute Return Fund	28.7%	12.8%	Fund will close 3/31/09; 65% of balance will be distributed by 7/1/09
Multi-Strategy Bond Fund	17.7%	-	UA withdrew all funds from this investment
First National Bank Alaska Repo	10.0%	10.6%	FNBA is used for daily liquidity, checks and deposits
Intermediate Term Fund	0.2%	0.1%	
Government Securities Fund	-	65.1%	Highly liquid fixed income fund
	<u>100.0%</u>	<u>100.0%</u>	

**Composition of \$140m Operating Investment Portfolio
Fiscal Year 2009**





University of Alaska
Operating Investment Returns
FY04 -FY09

Attachment B-2

	FY2004		FY2005		FY2006	
	Investment Income	Annualized Return	Investment Income	Annualized Return	Investment Income	Annualized Return
July	\$ 43,582	1.10%	\$ 65,358	1.23%	\$ 404,471	5.67%
August	64,268	1.31%	144,679	1.96%	430,226	5.12%
September	211,840	3.42%	186,197	2.06%	540,743	5.29%
October	115,094	1.89%	190,460	2.26%	149,851	1.45%
November	129,495	2.27%	334,630	4.12%	428,813	4.50%
December	122,085	2.11%	252,958	3.12%	603,904	6.29%
January	197,853	2.72%	238,620	2.61%	809,848	7.62%
February	114,053	1.50%	296,570	3.56%	630,748	6.10%
March	98,194	1.30%	225,126	2.42%	731,705	6.65%
April	33,579	0.59%	116,211	1.41%	740,835	7.53%
May	42,952	0.79%	238,778	3.02%	294,547	2.85%
June	60,152	1.25%	309,604	4.23%	321,841	3.27%
Total	<u>\$ 1,233,147</u>		<u>\$ 2,599,191</u>		<u>\$ 6,087,532</u>	
Average	<u>\$ 102,762</u>	<u>1.69%</u>	<u>\$ 216,599</u>	<u>2.67%</u>	<u>\$ 507,294</u>	<u>5.20%</u>
	FY2007		FY2008		FY2009	
	Investment Income	Annualized Return	Investment Income	Annualized Return	Investment Income	Annualized Return
July	\$ 891,564	9.24%	\$ 125,538	1.23%	\$ (1,406,285)	-13.99%
August	905,190	7.96%	(325,294)	-2.68%	(371,366)	-3.30%
September	809,470	6.48%	1,205,068	9.40%	(3,788,399)	-31.05%
October	914,949	7.73%	1,370,444	10.66%	(3,759,525)	-29.28%
November	1,083,988	9.33%	240,115	2.00%	(1,258,731)	-10.44%
December	713,301	6.03%	224,150	1.99%	(443,732)	-3.96%
January	1,053,275	8.28%	30,522	0.24%	593,819	4.92%
February	1,313,930	11.04%	590,663	4.77%		
March	844,855	6.60%	(1,199,755)	-9.55%		
April	979,256	9.07%	85,960	0.81%		
May	582,524	5.16%	475,303	4.16%		
June	139,029	1.45%	39,218	0.39%		
Total	<u>\$ 10,231,331</u>		<u>\$ 2,861,932</u>		<u>\$ (10,434,219)</u>	
Average	<u>\$ 852,611</u>	<u>7.36%</u>	<u>\$ 238,494</u>	<u>1.95%</u>	<u>\$ (1,490,603)</u>	

University of Alaska
Operating Fund Investment Losses
FY09

Attachment C

<u>Operating Fund Investment Losses:</u>		(\$ in millions)
Projected FY09 Operating Fund Investment Losses	\$11.0	Actual losses through January 2009 total \$10.4m
Projected FY09 Statewide MAU budget shortfall	1.4	Based on November 2008 management report
Total losses to be covered	<u>\$12.4</u>	
<u>Sources to cover losses (note a):</u>		
Campus carryforwards (from FY08)	\$4.1	Recorded in January 2009
Auxiliary funds	0.5	Recorded throughout year using month-end balances
Renewal and Replacement Funds	0.7	Recorded throughout year using month-end balances
Land management deposits, NRF, endowments	0.8	Recorded throughout year using month-end balances
Debt service sinking fund	0.1	Recorded throughout year using month-end balances
Risk management reserves	0.9	Recorded at end of fiscal year
Total losses covered	<u>7.1</u>	
Shortfall	<u><u>(\$5.3)</u></u>	
<u>Reserves and other sources:</u>		<u>Conditions</u>
Working capital reserve	\$3.5	If spent, need plan for replacement
Natural Resources Fund (NRF)	6.2	Previously allocated for UA Scholars; requires BOR action to spend
Land Grant Trust Inflation-Proofing Fund (see note b)	15.6	Requires BOR action to spend
Reserves available	<u><u>\$25.3</u></u>	
<u>Recommendation:</u>		
Natural Resources Fund (NRF)	\$2.3	
Land Grant Trust Inflation-Proofing Fund	3.0	
	<u><u>\$5.3</u></u>	

Notes a) Assumes 8% investment loss for FY09
b) Includes \$6.1m Trunk Road sale receipt

University of Alaska
Land Grant Endowment
Overview

Attachment D

Regents' Policy P05.07.010

LGTF - Land Grant Endowment Trust Fund - Established in accordance with AS14.40.400, this fund receives the net income from the sale, lease, development or other disposition of trust land or other related resources.

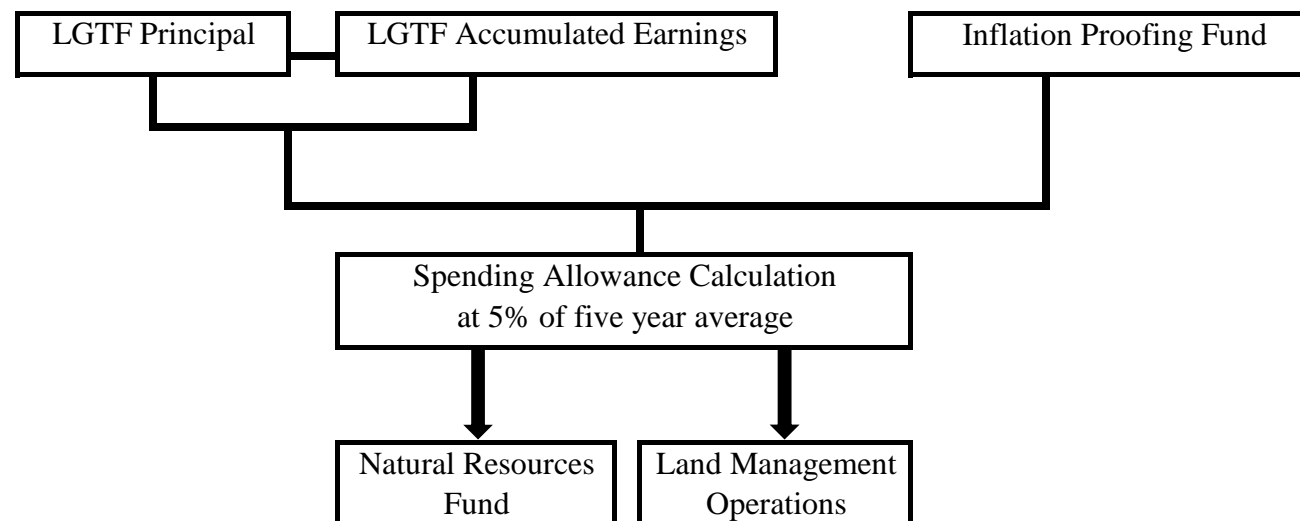
IPF - Inflation-Proofing Fund - The net proceeds from the sale or development of non-trust land or other related resources and the improvements thereon are deposited to this fund. This fund is a quasi-endowment.

NRF - Natural Resources Fund - This fund receives a portion of the spending allowance. The major expenditure from this fund has been for the Scholars program.

Spending Allowance - Five percent of the five year moving average of the December 31 LGTF and IPF investable balances. Withdrawal of earnings in any fiscal year is limited to the unexpended accumulated earnings of the preceding December 31.

Accumulated Earnings (losses) - Capital appreciation (or depreciation), both realized and unrealized.

Yield - Interest, dividends, and rents received, net of investment fees.



University of Alaska
Spending Allowance Projections
FY10 - FY15

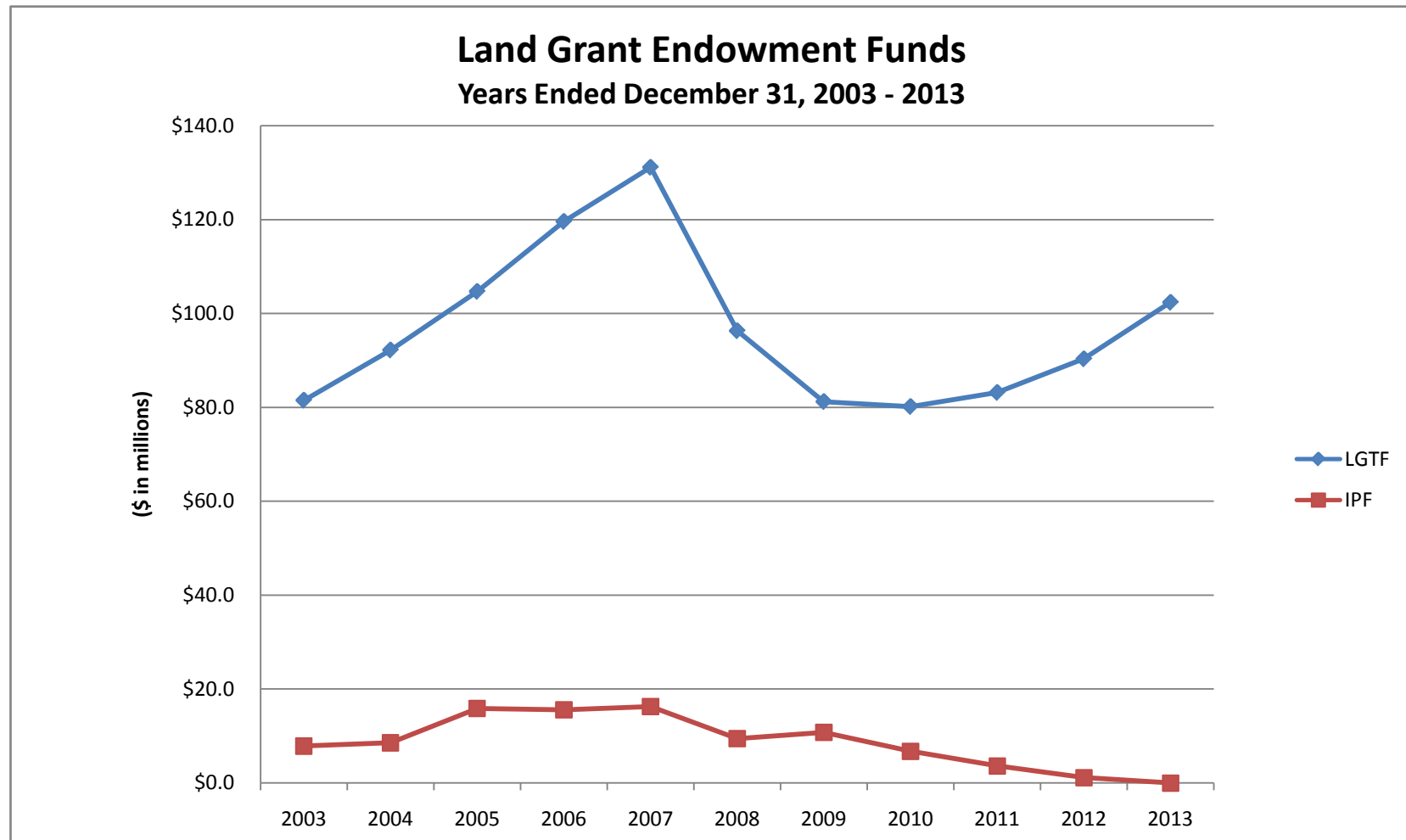
Attachment E

	Projected investment returns:								
	Calendar Year 2009: -15%								
	Calendar Year 2010: - 5%								
	Calendar Year 2011: 0%								
	Calendar Year 2012: 5%			LGTF					
	Calendar Year 2013: 10%	Land-Grant Trust Fund (LGTF)		Inflation-Proofing Fund (IPF)					
Spending Year	Calculation Date	Principal	Accumulated Earnings		Total	Trailing Five Year Average	Spending Rate	Spending Allowance	Comments
	12/31/03	\$71,482,204	\$10,056,211	\$7,891,129	\$89,429,544				
	12/31/04	75,820,624	16,401,465	8,585,564	100,807,653				
	12/31/05	82,335,983	22,365,897	15,880,173	120,582,053				
	12/31/06	85,520,035	34,082,335	15,602,328	135,204,698				
FY09	12/31/07	87,086,516	44,048,086	16,286,862	147,421,464	118,689,082	5.0%	\$5,934,454	
FY10	12/31/08	91,094,762	5,228,900	9,468,757	105,792,419	121,961,657	4.5%	\$5,488,275	
	New additions	3,000,000		6,116,000					IPF \$6.1m addition is from Trunk Road
	Withdrawal to meet spending allowance		(3,631,311)	(356,963)					Spending allowance draw offset by \$1,500K yield
	Draw for UA operating fund investment losses			(3,000,000)					
	Net investment loss (15%)		(14,448,549)	(1,420,314)					Based on prior December balance
FY11	12/31/09	94,094,762	(12,850,961)	10,807,480	92,051,282	120,210,383	4.5%	\$5,409,467	
	New additions	3,000,000							
	Withdrawal to meet spending allowance			(3,509,467)					Spending allowance draw offset by \$1,900K yield
	Net investment loss (5%)		(4,062,190)	(540,374)					Based on prior December balance
FY12	12/31/10	97,094,762	(16,913,151)	6,757,639	86,939,250	113,481,823	4.5%	\$5,106,682	
	New additions	3,000,000							
	Withdrawal to meet spending allowance			(3,106,682)					Spending allowance draw offset by \$2,000K yield
	Net investment activity (assume breakeven)		0	0					Based on prior December balance
FY13	12/31/11	100,094,762	(16,913,151)	3,650,957	86,832,568	103,807,397	4.5%	\$4,671,333	
	New additions	3,000,000							
	Withdrawal to meet spending allowance			(2,671,333)					Spending allowance draw offset by \$2,000K yield
	Net investment gain: 5%		4,159,081	182,548					Based on prior December balance
FY14	12/31/12	103,094,762	(12,754,070)	1,162,172	91,502,864	92,623,677	4.5%	\$3,162,172	Spending limited to yield of \$2,000K plus available balance
	New additions	3,000,000							
	Withdrawal to meet spending allowance			(1,162,172)					Spending allowance draw limited to available balance
	Net investment gain: 10%		9,034,069	0					Based on prior December balance
FY15	12/31/13	106,094,762	(3,720,001)	0	102,374,761	91,940,145	4.5%	\$2,000,000	Spending limited to yield of \$2,000K

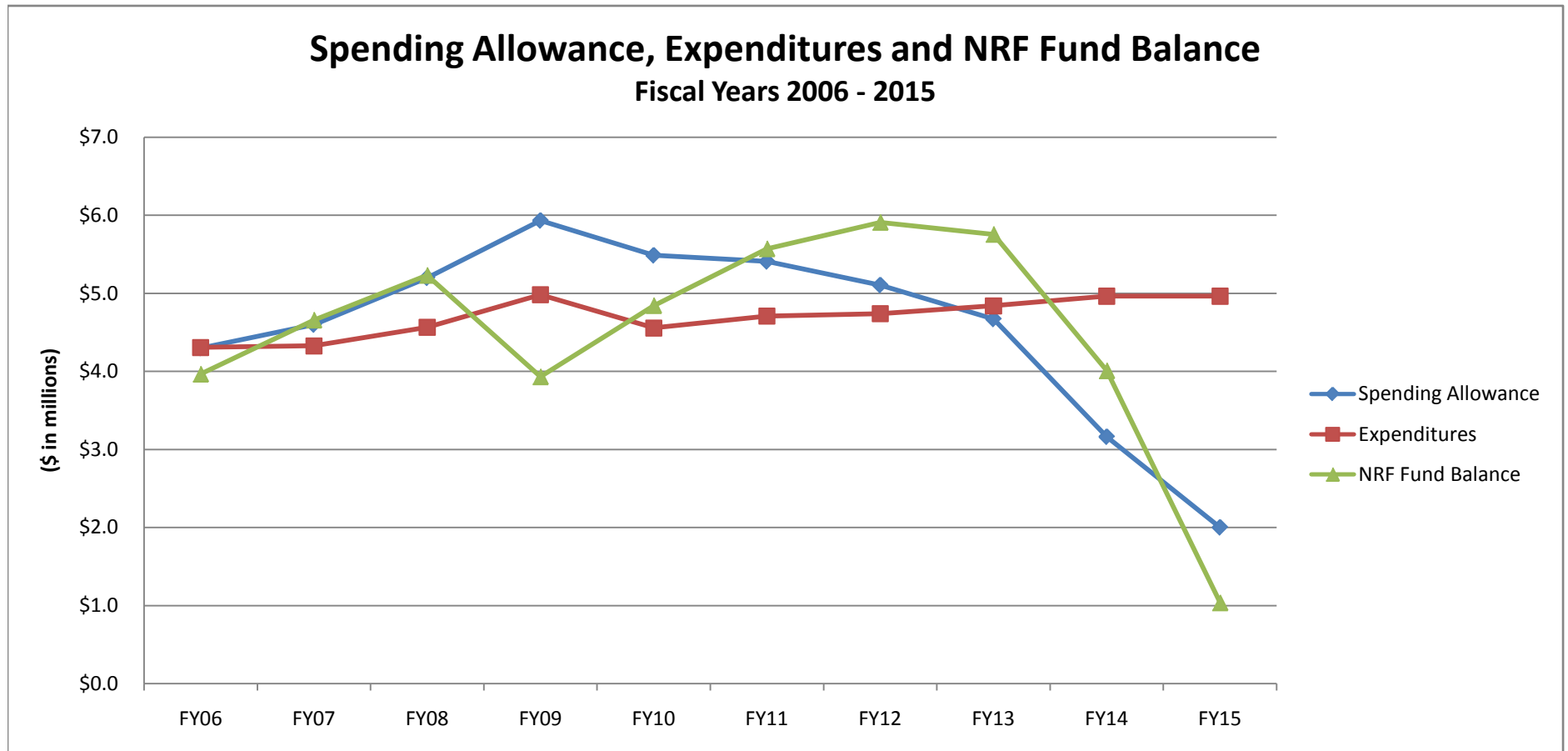
University of Alaska
Spending Allowance Expenditures
Projected through FY15

Attachment F

		Scenario A: -15%, -5%, 0%, 5%, 10%															
				Approved	Approved	Approved	Approved	Projected	Projected	Projected	Projected	Projected	Projected	Projected	Projected	Projected	Projected
				FY06	FY07	FY08	FY09	FY10	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19
Available Resources:																	
	Land-Grant Endowment Spending Allowance			\$4,252,167	\$4,607,241	\$5,166,100	\$5,934,454	\$5,488,275	\$5,409,467	\$5,106,682	\$4,671,333	\$3,162,172	\$2,000,000				
	Add - Unexpended funds from expired awards			69,835	34,561	7,800	20,161	-	-	-	-	-	-				
	Less: Provision for land management costs			(711,077)	(660,171)	(632,400)	(990,000)	(1,039,500)	(1,091,475)	(1,146,049)	(1,203,351)	(1,263,519)	(1,326,695)				
		Provision for NOAA/UA Facility		-	-	-	-	-	-	-	-	-	-				
		Provision for the UA Scholars Program		(3,430,925)	(3,801,631)	(3,961,500)	(4,384,615)	(4,268,775)	(4,137,992)	(3,780,633)	(3,287,982)	(1,718,653)	(493,305)				
	Undesignated funds available			\$180,000	\$180,000	\$580,000	\$580,000	\$180,000	\$180,000	\$180,000	\$180,000	\$180,000	\$180,000				
Commitments:																	
	Other:																
		UA Press		80,000	80,000	80,000	80,000	80,000	80,000	80,000	80,000	80,000	80,000				
		System-based scholarships		100,000	100,000	100,000	100,000	100,000	100,000	100,000	100,000	100,000	100,000				
		Cooperative Extension Service				400,000	400,000										
	Total commitments			180,000	180,000	580,000	580,000	180,000	180,000	180,000	180,000	180,000	180,000				
				\$180,000	\$180,000	\$580,000	\$580,000	\$180,000	\$180,000	\$180,000	\$180,000	\$180,000	\$180,000				
Significant Assumptions:																	
	Land management provision increase at 5% per year																



Note: LGTF includes Principal and Accumulated Earnings (Losses)



Note: Expenditures are for Land Management Operations, Scholars Program and other commitments.

University of Alaska
Scholars Program Projections through FY15
(Program ends - FY11 is last year)

Attachment I

Scenario A: -15%, -5%, 0%, 5%, 10%											(last full year)						
				<u>FY05</u>	<u>FY06</u>	<u>FY07</u>	<u>FY08</u>	<u>FY09</u>	<u>FY10</u>	<u>FY11</u>	<u>FY12</u>	<u>FY13</u>	<u>FY14</u>	<u>FY15</u>			
Participation Projection:																	
	First Time Paid	**		460	456	442	445	465	450	450		-	-	-			
	Other	***		768	783	804	774	766	771	775	778	513	257	-			
	Total scholars attending UA			1,228	1,239	1,246	1,224	1,231	1,221	1,225	778	513	257	-			
Cost Projection:																	
	Cost per scholar			\$2.8	\$2.8	\$2.8	\$2.8	\$2.8	\$2.8	\$2.8	\$2.8	\$2.8	\$2.8	\$2.8			
	Total scholarship costs			\$3,376.4	\$3,407.7	\$3,427.2	\$3,366.2	\$3,383.9	\$3,356.8	\$3,369.3	\$2,139.6	\$1,410.8	\$705.4	\$0.0			
Termination Liability								\$10,981.8									
Funding Projection:																	
	Available, beginning of year			\$3,166.9	\$3,693.9	\$3,967.1	\$4,659.2	\$5,232.4	\$3,933.1	\$4,845.1	\$5,613.8	\$7,254.8	\$9,132.1	\$10,145.4			
	Transfers from NRF			1,697.4	3,430.9	3,801.6	3,961.4	4,384.6	4,268.8	4,138.0	3,780.6	3,288.0	1,718.7	493.3			
	Suppressed expenditures			610.0													
	Unrestricted/Initiative funds			1,602.1	296.6	360.5	-	-	-	-	-	-	-	-			
	Total available			7,076.4	7,421.4	8,129.2	8,620.6	9,617.0	8,201.9	8,983.1	9,394.4	10,542.8	10,850.8	10,638.7			
	Scholarship costs			(3,376.4)	(3,407.7)	(3,427.2)	(3,366.2)	(3,383.9)	(3,356.8)	(3,369.3)	(2,139.6)	(1,410.8)	(705.4)	-			
	Draw for operating investment losses							(2,300.0)									
	Forecasting variance			(6.1)	(46.6)	(42.8)	(22.0)										
	Excess / (deficiency)			\$3,693.9	\$3,967.1	\$4,659.2	\$5,232.4	\$3,933.1	\$4,845.1	\$5,613.8	\$7,254.8	\$9,132.1	\$10,145.4	\$10,638.7			
	Note:																
	**	Source: <i>UA In Review</i> FY00 - FY08															
	***	Estimated at historic relationship of Other to sum of prior three year First Time Paid.															

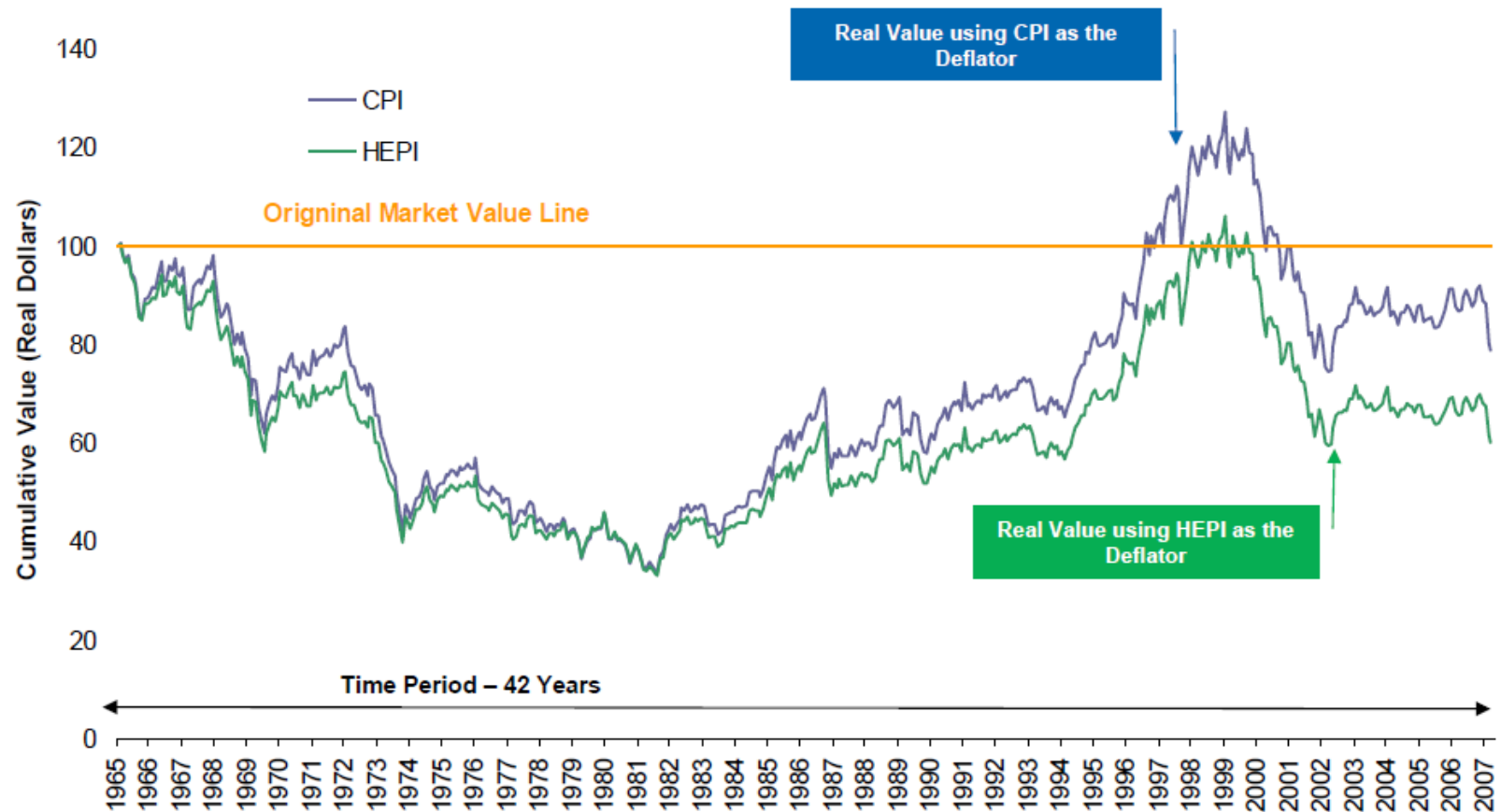
University of Alaska
Scholars Program Projections through FY15
(Program continues indefinitely)

Attachment J

Scenario A: -15%, -5%, 0%, 5%, 10%																		
				FY05	FY06	FY07	FY08	FY09	FY10	FY11	FY12	FY13	FY14	FY15				
Participation Projection:																		
	First Time Paid	**		460	456	442	445	465	450	465	465	465	465	465				
	Other	***		768	783	804	774	766	771	775	787	787	795	795				
	Total scholars attending UA			1,228	1,239	1,246	1,224	1,231	1,221	1,240	1,252	1,252	1,260	1,260				
Cost Projection:																		
	Cost per scholar			\$2.8	\$2.8	\$2.8	\$2.8	\$2.8	\$2.8	\$2.8	\$2.8	\$2.8	\$2.8	\$2.8				
	Total scholarship costs			\$3,376.4	\$3,407.7	\$3,427.2	\$3,366.2	\$3,383.9	\$3,356.8	\$3,410.6	\$3,441.9	\$3,441.9	\$3,465.4	\$3,465.4				
Funding Projection:																		
	Available, beginning of year			\$3,166.9	\$3,693.9	\$3,967.1	\$4,659.2	\$5,232.4	\$3,933.1	\$4,845.1	\$5,572.6	\$5,911.3	\$5,757.4	\$4,010.7				
	Transfers from NRF			1,697.4	3,430.9	3,801.6	3,961.4	4,384.6	4,268.8	4,138.0	3,780.6	3,288.0	1,718.7	493.3				
	Suppressed expenditures			610.0														
	Unrestricted/Initiative funds			1,602.1	296.6	360.5	-	-	-	-	-	-	-	-				
	Total available			7,076.4	7,421.4	8,129.2	8,620.6	9,617.0	8,201.9	8,983.1	9,353.2	9,199.3	7,476.1	4,504.0				
	Scholarship costs			(3,376.4)	(3,407.7)	(3,427.2)	(3,366.2)	(3,383.9)	(3,356.8)	(3,410.6)	(3,441.9)	(3,441.9)	(3,465.4)	(3,465.4)				
	Draw for operating investment losses							(2,300.0)										
	Forecasting variance			(6.1)	(46.6)	(42.8)	(22.0)											
	Excess / (deficiency)			\$3,693.9	\$3,967.1	\$4,659.2	\$5,232.4	\$3,933.1	\$4,845.1	\$5,572.6	\$5,911.3	\$5,757.4	\$4,010.7	\$1,038.6				
	Note:																	
	**	Source: <i>UA In Review</i> FY00 - FY08																
	***	Estimated at historic relationship of Other to sum of prior three year First Time Paid.																

Cumulative Inflation-Adjusted Performance

70% S&P 500, 30% Lehman Aggregate and 5% Spend



Source: Ibbotson, Bloomberg, Commonfund Institute

The equity portion of the hypothetical portfolio is based on monthly returns of the S&P 500 Index (12/65-2/08), and the fixed income portion is based on monthly returns of the Lehman Brothers Aggregate Index (01/73-2/08) and the Ibbotson Associates Long Term Corporate Bond Index (12/65-12/72). HEPI data from 07/06 to 2/08 is estimated using the Commonfund Institute method based on regression analysis. Returns for this hypothetical portfolio assume that it is rebalanced to 70/30 annually on 1/1/yy and 5% is distributed annually on 1/1/yy.

Board of Regents Finance Committee
Long-Term Earnings Requirement and Spending Analysis
February 17, 2008

	Pooled Endowment <u>Funds</u>	Land Grant Endowment <u>Funds</u>
Five-Year Actual Earnings Rate September 30, 2008	<u>7.63%</u>	<u>7.63%</u>
Ten-Year Actual Earnings Rate September 30, 2008	<u>6.42%</u>	<u>6.42%</u>
Current Distribution Requirements:		
Spending Rate FY2008	4.50%	5.00%
Endowment Fee	1.00%	0.50%
Investment Costs	<u>0.18%</u>	<u>0.18%</u>
Total Distribution Requirement	5.68%	5.68%
HEPI Inflation Rate (1)	<u>4.30%</u>	<u>4.30%</u>
Total Earnings Requirement (2)	9.98%	9.98%
Expected Earnings Rate of Target Asset Allocation (1)	<u>9.50%</u>	<u>9.50%</u>
Estimated Earnings Shortfall	<u>0.48%</u>	<u>0.48%</u>
 Spending Rate FY2008	 4.50%	 5.00%
Less Estimated Earnings Shortfall	<u>-0.48%</u>	<u>-0.48%</u>
Calculated Spending Rate	<u>4.02%</u>	<u>4.52%</u>
Recommended Spending Rate FY2010	<u>4.00%</u>	<u>4.50%</u>

(1) Source: Commonfund Asset Planning Model Assumptions

(2) Estimated earnings required to maintain current spending rate

**Land Grant Endowment Trust Funds
Proposed Land Grant Endowment Fee
FY2010**

Valuation of Investment Committee Services:

	December 31, 2008			
Actual 5-Year Return for the Fund	3.02%	3.02%	3.02%	3.02%

Asset Allocation:

	Policy Allocation	Basic Allocation Modest	Basic Allocation Aggressive	5-Year Return 12/31/07	Return Policy Allocation	Return Basic Allocation Modest	Return Basic Allocation Aggressive
Russell 3000	60%	45%	45%	-1.95%	-1.17%	-0.88%	-0.88%
MSCI EAFE		12%	16%	1.66%	0.00%	0.20%	0.27%
MSCI Emerging Mkt.		3%	4%	8.02%	0.00%	0.24%	0.32%
Barclays Aggregate	35%	35%	30%	4.65%	1.63%	1.63%	1.40%
T-bill	5%	5%	5%	3.25%	0.16%	0.16%	0.16%
	100.00%	100.00%	100.00%		0.62%	1.35%	1.27%

Mean Return - Callan Universe \$100 Mil. - 1 Bil.	1.65%
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Probable Value Added by the Investment Committee	2.40%	1.67%	1.75%	1.37%
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Endowment Fee Components:

Direct costs of providing services	0.15%
Intangible Value of Investment Committee Services	0.35%
Proposed Land Grant Endowment Fee	0.50%