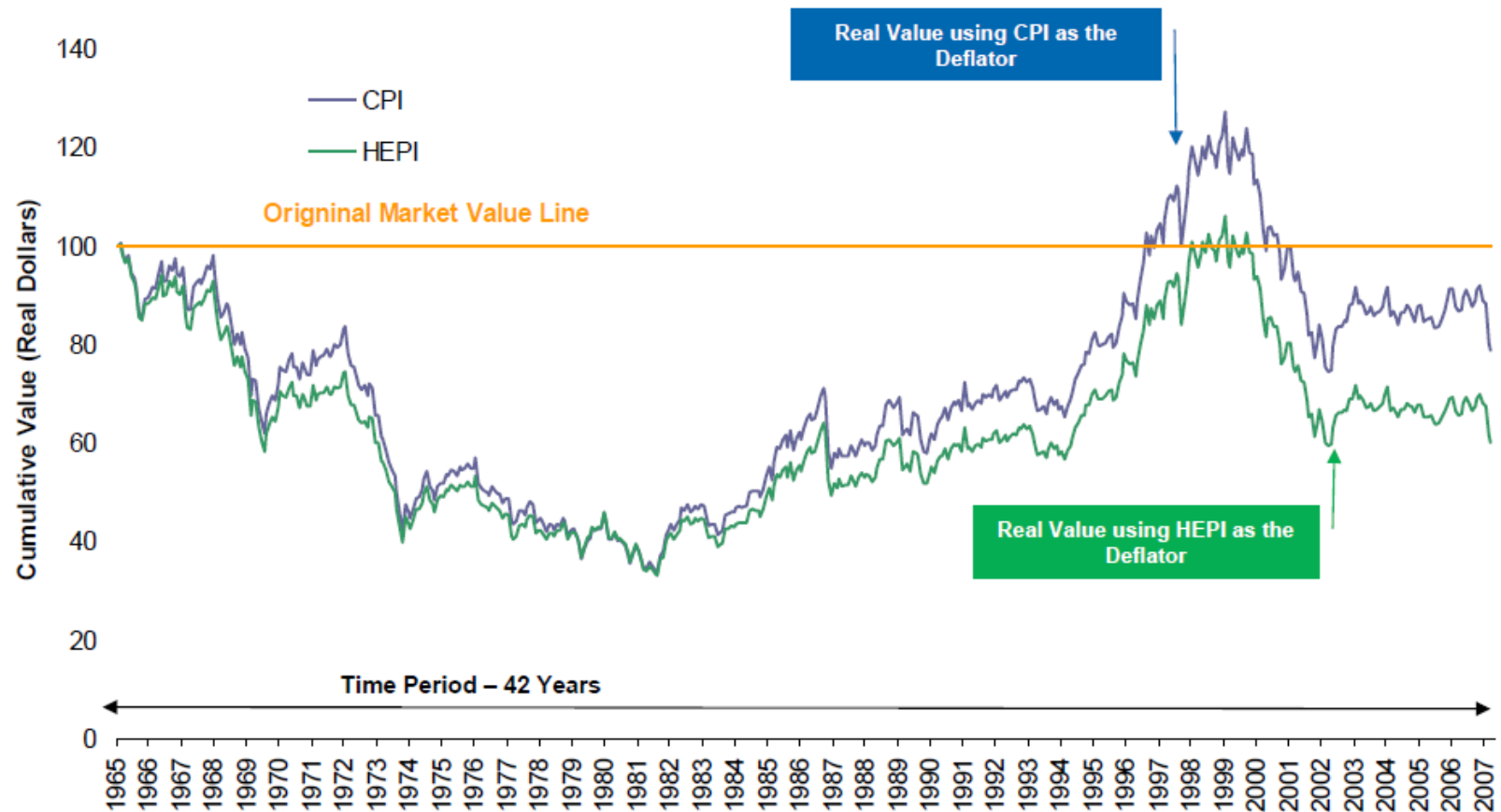


Cumulative Inflation-Adjusted Performance

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