Board of Regents of the University of Wisconsin System
Office of the Secretary
1860 Van Hise Hall
Madison, Wisconsin 53706
(608)262-2324

March 2, 2005

TO: Each Regent

FROM: Judith A. Temby

PUBLIC MEETING NOTICE

RE: Agendas and supporting documents for meetings of the Board and Committees to be held at UW-Madison on March 10 and 11, 2005.

Thursday, March 10, 2005

11:00 a.m. - Room 1820 Van Hise Hall

- Review of Regent Policy on Tuition and Financial Aid
- Accountability Report
- 2005-07 Capital Budget Recommendations

All Regents Invited

12:30 p.m. - Box Lunch

1:00 p.m. - Education Committee meeting
Room 1820 Van Hise Hall

1:00 p.m. - Joint Committee meeting:
Business and Finance Committee
Physical Planning and Funding Committee
Room 1920 Van Hise Hall

1:15 p.m. - Business and Finance Committee reconvene
Room 1920 Van Hise Hall

Physical Planning and Funding Committee reconvene
Room 1511 Van Hise Hall

Friday, March 11, 2005

9:00 a.m. – Board of Regents meeting
Room 1820 Van Hise Hall

Persons wishing to comment on specific agenda items may request permission to speak at Regent Committee meetings. Requests to speak at the full Board meeting are granted only on a selective basis. Requests to speak should be made in advance of the meeting and should be communicated to the Secretary of the Board at the above address.

Persons with disabilities requesting an accommodation to attend are asked to contact Judith Temby in advance of the meeting at (608) 262-2324.

Information regarding agenda items can be found on the web at http://www.uwsa.edu/bor/meetings.htm or may be obtained from the Office of the Secretary, 1860 Van Hise Hall, Madison, Wisconsin 53706 (608)262-2324.

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Achieving Excellence:
The University of Wisconsin System
Accountability Report 2004-05

Executive Summary

BACKGROUND

Over the past decade, the UW System has provided detailed annual accountability reports to the citizens of Wisconsin. These reports are a reflection of the UW System's deep commitment to demonstrating the excellence of its institutions of higher education. Each annual accountability report covers a broad spectrum of higher education performance measures that address diverse constituent interests. Ongoing refinements and enhancements have been made to these reports to ensure their continued relevance and value as a resource for all potential users.

The first UW System accountability report, *Accountability for Achievement,* was initiated in March 1993, when Governor Tommy Thompson appointed a Task Force to suggest approaches to the development of the UW System's initial accountability document. The Governor's Task Force recommended 18 higher education performance measures. These measures were adopted by the Board of Regents as the basis for *Accountability for Achievement.* The report was issued on a yearly basis for a mandated period of three biennia.

After the initial mandate was concluded, the UW System embarked in July 1999 on a thorough review of the accountability reporting process. The Accountability Review Task Force, appointed by President Katharine Lyall, reviewed the existing report and recommended a revised set of goals and indicators for the assessment of university performance. The Task Force members, which included students, faculty, staff, and administrators from all of the UW institutions, felt strongly that university performance should be measured in two distinct ways:

1) The achievement of student and institutional outcomes, and
2) The provision of a high quality student learning experience.

It was the latter of these two performance categories that led the Task Force to recommend a set of measures that included several new and innovative approaches to demonstrating accountability. These new measures focused primarily on the ways in which the UW institutions provide an environment that fosters learning.

In June 2000, the Board of Regents accepted the recommendations of the Task Force and authorized the production of the new UW System accountability report entitled *Achieving Excellence*. The current document is the fifth annual edition of Achieving Excellence. It is available electronically on the internet at: www.uwsa.edu/opar.

REQUESTED ACTION

Information only.

DISCUSSION

Achieving Excellence represents the UW System's continuing commitment to broad-based accountability of the state's largest public higher education system to the citizens of Wisconsin. All of the measures in *Achieving Excellence* were designed with the mission of the UW System in mind, concentrating on the many ways in which the University of Wisconsin seeks to serve its students and the State of Wisconsin. While it is not feasible to report on every possible area of university activity in a single document, *Achieving Excellence* presents a "balanced scorecard" approach to accountability reporting, reflecting a broad diversity of stakeholder interests.

Each new edition of *Achieving Excellence* includes updated information on university performance that addresses current accountability issues in higher education, both locally and on the national level. *Achieving Excellence* includes many of the same measures that are presented in *America's Best Colleges*, published by U.S. News and World Report, and in *Measuring Up*, the first state-level accountability report card on higher education published by the National Center for Public Policy and Higher Education. *Achieving Excellence* also includes many measures that are not usually found in other state and national accountability documents. Specifically, *Achieving Excellence* combines the more traditional indicators of access, retention, graduation, technology, and resource management with measures of the overall university learning environment and how well it fosters student success. By providing both process and outcome measures, the report more fully reflects the ways in which institutional activities promote the achievement of excellence.

In order to address both of these accountability concerns, it is necessary to augment regularly reported systemwide outcomes data with findings from student and alumni surveys. Each edition of *Achieving Excellence* reports findings from a cycle of surveys, including the ACT Alumni Outcomes Survey and the National Survey of Student Engagement (NSSE). Each of these surveys provides national benchmarks, affording the opportunity to make comparisons of UW System performance with that of other higher education institutions. Moreover, the insights gained from these survey findings help to advance our understanding of the non-survey data that are also presented in this report.

Each of the 15 UW institutions has created its own individual report as a companion to the systemwide *Achieving Excellence* report. These reports provide common performance measures across institutions, but also highlight the unique accomplishments of each UW campus. The institution-specific *Achieving Excellence* reports were produced in response to suggestions from members of the Board of Regents who felt that our accountability efforts would be enhanced by the reporting of institutional measures in a format that is consistent across all campuses. Although the systemwide *Achieving Excellence* report does include an appendix of selected institution performance measures, the core purpose of the report is to assess performance at the system level. The institutional reports are designed to demonstrate accountability in light of the specific character and mission of each institution.

REVISED

BOARD OF REGENTS OF THE UNIVERSITY OF WISCONSIN SYSTEM

I. Items for consideration in Regent Committees

1. Education Committee - Thursday, March 10, 2005
1820 Van Hise Hall
1220 Linden Drive, Madison
1:00 p.m.

<u>11:00 a.m.</u> <u>All Regents</u>

- Review of Regent Policy on Tuition and Financial Aid
- Accountability Report
- 2005-07 Capital Budget Recommendations

<u>12:30 p.m.</u> <u>Box Lunch</u>

<u>1:00 p.m.</u> <u>Education Committee</u>

a. Approval of the minutes of the February 10, 2005, meeting of the Education Committee.

b. Discussion: All-Regent Sessions:

(1) Review of Regent Policy on Tuition and Financial Aid;
(2) Accountability Report;
(3) 2005-07 Capital Budget Recommendations.

c. Report of the Senior Vice President for Academic Affairs:

(1) Ongoing Work on Plan 2008: Educational Quality Through Racial and Ethnic Diversity:
(a) Update on Phase II Institutional Plans;
(b) Climate Study Revisited;
(c) Diversity Accountability Report Card.

(2) Allied Health Accreditation;

(3) Gathering Stakeholder Input: Cooperative Extension Needs Assessment.

d. Program Authorizations – Second Reading:

(1) M.A. in Women's Studies/Gender Studies, UW-Madison;
[Resolution I.1.d.(1)]
(2) Joint Doctor of Audiology, UW-Madison and UW-Stevens Point.
[Resolution I.1.d.(2)]

e. Additional items that may be presented to the Education Committee with its approval.

Ongoing Work on the University of Wisconsin System Plan 2008: Educational Quality Through Racial and Ethnic Diversity Phase II – Closing the Achievement Gap

EXECUTIVE SUMMARY

BACKGROUND

In February, 2005, the Board of Regents adopted Resolution 8970, which reaffirmed the Board's compelling interest in and commitment to achieving educational diversity at all UW System institutions through an array of programs including Plan 2008, the System's 10-year plan to promote educational quality through racial and ethnic diversity. Resolution 8970 included specific recommendations to be undertaken by the UW System Administration (UWSA) and the institutions in the implementation of Phase II of Plan 2008. Among its recommendations, the Board directed UWSA and the institutions to adopt systemwide by June, 2005, a diversity accountability report card with measurable goals that will track the progress made in closing the achievement gap between UW students of color and white students. The Board of Regents also asked that UWSA return in March with an update on Plan 2008 Phase II institutional proposals, and with information on options for conducting a systemwide climate study.

REQUESTED ACTION

No action requested at this time.

DISCUSSION

Update on Phase II Institutional Plans

In February, 2005, the UW System Office of Academic Affairs presented to the Board of Regents an overview of the institutional proposals for Phase II of Plan 2008. As made clear at that time, many of the proposals submitted by the institutions were still in draft form. Under the leadership of Senior Vice President Cora Marrett, the Office of Academic Affairs has undertaken a systematic review of the plans and is providing feedback to each institution both on the strengths of its plan, and on those areas identified as needing improvement if the goals of Plan 2008 are to be met. Senior Vice President Marrett and her staff are consulting with the Chancellors and others at each of the UW System's fifteen institutions. Some of the institutions have already submitted revised plans, based on this feedback; others are in the process of doing so. The Office of Academic Affairs will continue to work closely with the institutions throughout the implementation of the Phase II plans, in the effort to facilitate the sharing of best practices, assessment of programs, and accountability practices that are developmental as well as evaluative. The Board of Regents will be regularly updated on institutional progress as well as challenges that remain.

Climate Study

Both higher education research and the direct experience of students and staff at UW System institutions have determined that campus climate has a profound impact on students' ability to succeed at an institution. The impact of climate on student persistence, retention and achievement is well documented, although the UW System currently has no systematic means of assessing the extent to which campus and classroom climate is welcoming and inclusive of all students and staff, regardless of race, ethnicity, ability/disability, gender expression, sex, sexual orientation, or age. A climate study would provide institutions with an examination of their current campus culture, and provide the groundwork for future initiatives leading to institutional transformation that would maximize equity in both learning opportunities and outcomes for students, and in work environments for faculty and staff. A systemwide climate study would allow the UW System to gain a better understanding of the specific experiences of students, faculty, and staff based on their race/ethnicity, gender expression, sex, disability, or sexual orientation. Information gained from such a study would guide efforts toward creating and sustaining welcoming climates, which would lead to more positive interaction between students across different groups, increased student engagement in learning and involvement on campus, and greater academic achievement. Most importantly, a healthier climate would help the UW System fulfill its commitment to provide educational experiences that support the success of all students, faculty, and staff.

Although a systemwide climate study was not ultimately included as one of the recommendations in Regent Resolution 8970, widespread support for such a study emerged from the discussion at the February Board of Regents meeting. Preliminary research has been done on how best to conduct a broad-based survey at the System level. A systemwide climate study will require sustained resources. The Office of Academic Affairs is currently exploring the option to add a climate study into the rotation of other surveys already conducted by the Office of Policy Analysis and Research for the development of the UW System's annual Accountability Report, *Achieving Excellence* (the other two surveys comprise the National Survey on Student Engagement or NSSE, and a survey of alumni). Results of the additional survey on climate would then be partially incorporated into the goals and benchmarks of the *Achieving Excellence* Report. The results would also be available to each institution as part of its ongoing implementation, assessment and improvement towards its Plan 2008 Phase II goals.

The Office of Academic Affairs will work with the institutions to identify a survey that meets identified criteria, including broad-based inclusiveness of populations, and covering a wide spectrum of academic curricula and programs, as well as co-curricular programs and environments. National benchmarks will also need to be a part of the climate study adopted. The Office will also work with the institutions to consider existing surveys already completed or in progress, and seek to integrate a systemwide survey with work done on individual campuses. The Office of Academic Affairs will report back to the Board of Regents in June with a specific recommendation.

Diversity Accountability Report Card

Higher education, in particular public higher education, has seen mounting pressure to provide broad-based institutional accountability in meeting the needs and expectations of its multiple stakeholders, including students, parents, faculty and staff, governing boards, tax-paying citizens, and state and federal governments. Concomitant but somewhat distinct from this increased demand for public accountability, there has been a growing movement in higher education to develop a "culture of evidence." A culture of evidence has been described as one in which institutional performance indicators and data are collected and examined on a regular basis in order to inform institutional planning, decision-making, and improvement. These movements are parallel in that they both seek to collect, analyze and utilize data in order to measure and, ideally, improve performance. They are distinct in the constituents they serve: accountability implies responsiveness to external stakeholders; the culture of evidence seeks to promote continuous improvement from within the institution for those who learn, teach, and work there.

Through its annual Accountability Report, *Achieving Excellence*, the UW System has been a national leader in developing system-wide accountability. The UW System Office of Academic Affairs proposes a two-pronged approach to improve accountability broadly construed in the realm of diversity and ensure continuous improvement. The first is inclusion in the *Achieving Excellence* Report of more specific goals, benchmarks, and indicators of progress on the achievement gap in terms of retention and graduation, broken down by specific race/ethnic groups. This revision will be developed by June for inclusion in the 2006 *Achieving Excellence* Report.

Second, following the recommendation of the Board of Regents, the UW System proposes to adopt a diversity accountability report card that will serve as an evidence-based tool for UW institutions working to achieve equity in educational outcomes through Plan 2008 and other diversity initiatives. Several models are being examined, including the Diversity Scorecard developed by Dr. Estela Mara Bensimon at the University of Southern California's Center for Urban Education. Dr. Bensimon's Diversity Scorecard was developed in collaboration with, and for the use of fourteen California higher education institutions. It utilizes existing institutional data to monitor progress toward equity for historically underrepresented students in four areas: access, retention, institutional receptivity, and excellence. In contrast to UW institutions, most of the participating California institutions already had diverse student bodies, or what Dr. Bensimon calls equity in opportunity. The participating institutions did not, however, have equity in educational outcomes: there existed significant achievement gaps for students of color compared to their white peers. The Diversity Scorecard's purpose is to develop a data-rich culture of evidence by which to diagnosis historical barriers to student achievement, and then to identify strategies to address them, and assess their effectiveness. Its purpose is to mobilize institutional attention and action, to change the practices that resulted in the achievement gap, and to effect real institutional change.

The goal of the UW System is develop a tool specifically adapted and designed to meet the needs, missions, environments, and demographics of UW System institutions. This will require ongoing and sustained support from UW System Administration and the institutions. It is clear that, whatever tool is ultimately adopted, the process will take time and widespread commitment since the twin goals are to establish (1) a process whereby institutional change is undertaken in those areas identified as needing improvement and (2) a regular, institutional process by which to monitor whether outcomes for underrepresented students are improving as a result of that institutional change. If done right, the impact of the diversity accountability report card will extend beyond the year 2008, and will result in the development of a rich data and evidence-based culture that would have a powerful effect in mobilizing institutional change and closing the achievement gap.

By June, 2005, the Office of Academic Affairs will share with the Board of Regents its plan for the adoption and implementation of a Diversity Accountability Report Card.

RELATED REGENT POLICIES

Plan 2008 Phase I Report - Report on Diversity: A Wisconsin Commitment, An American Imperative, April 2004.

Regent Resolution 8850, adopted 6/10/04.

Regent Resolution 8970, adopted 2/11/05

ALLIED HEALTH ACCREDITATION: ENSURING APPROPRIATE ENTRY-LEVEL DEGREE REQUIREMENTS IN UW SYSTEM ALLIED HEALTH PROFESISONAL DEGREE PROGRAMS

EXECUTIVE SUMMARY

BACKGROUND

At its October, 2004, meeting, the Education Committee requested that the UW System Office of Academic Affairs conduct a review of the degree- and accreditation-related requirements in the allied health professions offered at UW System institutions. The Office of Academic Affairs presented its review at the December, 2004, meeting of the Education Committee, which included an outline of the major factors influencing changes in accreditation requirements in allied health professions. The outline was accompanied by an overview of the allied health professional degrees offered by UW System institutions, the entry-level degree, the accreditation requirements, and recent or anticipated changes in the surveyed fields. The December presentation included expert testimony on these issues by Dr. Gregory Frazer, Dean of the School of Health Sciences at Duquesne University, and Dean Randall Lambrecht of the UW-Milwaukee School of Allied Health.

This was not the first time the Board of Regents undertook examination and action on accreditation issues. In March, 1999, the Education Committee conducted a review of the Regent policy on accreditation (Regent Policy 87-1). At that time, the Committee amended the policy to include an additional principle of accreditation. The Committee also directed Board members and UW System personnel to take action to ensure that accreditation would continue to play a constructive role in institutional program development and review.

The 2004 discussion echoed some of the major concerns of the 1999 discussion, although the earlier discussion comprised both regional or institutional accreditation and specialized or professional accreditation. The scope of the present Education Committee's concern is specifically focused on specialized or professional accreditation, and in particular of the allied health professions. The following issues emerged as particularly important to the Education Committee last December:

- The rationale for changes in credit and/or degree requirements for entry into allied health fields;
- The potential impact of increased requirements on students' ability to pursue allied health programs;
- The impact on affordability if the degree requirements, number of credits, and/or time-to-degree increase;

- The possibility that increased requirements and/or time-to-degree may limit access for students already underrepresented in these areas; and
- The impact on meeting the need for new practitioners in allied health fields facing shortages.

Recognizing that, in some cases, any formal response or intervention on the part of the UW System would be made too late to prevent certain professional degree changes from occurring, the Committee directed the UW System Office of Academic Affairs to develop a plan of action with which to address these adverse impacts in ways that were constructive and focused on the fields in which an impact could, realistically, be made to prevent further, unnecessary degree elevation.

REQUESTED ACTION

No action requested at this time.

DISCUSSION

Like other governing boards, the University of Wisconsin Board of Regents retains oversight of academic program approval and review. The Board of Regents supports the long tradition of quality assurance through peer review and self-examination provided by specialized and regional accreditation of UW System academic and professional programs. Given the impact various accreditation agencies have on program requirements, however, the Board of Regents must attempt to stay current on accreditation issues in their role as stewards of program quality and array.

The allied health professions are rapidly and continuously evolving fields that must respond quickly and responsibly to changes and advances in the delivery of health care services, the emergence of new technologies and techniques in the performance of professional services, and profound changes in the economic, demographic, social and cultural dynamics of health care delivery. These changes impact how allied health professionals are trained and educated, and how institutions of higher education organize the educational outcomes and the degree programs that provide them. The pressure for change comes from many directions including accrediting agencies, professional associations and their allied health practitioner members, changing scopes of practice as defined by the health care practitioner licensure laws in various states, and third-party payer reimbursement structures.

Accrediting agencies develop standards that define the learning outcomes that must be achieved by program graduates. Through these standards, accrediting agencies respond to social and market forces while attempting to maintain the integrity of professional degree programs for students and practitioners. In addition, some accrediting agencies, such as the Accreditation Council for Occupational Therapy Education (ACOTE) have actually mandated the minimal degree that must be awarded following the completion of an entry-level degree in the profession. Recently the Education Committee approved two professional masters degree programs in

Occupational Therapy, one at the University of Wisconsin-Madison (June 2004) and the other at the University of Wisconsin-La Crosse (October 2004). While both UW-Madison and UW-La Crosse supported the curricular and program changes as necessary to student success and program quality, the change in degree status was in response to the mandated accreditation changes.

Other agencies, such as the accrediting body for Physician Assistants, have stated that the accreditation standards "reflect a graduate level of curricular intensity" and have urged programs to reflect this higher level of academic rigor in "an appropriate degree." Still others mandate specific graduate degrees. The American Physical Therapy Association (APTA) has stated that "By 2020, physical therapy will be provided by physical therapists that are doctors of physical therapy, recognized by consumers and other health professions as practitioners of choice to whom customers have direct access for diagnosis of, interventions for, and prevention of impairments, functional limitations, and disabilities related to movement function and health." The accrediting bodies for Physical Therapists have responded by elevating over the next several years the entry-level degree for Physical Therapists to a professional doctorate. This is an example where changes in both the scope of practice and the reimbursement structure are serving as drivers to both lengthen the curriculum and elevate the entry-level degree awarded. There are other examples in which the changes advocated by professional associations seem to be related to professional prestige rather than deficiencies in the current entry-level degree requirements.

Often, private institutions have led the way in terms of offering curricula that reflect enhanced scope, depth, breadth, and rigor of preparation needed for current and future practice. For example, in Wisconsin both Marquette and Concordia Universities have been awarding the professional doctorate in Physical Therapy (D.P.T.) for several years and Carroll College will implement the D.P.T. this summer. UW-Madison and UW-La Crosse are still awarding a master's entry-level degree. Although some might argue that private colleges and universities have implemented the more advanced degrees to obtain a recruitment advantage in a competitive student marketplace, others would say that private institutions can move more quickly to respond to the changing needs of the health care system. In the case of Physical Therapy, UW institutions will have no recourse in coming years but to offer the D.P.T. if they want their students to graduate from accredited programs and be able to practice Physical Therapy.

In response to this state of affairs, the UW System recommends the following course of action, working with allied health professional accrediting bodies, national higher education organizations, and UW System allied health programs to ensure appropriate entry-level degree requirements for allied health professional degree programs:

1. Regents will work with the Association of Governing Boards to discuss ways in which the concerns of higher education institutions might best be acknowledged and addressed by specialized accreditation agencies.

2. Senior Officials from UW System Administration and the institutions will consult with higher education organizations of which they are members, e.g., Council on Higher Education Accreditation (CHEA), State Higher Education Executive Officers (SHEEO), American Council on Education (ACE), American Association of State Colleges and Universities (AASCU), Committee on Institutional Cooperation (CIC), and National Association of State Universities and Land-Grand Colleges (NASULGC), to discuss ways in which higher education institutions might speak collectively and thereby wield more influence on accreditation agencies.

3. UW System Administration will consult with the deans of all UW System allied health professional schools and programs to: 1) identify approaches to preventing increased entry-level degree requirements, unless such changes are based on compelling evidence of need, as they pertain to their specialized accreditation agencies; 2) ensure that requirements for UW System allied health programs provide the necessary preparation for allied health professionals while minimizing credits-to-degree; and 3) identify particular allied health professions or areas in which higher education institutions might act to ensure appropriate entry-level degree requirements before they are changed through accreditation mandates.

4. UW System Administration will examine other professional degree programs (such as Teacher Education, Nursing, or Social Work) to determine whether they, too, are experiencing accreditation pressures that may impede student access, opportunity, persistence, and success.

By undertaking the activities listed above, the Board of Regents and the UW System will work to demonstrate their commitment as advocates of students and stewards of systemwide program array, development, and review.

RELATED REGENT POLICIES

Regent Policy 87-1, *Principles on Accreditation of Academic Programs*

Regent Resolution 3734, adopted 3/6/87.

Regent Resolution 7874, adopted 3/5/99

EDUCATION COMMITTEE

Resolution I.1.d.(1):

That, upon recommendation of the Chancellor of the University of Wisconsin-Madison and the President of the University of Wisconsin System, the Chancellor be authorized to implement the M.A. in Women's Studies/Gender Studies.

NEW PROGRAM AUTHORIZATION
Master of Arts in Women's Studies/Gender Studies
University of Wisconsin-Madison
(IMPLEMENTATION)

EXECUTIVE SUMMARY

BACKGROUND

In accordance with the procedures outlined in Academic Planning and Program Review (ACIS-1.0 revised), the new program proposal for a Master of Arts in Women's Studies/Gender Studies at UW-Madison is presented to the Board of Regents for implementation. If approved, the program will be subject to a regent-mandated review to begin five years after its implementation. The University of Wisconsin-Madison and System Administration will conduct that review jointly and report the results to the Board.

The proposed program builds upon the existing undergraduate major in Women's Studies, the undergraduate certificate program and a Ph.D. minor. The curriculum reflects advances in knowledge made in the past forty years in the well-established, interdisciplinary field of Women's Studies. The program will emphasize global and multicultural issues and will require proficiency in a second language. It fits with directions in research and teaching in Women's Studies that reflect increasing attention to the differences among women and gender systems and practices within the United States, the variations of gender formations around the globe, and the cross-fertilization between multicultural studies with feminist inquiry.

REQUESTED ACTION

Approval of Resolution I.1.d.(1), authorizing the implementation of the M.A. in Women's Studies/Gender Studies, UW-Madison.

DISCUSSION

Program Description

The proposed M.A. in Women's Studies/Gender Studies will provide advanced training in the analysis of women and gender from global and cross-cultural perspectives. The 24-credit program is designed to be completed as a two-year, full-time sequence. The curriculum is flexible enough to allow part-time study, which may be of interest to working professionals who aspire to upgrade their credentials in this area. Of the 24 credits, at least 15 must be in designated Women's Studies courses; the remaining nine credits may be taken in Women's Studies or in appropriate graduate-level courses in other departments as approved in consultation with the advisor. Of the 15 required Women's Studies credits, each student must complete a three-credit introductory seminar, a three-credit capstone research seminar, a theory course, and a thesis project. The capstone course is the only new course required for the program. M.A. students will select courses from an array of graduate-level Women's Studies, which serve the existing undergraduate program and the Ph.D. minor. Masters students will be required to demonstrate competency in a language other than English or acquire such language competency during the course of their study.

Program Goals and Objectives

The M.A. in Women's Studies/Gender Studies will prepare students to explore the ways that gender operates in one or more of the following domains:

- work, family, and education;
- social movements, the state, and civil society;
- bodies, gender, health, and sexuality;
- individual, collective, and communal identities;
- communications, technology, and culture industries;
- politics of representation, the media, and cultural practices;
- migration, immigration, labor issues, and political economy; and
- militarism, international relations, and governmental processes.

All students will study transnational and cross-cultural questions, and will demonstrate an understanding of interdisciplinary approaches to the study of women and gender. Some individuals may focus on particular locations and/or problems in the study of women and gender.

Relation to Institutional Mission

The M.A. in Women's Studies/Gender Studies will enhance the ongoing mission and new initiatives of the Women's Studies Program. Women's Studies is an inherently interdisciplinary field. As such, the program provided an early example of the kind of interdisciplinary research and teaching prioritized in UW-Madison's Vision for the Future document (April 1995), the College of Letters & Science's Creating a New College document (March 1996), and the current support of cluster hiring and other interdisciplinary initiatives. These documents and actions speak to the need to develop cross-disciplinary initiatives at both the undergraduate and graduate levels, to break down the tendency toward the "vertical" isolation of disciplines from each other, and to enhance "horizontal" cooperation among disciplines. The Women's Studies Program pioneered just such an approach and the proposed program is an extension of these efforts. The focus on international and multicultural gender issues is consistent with institutional priorities for developing interdisciplinary knowledge about other parts of the world as an essential component for preparing students for an increasingly global age.

Diversity

From the beginning, the Women's Studies Program has been at the forefront of diversity in faculty, course offerings, and in promoting curricular diversity beyond its own program. It has core interdisciplinary linkages and budgeted joint faculty positions with the Afro-American Studies Program, Asian American Studies, and Chicana/o and Latina/o Studies. The Women's Studies Program is the administrative home for the Lesbian, Gay, Bisexual, and Transgender Studies certificate program. The faculty itself is diverse, and faculty research has provided models of scholarship addressing diversities of all kinds. The Women's Studies Program has displayed its commitment to infusing diversity into the curriculum by promoting UW System-wide programs such as "Women of Color in the Curriculum Project" (1989-91) and "Internationalizing Women's Studies and Integrating Gender into Area Studies Programs" (1995-1998).

The program will cultivate connections with students from diverse backgrounds through contacts at national meetings and the talks program faculty give at other institutions, and thereby encourage candidates to apply. The small size of the program provides each student with individual attention and mentoring in order to insure high retention and completion rates. The M.A. program's focus on multicultural and international issues makes it of special interest to a diverse student body.

Need

There are no other graduate programs in Women's Studies or in Gender Studies in Wisconsin. Across the nation, those women's studies M.A. programs that are most comparable to the proposed program in terms of size, funding, and number of courses receive 60-90 applications a year. Currently, the program receives 15 to 20 inquiries each year from those interested in applying for an M.A.-level program. Inquiries come from UW-Madison undergraduates and from Women's Studies students from across Wisconsin, particularly those within the UW System. In addition, many inquiries come from working adults in Wisconsin who are seeking to advance their careers. Interested workers include state employees in areas that address women's issues and employees of non-profit agencies, particularly those that address domestic violence and sexual assault. Because of the national and international visibility of the faculty and the distinctive focus of the M.A. degree program, the program expects to attract students from a state-wide, national, and international pool. Graduates of the proposed program will be prepared to contribute a gender perspective to careers in policy, social services, health, education, and media, and will be prepared for entry into Ph.D. programs in Women's Studies and related disciplines. The transcultural and international focus of the program will make graduates especially attractive to a broader range of employers.

Comparable Programs

There are no comparable programs in Wisconsin. The Ohio State University has the Women's Studies Program most comparable to UW-Madison's in terms of size, funding, number of courses, and quality of faculty. Ohio State receives 60-70 applications a year and admits eight-ten students. Most of the peer institutions in the Midwest and across the nation already have established M.A. programs in Women's Studies and several also offer a Ph.D. degree. None of these programs share Madison's focus on gender in comparative, cross-cultural, and global contexts.

Collaboration

The proposed M.A. in Women's Studies/Gender Studies would complement a number of programs currently in place at UW-Madison, including the M.A. emphasis in Women's History in History and in Afro-American Studies; the master's degrees in area studies programs; undergraduate majors in Women's Studies, Afro-American Studies, International Studies, Comparative Literature, and area studies programs; certificate programs in Women's Studies, African Studies, European Studies, Russian and East European Studies, Southeast Asian Studies, American Indian Studies, Asian American Studies, and Chicana/o Studies; and Lesbian, Gay, Bisexual, and Transgender Studies.

The program faculty and staff collaborate and coordinate with other Women's Studies programs in the state of Wisconsin through the Women's Studies Consortium and will welcome the opportunity to collaborate with other UW System Women's Studies programs as they are designed and implemented.

Use of Technology/Distance Education

In 2004, the UW-Madison Women's Studies Program co-sponsored with the UW System Women's Studies Consortium a workshop for UW faculty and academic staff on "Incorporating Hybrid Web-Enhanced Course Development into Women's Studies Pedagogy." Fifty-five faculty from thirteen universities explored the possibilities of extending teaching strategies with new teaching technologies. Phyllis Holman Weisbard, the UW System Women's Studies Librarian, under the aegis of the University's Library and Information Literary Instruction Program (LILI), has developed interactive tutorials in international women's issues that teach students through self-paced modules critical research skills utilizing web-based resources. The program faculty will review Women's Studies courses taken via distance education at other institutions and consider them for transfer credit. The program is exploring the possibility of a distance education component, through cooperation with the Women's Studies Department at the University of Minnesota, and welcomes the opportunity to collaborate with other UW Women's Studies programs as they are designed and implemented.

Academic and Career Advising

The Associate Chair will act as the general advisor for the program and the Graduate Program Coordinator will oversee Graduate School requirements. Each student will have a Women's Studies faculty member as an advisor, and a three-member faculty committee will evaluate the thesis. Students who anticipate that they will enter a Ph.D. program in a traditional discipline such as history, political science, or area studies, after the M.A., will be advised by a faculty member in the identified discipline.

Projected Enrollment (5 years)

Year	Implementation year (Fall 2005)	2nd year	3rd year	4th year	5th year
New students admitted	2	2	3	3	3
Continuing students	0	2	2	3	3
Total enrollment	2	4	5	6	6
Graduating students	0	2	2	2	3

Assessment and Program Evaluation

An M.A. Subcommittee of the Women's Studies Curriculum Committee will be assigned the responsibility of ongoing assessment of the M.A. program, and will report annually on findings and recommendations to the Women's Studies Program. The committee will use the following evaluation methods: survey of students in capstone seminar; review of samples of work from students; evaluation of final thesis projects submitted; regular survey of alumni of program; follow-up calls with students accepted but not matriculating; and exit interviews.

Evaluation from External Reviewers

Three external reviewers provided written comments. All three noted that the faculty is highly respected in the United States and abroad, and have the expertise to deliver this curriculum. The distinctive international focus of the curriculum, the prominence of the program faculty, and the absence of any other graduate program in Women's Studies or Gender Studies in Wisconsin are factors that combine to put this program in high demand by students. The reviewers were optimistic about the employment outlook for graduates. One reviewer wrote, “Growing recognition of the need to understand the role of women and gender roles, particularly in comparative and international contexts, should distinguish recipients of the M.A. and provide them with a strong, competitive edge in the job market.”

Resource Needs

Currently, there are 17 budgeted faculty in WSP (7.7 budgeted FTE) and a total of 58 faculty who have the expertise to teach and advise students in the proposed M.A. Increasingly, traditional disciplines have added faculty expertise and coursework appropriate to the Women/Gender Studies. As a consequence, the program offers more than 60 WSP-specific or cross-listed courses that form a curricular foundation. The curriculum will require adaptation of the introductory course and the addition of a capstone seminar course. The capstone course will be taught by reallocating teaching assignments from courses that primarily serve undergraduates. Given the breadth of the course offerings, such shifts will have a minimal impact on undergraduates. Specific resource needs are
(1) occasional short-term instructional staffing needs; (2) a $4,000 increase in supplies and expenses provided to the Women’s Studies Program; (3) an $8,000 increase to the budget to offset the time that the program coordinator devotes to the graduate program and funding for a student hourly. These budget adjustments will be provided by reallocations within the College of Letters & Science. In the future, the program hopes to expand the number of students if faculty are added either through the funding of the International Gender Studies Cluster or through other faculty hiring.

RECOMMENDATION

The University of Wisconsin System Administration recommends approval of Resolution I.1.d.(1), authorizing the implementation of the M.A. in Women’s Studies/Gender Studies, UW-Madison.

RELATED REGENT POLICIES

University of Wisconsin System Academic Planning and Program Review (November 10, 1995), Academic Informational Series #1 (ACIS-1.0 revised)

BUDGET - UW-Madison M.A.-Women's Studies/Gender Studies								V. 1/7/2005
	Base Year - 04-05		First Year, 2005-06		Second Year, 2006-07		Third Year, 2007-08	
CURRENT COSTS	#FTE	Dollars	#FTE	Dollars	#FTE	Dollars	#FTE	Dollars
Personnel								
Faculty	1	$80,000	1	$82,400	1	$84,872	1	$87,418
Instructional Staff								
Graduate Assistants								
Non-instructional Academic /Classified Staff								
Non-personnel								
Supplies & Equipment								
Capital Equipment								
Library								
Computing								
Other (Define)								
Subtotal		$80,000		$82,400		$84,872		$87,418
ADDITIONAL COSTS	#FTE	Dollars	#FTE	Dollars	#FTE	Dollars	#FTE	Dollars
Personnel								
Faculty								
Instructional Staff	0.1	$4,000	0.1	$4,120	0.1	$4,244	0.1	$4,371
Graduate Assistants								
Non-instructional Academic /Classified Staff	0.5	$8,000	0.5	$8,000	0.5	$8,000	0.5	$8,000
Non-personnel								
Supplies & Equipment		$4,000		$4,000		$4,000		$4,000
Capital Equipment								
Library								
Computing								
Other (Define)								
Subtotal		$16,000		$16,120		$16,244		$16,371
TOTAL COSTS		$96,000		$98,520		$101,116		$103,789
CURRENT RESOURCES								
GPR		$80,000		$82,400		$84,872		$87,418
Gifts and Grants								
Fees								
Other (Define)								
Subtotal		$80,000		$82,400		$84,872		$87,418
ADDITIONAL RESOURCES								
GPR Reallocation (within L&S)		$16,000		$16,120		$16,244		$16,371
Gifts and Grants								
Fees								
Other (Define)								
Subtotal		$16,000		$16,120		$16,244		$16,371
TOTAL RESOURCES		$96,000		$98,520		$101,116		$103,789

Notes:

Faculty - 1.0 FTE is estimated effort for the two core course and advising effort for six M.A. students, which would be spread across the Women's Studies Program faculty. Average salary est. $80,000. An annual salary increase of 3% is included.

Instructional Staff - Occasionally funding for short term teaching staff will be requested from L&S. The allocation here for 10% per year is an estimate based on the expectation that support will be requested once every two or three years.

Graduate Assistants - no graduate assistants are alloted. The number of students is small and distributed across a wide program array, and most of those courses are taught without graduate assistants.

Non-Instructional Staff - $8,000 is added to the WSP budget to fund the time the current PA3 will devote to the M.A. program, and to fund a student hourly for 20 hours a week.

Resources - costs will be funded through reallocation from other sources in L&S.

Program Authorization (Implementation)
Consortial Doctor of Audiology
University of Wisconsin-Madison and
University of Wisconsin-Stevens Point

EDUCATION COMMITTEE

Resolution I.1.d.(2):

That, upon recommendation of the Chancellors of the University of Wisconsin-Madison and the University of Wisconsin-Stevens Point, and the President of the University of Wisconsin System, the Chancellors be authorized to implement the Consortial Doctor of Audiology.

NEW PROGRAM AUTHORIZATION
Doctor of Audiology
University of Wisconsin Consortial Degree
UW–Madison and UW–Stevens Point
(IMPLEMENTATION)

EXECUTIVE SUMMARY

BACKGROUND

In accordance with the procedures outlined in Academic Planning and Program Review (ACIS-1.0 revised), the new program proposal for a Doctor of Audiology degree (Au.D.) at UW-Madison and UW-Stevens Point is presented to the Board of Regents for implementation. If approved, the program will be subject to a regent-mandated review to begin five years after its implementation. The University of Wisconsin-Madison, the University of Wisconsin-Stevens Point, and System Administration will conduct that review jointly, and report the results to the Board.

The proposed program is presented by a consortium representing UW-Madison and UW-Stevens Point. The Doctor of Audiology is a terminal clinical degree designed to provide training in audiology, and in the prevention and rehabilitation of hearing disorders. The graduates of this program will serve the needs of the hearing-impaired children and adults throughout the state of Wisconsin. The Au.D. will replace the existing master's tracks in clinical audiology at UW-Madison and UW-Stevens Point. The Au.D. will meet the accreditation standards of the American Speech-Language-Hearing Association (ASHA), which require that, by 2012, a clinical doctoral degree will be the standard for certification of newly graduated clinicians for the independent practice of audiology.

The impetus for the Au.D. came from audiologists who were facing an increase in the number and complexity of the activities they were required to perform. The field of audiology was established to treat hearing-impaired veterans at the end of World War II, a time when the scope of practice was quite limited compared to current standards. Over the ensuing 60 years, the profession has expanded dramatically as a result of rapidly developing technology and better understanding of normal and disordered hearing. Contemporary audiologists work in hospitals, schools, clinics, private practice, and industry. Today, the scope of practice includes prevention, assessment, and remediation for pathology of the auditory-vestibular system, including the neural and central auditory pathways.

REQUESTED ACTION

Approval of Resolution I.1.d.(2), authorizing the implementation of the Consortial Doctor of Audiology , UW-Madison and UW-Stevens Point.

DISCUSSION

Program Description

The Doctor of Audiology is a four-year program that will enroll students with undergraduate preparation in communicative disorders or related disciplines. Currently, graduation with a master's degree in Communicative Disorders and a concentration in audiology requires two years of formal course work. After graduation, students are required to complete an additional year of supervised clinical practicum prior to becoming certified and state-licensed. Hence, current students receive three years of training in order to become clinical audiologists.

The proposed Au.D. adds a year of course work beyond the master's degree and brings the supervised year of clinical practicum under the oversight of the university. The first two years are focused on course work and include clerkships each semester and in the summer terms. At the end of the first two years, students take comprehensive exams covering academic topics and a practical exam on clinical applications. The third year continues with more course work and requires that students complete a capstone project in clinical audiology. Each capstone project will be supervised by a committee of three members, with representation from both institutions and at least two members of faculty rank. Students will present both a written and oral report of their findings at the end of the third year. In the fourth year, students will do a full-time externship, and they will design, pursue, and document a program of professional continuing education. Some fourth-year placement sites, such as the VA Medical Centers, Mayo Clinic, and Boys' Town National Research Hospital, offer stipends to students placed at their facilities. The number of sites offering stipends is expected to grow.

A single curriculum has been developed; all courses have been approved and are listed in the timetables at both institutions. The curriculum includes both previously existing courses and newly developed courses. Sixteen courses were developed for the Au.D. and are new at both institutions.

Program Goals and Objectives

The academic objectives of the program are to:

1. Prepare students to enter the profession of audiology as independent audiologists capable of functioning in private practice, medical clinics, and school settings;
2. Provide a strong theoretical, technical, and scientific base for clinical practice;
3. Prepare students to meet certification and licensure requirements; and
4. Prepare students appropriately in ongoing professional development and continuing education to maintain currency in the field.

Students will be prepared to:

1. Describe the theoretical and scientific bases for disorders of the auditory and vestibular systems;
2. Elicit case history information and use it in diagnosis and rehabilitation planning;
3. Perform diagnostic tests and rehabilitative services for a wide range of disorders;
4. Perform professionally in a manner consistent with national guidelines and standards of best practice;
5. Counsel patients and refer to other professionals as necessary;
6. Be a critical reader of the literature and engage in continuing education;
7. Monitor the quality of their professional performance; and
8. Describe the basics of the business aspects of clinical audiology practice.

Relation to Institutional Mission

At UW-Stevens Point, Communicative Disorders, the parent discipline of audiology, is a selected area of mission focus. The Au.D. is directly aligned with this mission priority. A strong clinical training program in audiology will strengthen the associated Communicative Disorders programs at the baccalaureate and post-baccalaureate levels. At UW-Madison, a training program for clinical audiologists is a necessary element of a vibrant research and teaching program in Communicative Disorders. The program faculty forsee that synergistic interactions will develop between the Au.D. and the Ph.D. in Communicative Disorders at UW-Madison. The research of Ph.D. students will benefit from better access to information about clinical practice, and Au.D. students will have better access to new research and emerging diagnostic and intervention strategies through close contact with the research program.

Diversity

UW-Madison and UW-Stevens Point, like all UW institutions, are committed to racial/ethnic diversity as described in our respective Plan 2008 documents and a range of institutional initiatives. The Au.D. program will make focused efforts to ensure racial/ethnic and physical diversity among students, staff, and faculty. The Au.D. program directors will seek out colleagues at predominantly minority universities and colleges to inform them about the program and encourage their students to apply. The faculty will use the minority student connection sponsored by the American Speech-Language-Hearing Association to seek out and recruit talented students.

Audiology programs have a history of inclusion of individuals with diverse physical abilities. Both institutions typically have students with hearing impairments enrolled in their programs. Disability services offices at both institutions, which serve students with a range of disabilities, make use of the expertise of the members of the communicative disorders departments.

Practicing audiologists serve all members of the community – people of all racial and ethnic backgrounds, all ages, and with a variety of disabilities. To enhance the professional preparation of students, issues of cultural competence are incorporated throughout the curriculum. These issues are also addressed in specific courses that focus on professional practice. For example the program includes a course entitled “Professional Issues: Diversity and Multicultural Populations.” Other courses focus on working with deaf or hearing-impaired patients and their families or with geriatric populations. The ASHA standards for certification are explicit in their requirements that applicants for certification have acquired knowledge and developed skills that take account of diversity in terms of patient characteristics, ramifications of cultural diversity on professional practice, culturally sensitive screening and assessment measures, and culturally sensitive management strategies.

Need

The proposed Doctor of Audiology program will be the only training program for clinical audiologists in Wisconsin. As UW System’s first consortial academic program, the Au.D. links personnel and physical resources that are physically and institutionally distinct into a single academic program. Applicants to the program are likely to come primarily from the pool of graduates from undergraduate programs in Communicative Disorders at UW-Eau Claire, UW-Whitewater, UW-River Falls, UW-Milwaukee, UW-Madison, and UW-Stevens Point. The Au.D. program provides graduates of these undergraduate programs who aspire to become independent clinical audiologists the opportunity to stay in Wisconsin for their training, and then on into practice.

The national need for audiologists is growing. The Bureau of Labor Statistics predicts that, nationally, job growth for audiologists from 2000-2010 will increase by nearly 45 percent, which means an increase of roughly 6,000 positions. In the Midwest, growth in the field is also strong, with growth ranging from an estimated 29.2 percent growth in Iowa to a 43.2 percent in Ohio. Wisconsin's growth rate is estimated at 33.3 percent. Legislatures in 38 states, so far, have mandated universal newborn hearing screening programs. These screening programs, follow-up diagnostic assessments, and subsequent rehabilitation are overseen by clinical audiologists. The aging population also is driving the demand for diagnosis and treatment of hearing impairment. The Americans with Disabilities Act mandates more and better accommodations for people with hearing impairments.

Comparable Programs

Masters programs are converting to Doctor of Audiology programs across the country. Within the Midwest region, several Au.D. programs have begun recently at universities including the University of Minnesota, University of Iowa, Northwestern University, Ohio State University, University of Kansas, and Purdue University. Rush University, Western Michigan University, Ball State University, and Central Michigan University have had smaller programs for several years. Michigan State University will soon discontinue its M.S. and Ph.D. programs in audiology.

Collaboration

The consortial Doctor of Audiology program unifies the UW-Madison and UW-Stevens Point audiology programs, separated by 100 miles, into a single curriculum. Prospective students will apply to a single program, will choose from the same course offerings, will be in classes together, will be placed into a common pool for clinical sites, and will pay the same tuition. The unified curriculum will be taught by faculty from both institutions. Distance-learning technology and meetings at intermediate sites will bridge the geographic gap. Course duplication will be largely restricted to small, hands-on laboratory courses offered at both institutions. Thus, the academic elements of the curriculum will be integrated and virtually seamless from the perspective of the student. In order for all of the students in the program to meet as a whole cohort, UW-Baraboo has been considered as a site for periodic classes that would be mid-distance between Stevens Point and Madison. For the sake of administrative and fiscal efficiency, the program will have the students identify in the application process one or the other institution as their academic home. The records of the student's enrollment, coursework, financial aid, and tuition payments, as well as management of many of the fiscal issues, will be administered through the selected institution.

Use of Technology/Distance Education

In general, didactic elements of the curriculum will make use of distributed learning formats, including teleconferencing and internet-based delivery, so that the students at the two locations can meet together in one “class.” Technological methods associated with the clinical practice of audiology, including prevention, diagnosis, and rehabilitation, are integral to the curriculum. For example, the selection, adjustment, and verification of hearing aids require the sophisticated use of computers. Similarly, physiological assessments of auditory and vestibular conditions require the use of highly specialized equipment.

Academic and Career Advising

Students will receive advising from program faculty and staff at entry and throughout the program. The program will establish an academic advising committee composed of a faculty representative from each campus and the program coordinator. This committee will provide coordinated academic advising across the two campuses. Any issues that affect both campuses will be brought to the advising committee. During the third year, students will be advised by a three-member committee on their capstone project. The program faculty and staff will assist students with the student-to-career transition as they do currently for students in the M.S. audiology tracks.

Projected Enrollment (5 years)

Year	Implementation year (Fall 2005)	2nd year	3rd year	4th year	5th year
New students admitted	12	15	16	17	17
Continuing students	28*	33	38	43	48
Total enrollment	40	48	54	60	65
Graduating students	6	9	10	11	14

*This is the anticipated number of students who are currently enrolled in M.S.-Communicative Disorders programs who will want to move into the Au.D. Numbers are adjusted to reflect a dropout rate of one student each year.

In recent years UW-Stevens Point has enrolled five to seven new students annually, and UW-Madison has enrolled ten to twelve new students. The anticipated Au.D. enrollment is consistent with the prior enrollments. For the current M.S. programs, both institutions routinely have more qualified applicants than they have spaces for enrollment.

Assessment and Program Evaluation

To evaluate whether the program is meeting the designated goals and objectives, the program faculty will use the following methods: surveys of graduates, employers, and internship supervisors; aggregated evaluations of student performance in the comprehensive exam and capstone projects; and performance on the national certification examination.

The new Au.D. program will seek ASHA accreditation. Both of the existing Masters programs are ASHA-accredited and the new program has been designed to meet the ASHA requirements for a Doctor of Audiology program. The standards for accreditation include many elements: stringent requirements for evidence of student learning and assessment are among them. ASHA accreditation is a critical requirement because graduation from an accredited program is the fundamental requirement for professional certification and, in many states, for licensure.

Evaluation from External Reviewers

The external reviewers and the program review committee cite the consortial design of the program as both the program's greatest strength and challenge. The academic contributions of each institution are complementary and, in combination, they offer students the range of faculty expertise and curricular depth and breadth required to transition to this four-year professional program. The program faculty exhibit a mutual commitment to overcoming the challenges of offering one program at two geographically disparate locations: strategies to bring cohesion to the program include the use of distance delivery of curricular content, courses and meetings held at half-way locations, and occasional program-wide convocations at either program site or at neutral sites. The external reviewers agree that the program faculty are cognizant of the challenges and have done the requisite planning and preparation to meet them. They concluded that the program faculty are widely respected, that the curricular design is sound, that the need for the program is evident, and that the graduates will be well-prepared as practitioners of audiology.

Resource Needs

The Doctor of Audiology program has resource needs that go beyond those available from reallocation from the master's level audiology tracks. There is substantial overlap with the existing M.S. curriculum; sixteen courses were offered at both institutions as part of the M.S. curriculum and will be included in the Au.D. Students at each site will pay the same consortial tuition rate, which is set at the level of graduate tuition at UW-Madison. Each institution will have fiscal responsibility for the funds generated by students who have identified it as their academic home. The institutions and the program faculty are committed to making fiscal decisions and establishing cost-sharing arrangements that are in the best interests of the program. Each institution will create a fiscal reserve to cover unanticipated program costs or to offset costs that create an undue burden for one institution.

New resource needs include upgrades to the distance education infrastructure (especially at UW-Madison), some increase in instructional faculty, and the addition of an administrative staff person. In addition, both institutions will incur implementation costs associated with bridging the geographic gap and pioneering the consortial arrangements associated with the program.

Overall Budget: Estimated Total Costs and Resources

	1st Year, 2005-06		2nd Year, 2006-07		3rd Year, 2007-08	
CURRENT COSTS	#FTE	Dollars	#FTE	Dollars	#FTE	Dollars
Personnel						
Faculty/Instructional Staff	7.78	$385,060	7.78	$396,612	7.78	$408,510
Graduate Assistants	0	$0		$0		$0
Non-instructional Staff	1.45	$50,451	1.45	$51,964	1.45	$53,524
Non-personnel						
Supplies & Equipment		$37,193		$37,193		$37,193
Capital Equipment		$0		$0		$0
Library		$0		$0		$0
Computing		$0		$0		$0
Subtotal		$472,704		$485,769		$499,227
ADDITIONAL COSTS	#FTE	Dollars		Dollars	#FTE	Dollars
Personnel						
Faculty/Instructional Staff	2.95	$126,186	3.45	$158,172	3.45	$162,917
Graduate Assistants	0	$0		$0		$0
Non-instructional Staff	1.20	$60,000	1.20	$61,800	1.20	$63,654
Non-personnel						
Supplies & Equipment		$24,000		$32,000		$32,000
Capital Equipment		$14,000		$17,000		$17,000
Library		$0		$0		$0
Computing		$0		$0		$0
Other (Student Hourly)		$7,500		$7,500		$7,500
Other (Scholarships)		$40,000		$60,000		$60,000
Other (Reserves)		$12,417		$13,617		$10,847
Subtotal		$284,103		$350,089		$353,918
TOTAL COSTS		**$756,807**		**$835,858**		**$853,145**
CURRENT RESOURCES						
GPR		$472,704		$485,769		$499,227
Subtotal		$472,704		$485,769		$499,227
ADDITIONAL RESOURCES						
GPR Reallocation		$244,143		$265,729		$268,714
Tuition/Fees		$39,960		$84,360		$85,204
Subtotal		$284,103		$350,089		$353,918
TOTAL RESOURCES		**$756,807**		**$835,858**		**$853,145**

Notes:
Budget assumes a three percent annual increase in salary.
No graduate assistants are allotted to this program.
Current costs are based on the existing M.S. programs.

RECOMMENDATION

The University of Wisconsin System recommends approval of Resolution I.1.d.(2), authorizing the implementation of the Consortial Doctor of Audiology, UW-Madison and UW-Stevens Point.

RELATED REGENT POLICIES

University of Wisconsin System Academic Planning and Program Review (November 10, 1995), Academic Informational Series #1 (ACIS-1.0 revised).

REVISED (2)

I.2. Business and Finance Committee Meeting

Thursday, March 10, 2005
1920 Van Hise Hall
1220 Linden Drive

11:00 a.m. All Regents - Room 1820 Van Hise Hall

- Review of Regent Policy on Tuition and Financial Aid
- Accountability Report
- 2005-07 Capital Budget Recommendations

12:30 p.m. Box Lunch

1:00 p.m. Joint session with Physical Planning and Funding Committee – Room 1920 Van Hise Hall

- Energy Efficiency Pilot Projects Report

1:15 p.m. Business and Finance Committee Meeting – Room 1920 Van Hise Hall

a. Approval of Minutes of the February 10, 2005 meeting of the Business and Finance Committee

b. Annual Budget Decision Rules
[Resolution I.2.b.]

c. Business of the Committee
    (1) UW-Madison: Consideration of a proposed sponsorship agreement with adidas Promotional Retail Operations, Inc.
    [Resolution I.2.c.(1)]

d. Trust Funds
    (1) Annual Trust Funds Proxy Season Report
    [Resolution I.2.d.(1)]
    (2) Annual Endowment Benchmarking Report
    (3) Socially Responsible Aspects of Timber Investing – Conference Call at 2:30 with Grantham, Mayo, Van Ottorloo & Co. LLC
    (4) Introduction to Real Asset Classes: Commodities and Real Estate

e. Report of the Vice President

f. Additional items, which may be presented to the Committee with its approval

g. Closed session to consider trust fund matters as permitted by s.19.85(1)(e) *Wis. Stats.*

2005-06 Annual Budget
Allocation Decision Rules

BUSINESS AND FINANCE COMMITTEE

Resolution:

That, upon recommendation of the President of the University of Wisconsin System, the Board of Regents approves the 2005-06 annual budget allocation decision rules. If subsequent legislative action modifies either the first year funding increases or reductions noted in the rules, the UW System would distribute the changes according to the principles set forth in Sections I and III.

2005-06 PRELIMINARY BUDGET ALLOCATION DECISION RULES

Based on the Governor's Executive Budget Recommendations

(Note that allocations for items not included in the final budget will be removed from this list of decision rules.)

Annual budget allocation decision rules are provided for those 2005-07 budget initiatives that affect first-year (2005-06) funding. Items that affect funding beginning in the second year (i.e., new faculty funding) will be addressed in the 2006-07 Annual Budget Decision Rules next spring.

Allocation methodologies for items that are new initiatives may be modified in 2006-07 if a year's experience provides more appropriate criteria.

I. ALLOCATION DECISION RULES FOR NEW FUNDING

A. NEW UW SYSTEM DECISION RULES

1. **FACULTY RETENTION FUNDING**
   The Governor recommended $2,500,000 per year in funding for retention of high demand faculty. Funding will be distributed to all UW System institutions, as faculty retention is a systemwide concern. Funding for faculty retention will be allocated based on each institution's proportion of UW System GPR/Fee faculty FTE.
2. **LAWTON UNDERGRADUATE MINORITY RETENTION GRANT/ADVANCED OPPORTUNITY PROGRAM (AOP)**
   The Governor recommended increasing the Lawton Grant by $777,800 and the AOP by $655,600 in 2005-06. Funding for 2005-06 will be allocated based on each institution's proportion of a three-year rolling average headcount of students of color.
3. **UTILITIES**
   The Governor recommended an increase of $43,150,300 for utilities in 2005-06. 2003-04 actual expenditures will be used as the basis for distributing base and new funding for utilities.
4. **STUDENT TECHNOLOGY FEE**
   The 2005-07 biennial budget provided $2,601,400 in 2005-06 in additional funding to all UW System institutions to meet student needs for instructional technology and information access. Allocation of this funding is proportional to 2004-05 combined academic year and summer session fee budgets excluding the student technology fee.

B. CAMPUS SPECIFIC FUNDING

Funding for institution specific items will be allocated to the designated institution based on gubernatorial and legislative intent.

1. ALZHEIMER'S RESEARCH FUNDING

The Governor recommended $1.5 million annually for state support of Alzheimer's research. This funding will be provided to UW-Madison.

II. ALLOCATION DECISION RULES FOR EXISTING (BASE) FUNDING

A. LAWTON UNDERGRADUATE MINORITY RETENTION GRANT/ADVANCED OPPORTUNITY PROGRAM

Funding for 2005-06 will be allocated in the same manner as in prior years. Allocations will be based on each institution's proportion of a three-year rolling average headcount of students of color.

III. BASE REALLOCATION OF UW RESOURCES

The 2005-07 biennial budget includes an administrative budget reduction of $15,000,000 GPR in 2005-06. The reduction will be allocated based on each institution's share of the UW System's 2004-05 GPR/Fee budget excluding debt service, utilities, financial aid, separately budgeted academic tuition, and Extension credit programs. The Governor's budget also reduces the number of GPR positions in the UW System by 200 FTE in 2005-06.

In addition, the biennial budget requires a one time $20 million savings from Asset Management and ongoing Enterprise Initiative savings of $5,000,000 for procurement. $10 million of the $20 million one time savings amount will be allocated to UW Systemwide, for strategic systemwide asset management initiatives. The other $10 million will be distributed on the basis of GPR/Fees (excluding debt service, utilities, financial aid, separately budgeted academic tuition, and Extension credit programs) on a one-time basis. The $5 million of ongoing procurement savings will also be distributed on the basis of GPR/Fees (excluding debt service, utilities, financial aid, and Extension credit programs) The allocations (based on the Governor's proposed budget):

	$20,000,000 Asset Management	$5,000,000 Procurement Reduction	$15,000,000 Administrative Reduction
Madison	3,773,000	1,886,500	5,659,500
Milwaukee	1,280,000	640,000	1,920,000
Eau Claire	496,000	248,000	744,000
Green Bay	241,000	120,500	361,500
La Crosse	425,000	212,500	637,500
Oshkosh	474,000	237,000	711,000
Parkside	227,000	113,500	340,500
Platteville	296,000	148,000	444,000
River Falls	281,000	140,500	421,500
Stevens Point	431,000	215,500	646,500
Stout	387,000	193,500	580,500
Superior	149,000	74,500	223,500
Whitewater	440,000	220,000	660,000
Colleges	375,000	187,500	562,500
Extension	422,000	211,000	633,000
Sys Admin/Systemwide	10,303,000	151,500	454,500
Total	$20,000,000	5,000,000	15,000,000

The administrative savings ($15 million in 2005-06, per the Governor's budget) will be managed using the following principles:

1. Faculty and Instructional Academic Staff positions will not be reduced as part of the Administrative savings.
2. Budget reductions should first target administrative expenses that are least related to serving students, meeting legal accountability responsibilities, achieving Plan 2008 Goals, and providing opportunities to generate (non-GPR) revenues.
3. One-time reduction opportunities should be considered in the short term to give Provosts and Chancellors time to plan more permanent modifications including changes to program array.

IV. ALLOCATION DECISION RULES FOR COMPENSATION

A. 2003-05 CLASSIFIED PAY PLAN ADJUSTMENTS

The 2003-05 represented classified pay plan has not been implemented and the actual costs are not currently known . Allocations for the full funding of the 2003-05 classified pay plan will be distributed based on actual costs at each institution.

B. 2005-06 UNCLASSIFIED PAY PLAN

The 2005-07 unclassified pay plan has not yet been submitted to the Joint Committee on Employment Relations (JCOER). If the unclassified pay plan is two percent or less, it will be distributed across-the-board to all those who have a solid performance rating. If the unclassified pay plan is more than two percent, pay plan increases will be distributed on the basis of merit/market (at least one-third) and solid performance (at least one-third). More specific System guidelines will be issued once JCOER has approved a pay plan increase.

BUSINESS AND FINANCE COMMITTEE

Resolution:

Chancellor of the University of Wisconsin-Madison, the Board of Regents accepts the Sponsorship Agreement with adidas Promotional Retail Operations, Inc. which will provide, among other things, shoes, equipment, and apparel to the University of Wisconsin-Madison intercollegiate athletic teams, certain cash compensation, and enhanced licensing opportunities.

SPONSORSHIP AGREEMENT
WITH
ADIDAS PROMOTIONAL RETAIL OPERATIONS, INC.

EXECUTIVE SUMMARY

BACKGROUND

UW-Madison seeks to enter into a new agreement with adidas Promotional Retail Operations, Inc. for the purpose of securing apparel and equipment for its intercollegiate athletic teams, obtaining cash compensation, and enhancing licensing opportunities. The details of this arrangement are contained in a Sponsorship Agreement by and between adidas and the Board of Regents of the University of Wisconsin System, on behalf of UW-Madison and its Division of Intercollegiate Athletics, for review and acceptance by the Board of Regents.

Since June, 2001, UW-Madison has had a similar agreement with adidas. The initial term of that agreement was through June 30, 2006.

Under Section 14.1 of the current contract, "the University shall meet with adidas prior to December 31, 2004 to negotiate in good faith the renewal of this Agreement ("First Dealing Period"). The parties shall not be obligated to enter into an agreement if they cannot settle on mutually satisfactory terms during the First Dealing Period. Such discussions must occur prior to the University dealing with any competitor of adidas. If adidas and the University cannot reach agreement with respect to the renewal of this Agreement by the end of the First Dealing Period, University may enter into negotiations with an adidas competitor."

Over the past several months, the University's Athletic administration asked its coaches for feedback regarding the current agreement. The coaches unanimously concurred that they, as well as their student-athletes, were pleased with the product and service provided by adidas. Additional conversations took place with representatives from the University's trademark licensing program, with administrative legal services and with the chancellor's office. Based on those discussions, the University approached adidas with some suggested revisions to the current contract, and the two parties have agreed on a proposed agreement for review by the Board of Regents.

REQUESTED ACTION

That, upon recommendation of the President of the University of Wisconsin System and the Chancellor of the University of Wisconsin-Madison, the Board of Regents accepts the Sponsorship Agreement with aidas Promotional Retail Operations, Inc. which will provide, among other things, shoes, equipment, and apparel to the University of Wisconsin-Madison intercollegiate athletic teams, certain cash compensation, and enhanced licensing opportunities.

DISCUSSION AND RECOMMENDATIONS

The proposed agreement continues to provide significant economic benefit to UW-Madison and its Division of Intercollegiate Athletics by offsetting expenses and providing additional cash compensation on an annual basis. Without a shoe and apparel agreement, UW-Madison would need to purchase approximately $1.5 million of shoes and athletic apparel on an annual basis to outfit the institution's 23 athletic teams. In addition, the sale of replica and authentic uniforms and sideline apparel by adidas continues to have the potential to increase licensing revenue for the institution's Trademark Licensing program.

The basic terms and conditions of the proposed agreement are not significantly different from the terms of the current agreement that the Regents approved in June, 2001. The principal provisions of the proposed agreement can be summarized as follows:

- The UW-Madison Division of Intercollegiate Athletics would continue to receive an annual allotment of adidas shoes, apparel, and equipment at to outfit and equip its 23 intercollegiate athletic teams (Paragraphs 4.A. through 4.F and Exhibit B). In the current agreement, the amount of the annual allotment is $825,000 at wholesale pricing. In the proposed agreement, that annual amount begins at $900,000 and increases incrementally to $950,000 in the sixth year.

- The UW-Madison Division of Intercollegiate Athletics would continue to receive an annual amount of cash compensation from adidas (Paragraph 3.A. and Exhibit B). In addition, the UW-Madison Division of Intercollegiate Athletics would be eligible to receive annual bonus compensation based on the overall performance of the university's athletic teams (Paragraph 3.B. and Exhibit A). In the current agreement, the cash compensation is $200,000 in year one and $250,000 thereafter. In the proposed agreement under consideration, that amount is $275,000 in the first year and increases incrementally to $400,000 in the sixth year.

- adidas would continue to be the exclusive supplier of shoes, apparel, and equipment, to the extent manufactured by or otherwise available from adidas, to UW-Madison's 23 intercollegiate athletic teams and their coaches (Paragraph 5.).

- The term of the proposed agreement would be six (6) years (Paragraph 2.). The first year of the proposed agreement would replace the last year of the current agreement, with an additional five years to follow.

- adidas would acquire an exclusive license to produce replicas and authentics of the teams' uniforms and coaches' sideline apparel and would be subject to pay UW-Madison royalties at the standard royalty rate then in effect on the sales of such replicas and authentics. adidas would be held to the same quality and design standards as other UW-Madison licensees and UW-Madison would retain control over the use of its trademarks (Paragraphs 6. and 8.).

- If requested to do so by adidas, UW-Madison coaches would continue to make a limited number of appearances in connection with the advertisement, promotion, and sale of adidas products (Paragraph 7.).

- The UW-Madison Division of Intercollegiate Athletics would continue to provide to adidas certain specified tickets, parking passes, sponsorship opportunities, and support for special events (Paragraph 10. and Exhibit C). The annual direct cost associated with this is approximately $65,000.

- adidas will continue to provide on-site support to the UW-Madison Division of Intercollegiate Athletics to adequately administer the contract.

- adidas would continue to acknowledge its plan of action with respect to human rights issues and allow UW-Madison access to archives and contemporary inspection and monitoring reports for all facilities producing goods for the university (Paragraph 16.).

The proposed agreement has been reviewed by the UW-Madison Division of Intercollegiate Athletics, UW-Madison Office of Trademark Licensing, UW-Madison Administrative Legal Services, and the UW-Madison Office of the Chancellor, and is recommended for acceptance to the President of the University of Wisconsin System and the Board of Regents.

RELATED REGENT POLICIES

Regent Resolution 8875, dated June 2004, Authorization to Sign Documents.

SPONSORSHIP AGREEMENT

This Sponsorship Agreement ("Agreement"), dated as of February 15, 2005, is hereby entered into between adidas Promotional Retail Operations, Inc. ("adidas"), an Oregon corporation with its principal place of business at 5055 N. Greeley Avenue, Portland, Oregon 97217, and the Board of Regents of The University of Wisconsin System on behalf of the University of Wisconsin-Madison Division of Intercollegiate Athletics ("University").

WHEREAS, the University operates an intercollegiate athletics program involving several sports.

WHEREAS, adidas wishes to provide sponsorship of the athletics programs of the University.

WHEREAS, adidas wishes to supply adidas Products, as defined herein, to the University's athletic programs; to obtain the right to use University's trademarks, which shall be exclusive in categories designated in this agreement; to secure the services of University's Athletic Program Staff to endorse and promote adidas' Products; and to acquire certain endorsement rights from University.

WHEREAS, University wishes to grant such rights, authorize such services, and accept such benefits.

NOW, THEREFORE, in consideration of the premises and representation made herein, the parties agree as follows:

1. **Definitions**.

The terms below are defined as follows:

A. "adidas" means adidas Promotional Retail Operations, Inc., its Affiliates (defined below), and any successor company.

B. "adidas Products" means Products (defined below) which bear the adidas name, trademarks, and/or other adidas identification.

C. "Affiliate" means any corporation, partnership, company or any other entity or person which controls, is controlled by, or is under common control with a party to this Agreement.

D. “Athletic Program Staff” means any and all individuals employed by or directed to act on behalf of the University Athletic Programs (defined below), included but not limited to, coaches, trainers, and strength and conditioning employees.

E. “Coach(es)” means the individual(s) employed by the University during the Contract Term to act as head coach or assistant coach of each University Athletic Program (defined below).

F. “Coach Endorsement” means the right to use the name, nickname, initials, autographs, voice, facsimile signature, photograph, likeness, character, image or facsimile image, video and film portrayals of Coach, and other similar means of endorsement which are considered standard in the sports marketing industry, in connection with the marketing, advertising or sale of Products (defined below).

G. “Contract Territory” means the entire world.

H. “Contract Year” means any twelve-month period from July 1 to June 30 during the Contract Term.

I. “Licensed Products” means all Products that bear the Marks (defined below).

J. “Marks” means and includes all names, logos, trademarks, and/or symbols owned by or proprietary to University, as designated in Exhibit F.

K. “Net Sales” means the total gross invoice prices (in U.S. dollars) less any reasonable and normal quantity discounts allowed and taken, actual returns, freight (if invoiced separately) and applicable sales taxes.

L. “Products” means all items designated in Exhibit D and other items mutually agreed upon by both parties.

M. “Team” means that group of students and comprises the eligible playing personnel of each University Athletic Program (defined below).

N. “University Athletic Program(s)” means and includes the following organized intercollegiate men’s and women’s team and individual sports sponsored by the University: Basketball, Football, Ice Hockey, Crew, Golf, Soccer, Swimming/Diving, Tennis, Cross Country, Track, Wrestling, Softball, Volleyball and Cheerleading/Dance and all other NCAA sponsored sports and any sports they may add.

O. “University Endorsement” means the non-exclusive right to use the names “The University of Wisconsin,” “Badgers” and all other names, logos, trademarks, depictions, and/or symbols associated with the University as set forth in Exhibit F in connection with the marketing, advertising, or sale of adidas Products.

2. **Term**.

This Agreement shall remain in full force and effect from July 1, 2005 until June 30, 2011 unless sooner terminated in accordance with the terms and conditions of this Agreement. This Agreement shall be interpreted in its entirety and not as a series of one-year agreements.

3. **Compensation**.

A. Base compensation. adidas shall pay to University Base Compensation in the amount designated in Exhibit B, subject to the provisions of subsection 3.C below. Each Contract Year's cash compensation shall be payable in one (1) payment on June 1 of each Contract Year.

B. University Bonus Compensation. adidas shall pay to University the bonus compensation as shown on Exhibit A. Bonus compensation shall be paid within sixty (60) days upon written notice by University.

C. Right of reduction. If, for any reason, University is prohibited from appearances on television for football or men's basketball, adidas shall have the right to reduce the Base Compensation due hereunder on a pro-rated basis for any period of such television prohibition.

4. **Product Support**.

A. For each Contract Year, unless otherwise specified, adidas agrees to supply University, at no cost, an allotment of adidas Products in the amount designated in Exhibit B, for use by the designated University Athletic Programs for team allotments, camps and clinics, and coaches personal allotments. The dollar amount of adidas Products provided to University shall be measured at adidas standard wholesale prices

B. During each Contract Year, University will designate Products to be supplied hereunder by adidas.

C. adidas agrees that all Products supplied hereunder for use by University Athletic Programs will comply with the provisions of NCAA regulations 12.5.4 of the then current NCAA Manual and any subsequent versions regarding manufacturer's logos and trademarks. adidas shall exercise its best efforts to ensure that all such Products are in compliance with all relevant NCAA regulations. The parties agree that in the event that it is determined that any Products supplied hereunder fail to comply with a NCAA regulation, then adidas shall take all the necessary steps to bring the product into compliance with the provisions of such regulation, or the parties shall agree to exclude such product from the lines of apparel and accessories supplied pursuant to this Agreement.

D. University understands and agrees that it shall not resell any Products supplied to University by adidas under this agreement without prior written approval from adidas.

E. In any Contract Year, University may purchase additional Products beyond those specified in Section 4A at adidas standard wholesale price.

F. adidas agrees to consult with University in the design of certain items of apparel that adidas will supply to University pursuant to this Agreement, including uniforms and sideline apparel for purposes of ensuring that quality, color and style of the apparel items are consistent with University's traditions. Prior to the commencement of each Contract Year, adidas will present University with designs for each item of apparel to be supplied during the next Contract Year. University will then select and notify adidas within ten (10) business days after presentations which apparel design will be supplied by adidas and used by the Teams and Athletic Program Staff.

G. During each Contract Year, University shall designate in writing the amount of adidas Product specified in Section 4A each Coach is authorized to order from his or her personal use. Each Contract Year, the total cumulative amount ordered by the coaches cannot be less than $40,000 at adidas standard wholesale price. University agrees that the amount each Coach is authorized to order will be deducted from the amount of Products supplied to the University as specified in Section 4A. University shall be responsible for all tax reporting and withholding information associated with Coaches' personal allotments. Upon request from University, adidas shall notify University of the amount of adidas Products ordered by each Coach for the Contract Year.

H. During each Contract Year, University shall designate in writing the amount of adidas Product specified in Section 4A each Coach is authorized to order for camps and clinics. Each Contract Year, the total cumulative amount ordered by Coaches for summer camps and clinics cannot be less than $40,000 at adidas standard wholesale price.

5. **Use of adidas Products**.

A. University shall make available to each Team the Products supplied by adidas, and shall require that each Team wear and/or use exclusively such adidas Products whenever participating in Team activities, including practices, games, clinics, and other University functions for which University ordinarily and usually supplies Products to the Teams. Unless otherwise provided in this Agreement, at all such functions, University shall prohibit the Team members from wearing Products manufactured by companies other than adidas, or any such Products which have been altered to resemble adidas athletic Products.

B. University acknowledges that “spatting,” taping, or otherwise covering up any portions of any adidas logo or trademark on athletic footwear supplied by adidas is inconsistent with the purpose and terms of this Agreement. University agrees that it will not permit such “spatting” or taping unless it has been medically prescribed and adidas has been so advised.

C. adidas agrees to work with any Team member experiencing problems in connection with the fit or performance of adidas Products. In the event any Team member shall at any time suffer any physical injury, pain, or discomfort attributed to the use of adidas shoes which is serious enough to affect the athlete’s performance, or if any Team member has not received adidas shoes which fit properly, then University shall so advise adidas and afford adidas the opportunity to remedy the problem. University agrees to share with adidas information necessary to explain Team member’s problem in connection with the fit or performance of adidas Products. If adidas is unable to provide such Team member with adidas shoes that can be worn or used satisfactorily, then adidas shall waive the exclusivity requirement of this Section 5 in such a specific case. adidas further acknowledges that regardless of its good efforts to provide Team members with suitable adidas shoes, it may be medically necessary in certain circumstances for a player to “spat” or tape his feet and/or ankles to allow such player to remain in competition, without opportunity for such notice to adidas. Such medically necessary procedure, should it occur, shall not constitute a breach of this Section 5. University agrees that University and its Coaches shall work with adidas to eliminate the need for any unauthorized spatting or taping in the event it occurs during the term of this Agreement. If in accordance with the foregoing University is unable or unwilling to discontinue any pattern or practice of spatting or taping, then adidas shall have the option to terminate this Agreement, in accordance with the provisions of Section 12 below.

D. University agrees to require its Athletic Program Staff to wear adidas Products exclusively during the Contract Term when acting in their official capacities as Coach or staff in activities where athletic attire is appropriate, including but not limited to, practices and games, sports camps, being filmed on motion picture or video tape, and posing for photographs. The Athletic Program Staff shall not, during the course of its employment responsibilities, wear, use or in any way promote Products manufactured by or identifiable with any competitor of adidas. adidas hereby acknowledges that the wearing of other than athletic shoes and apparel by any coach or staff in connection with their official duties as coach or staff of a University Athletic Program shall not constitute a breach of this Section 5. University shall not enter into or approve any endorsement contract between a member of the Athletic Program Staff and a competitor of adidas, and shall exercise its best efforts to prevent any member of the Athletic Program Staff from entering into such a contract.

E. University agrees that it shall not permit the trade name, trademark, logo, or any other identification of any person, company, or business entity other than adidas, the University, or, subject to adidas' reasonable right of approval, any recognized governing athletic conference of which University is a member, to appear on Products worn or used by Coaches, Staff or Team members. University agrees that in no event shall the trade name, trademark, logo, or other identification of any manufacturer or seller of Products other than adidas be permitted to appear on any adidas Products.

F. University agrees that at any sports camp or clinic it conducts or sponsors under the direction and supervision of any Coach, it will not sponsor, co-sponsor, or endorse Products manufactured or sold by any branded athletic footwear or apparel manufacturer other than adidas.

G. adidas shall not be liable to University for any injury or damage suffered from wearing or using adidas Products, except injury or damage resulting from adidas' negligent or willful acts.

6. **Endorsement Rights**.

A. University grants to adidas the right and license during the Contract Term to use the University Endorsement within the Contract Territory in connection with the advertisement, promotion, and sale of adidas Products. Except as otherwise provided herein, University shall retain all rights in and to University's name and endorsement.

B. adidas shall have the exclusive right throughout the Contract Term to advertise, publicly represent, market, and otherwise promote the fact that it is the exclusive supplier to University of the designated Products. University shall not permit any athletic shoe/apparel manufacturer to display signage in University's football or basketball facilities except for any temporary signage and other sponsorship activity required by the terms of athletic conference or tournament agreements, such as the NCAA, Big 10 and WCHA, or as required by the terms of contracts with touring entertainment events.

C. University, on behalf of the Coach of each University Athletic Program, grants to adidas the exclusive right and license during the Contract Term and within the Contract Territory to use the Coach Endorsement in connection with the advertisement, promotion and sale of Products. adidas agrees that the Coach Endorsement shall not be used in connection with any advertisement, whether in electronic or print media, that requires the Coach to make an express personal recommendation that consumers purchase or use adidas Products. Each Coach shall retain all rights in and to his or her name and endorsement, and neither University nor any Coach shall be prevented from using, permitting, or licensing others to use his or her name or endorsement in connection with the advertisement, promotion, or sale of any product or service other than Products.

D. Any use by adidas of the University Endorsement or the Coach Endorsement must be approved in advance by University, which approval shall not be unreasonably withheld.

7. **Promotional Appearances**.

A. If requested to do so by adidas, University shall make the Coach of each University Athletic Program available for up to two (2) appearances per Contract Year in connection with the advertisement, promotion and sale of adidas Products. Such appearances may include, but are not limited to, appearances at clinics, celebrity events, and other public appearances. Except as provided below, neither University nor the Coach shall receive additional compensation for the appearances, it being understood and agreed to by the parties that the consideration for said appearances is encompassed by the compensation provided for in Section 3 above.

B. For each appearance described in subsection 7.A. above:

1. adidas agrees to pay all reasonable out-of-pocket expenses incurred by University and/or the Coach in connection with such appearance;

2. adidas shall give University at least thirty (30) days notice of the time and place adidas desires the Coach to appear;

3. adidas shall not schedule any appearance at a time which would conflict with the Coach's performance of his or her obligations as a college coach; and

4. No single appearance shall exceed twenty-four (24) hours in duration, exclusive of travel time, unless agreed upon to the contrary in advance.

8. **Royalties**.

A. adidas and the University agree that the sale of products, except those directly supplied to the University under this Agreement, shall be subject to licensure by the University and royalty payments by adidas, under the University's licensing program at the standard royalty rate then in effect. As a licensee of the University, adidas agrees to comply with the requirements of the CLC Special Agreement Regarding Labor Codes of Conduct (Exhibit E), which are attached hereto, incorporated by reference, and made material to the Agreement. Any alleged breach of the CLC Special Agreement Regarding Labor Codes of Conduct (Exhibit E) shall be resolved in accord with the approach specified in Paragraph12 of the Agreement.

B. University acknowledges and agrees that adidas shall not be required to make payments or donations on Licensed Products supplied directly to University under the terms of this Agreement.

C. Throughout the Contract term, adidas shall remain a current licensee in good standing of the University as administered by University's Office of Trademark Licensing or its designee.

9. **On-site support.**

In order to adequately administer the terms and conditions of this Contract, adidas agrees to provide on-site support to University under terms and conditions mutually agreed upon by University and adidas.

10. **Additional sponsorship rights**.

University shall provide additional sponsorship rights for adidas as outlined in Exhibit C attached hereto and incorporated by reference.

11. **Rights of Termination**.

A. Either party shall have the right to terminate the Agreement upon ninety (90) days prior written notice in the event the other party breaches any material term of the Agreement and fails to cure such breach within 30 days of written notice of such breach.

B. adidas shall have the right to terminate this Agreement immediately upon written notice to University in the event that:

1. Members of any Team exhibit a pattern or practice of failing to wear or use adidas Products as required herein, or wear adidas Products altered, spatted, or taped in violation of the provisions of Section 5 hereof, provided, however, that adidas shall have first issued written notice to University of any such violation of the provisions of Section 5, which violations shall then recur during the same Contract Year;

2. Any Coach repeatedly fails to perform any material obligations provided for in this Agreement;

3. The NCAA, or any other governing body of intercollegiate sports, prohibits any Team members from wearing adidas athletic footwear displaying the adidas name or any adidas trademark or logo;

C. The University shall have the right to terminate this Agreement upon thirty (30) days' prior written notice to adidas if:

1. adidas is adjudicated insolvent or declares bankruptcy; or

2. if adidas breaches any material terms of this Agreement; or

3. adidas fails to make payment to the University of any sum due to this Agreement within sixty (60) days following adidas' receipt of such written notice from the University that such payment is due.

D. In the event of any termination by adidas pursuant to this Section 12, University shall not be entitled to any further compensation hereunder, except any unpaid Base Compensation earned prior to the effective date of termination, pro-rated and calculated to the effective date of termination. Alternatively, adidas shall have the right to receive from University reimbursement for Base Compensation, if any, paid in excess of the amount to which University would be entitled if the Base Compensation were pro-rated over the Contract Year, calculated to the effective date of termination. Any such payment shall be due within thirty (30) days of the date of termination.

12. **Unique Services/Assignability.**

University acknowledges that the endorsement and promotional services provided to adidas under this Agreement are special and unique and that loss of such services may cause irreparable harm to adidas. Accordingly, University shall not delegate the obligations of this Agreement. Neither party may assign this Agreement without the express written approval of the other party; provided, however, that adidas may assign its rights under this Agreement to any corporation, partnership or other entity or person which controls, is controlled by, or is under common control with adidas.

13. **Right of First Dealing.**

13.1. The University shall meet with adidas prior to December 31, 2009 to negotiate in good faith the renewal of this Agreement ("First Dealing Period"). The parties shall not be obligated to enter into an agreement if they cannot settle on mutually satisfactory terms during the First Dealing Period. Such discussions must occur prior to University dealing with any competitor of adidas. If adidas and University cannot reach agreement with respect to the renewal of this Agreement by the end of the First Dealing Period, University may enter into negotiations with an adidas competitor.

13.2. Following the First Dealing Period and continuing through August 31, 2010, University agrees to refrain from entering into an endorsement or similar agreement with a Third Party without first giving adidas an opportunity to enter into an agreement with University for such rights on the Third Party terms and conditions -- measured solely in terms which are material, measurable and matchable (“Third Party Terms”). University shall notify adidas in writing of the Third Party Terms University receives for its endorsement or any similar agreement. adidas shall have thirty (30) days from its receipt of such advice to match such Third Party Terms. If adidas matches said Third Party Terms then University must enter into said agreement with adidas.

14. **Confidentiality.**

University acknowledges that the contents of this Agreement contain certain confidential matters, including proprietary and commercial information belong to adidas. University shall not disclose the terms of this Agreement to any third party without adidas' prior written consent, unless University is required by law to do so. Notwithstanding the foregoing, University may disclose the terms hereof to its professional, financial and similar advisors provided that such other persons or firms are bound by agreement or law not to further disclose such information to any third party.

15. **Dispute Resolution.**

The parties agree that any dispute concerning the interpretation, construction, or breach of this Agreement shall be submitted to a mediator agreed upon by the parties for nonbinding confidential mediation at a mutually agreeable location. Unless otherwise required by law, neither party shall disclose any aspect of the dispute or the mediation without the other party's prior written consent.

16. **Production of goods.**

A. adidas and the University agree that, as a material condition of this Agreement, adidas will provide access to a designated University official to archived and contemporary inspection and monitoring reports for all facilities producing goods for the University, whether the involved facilities work directly with University logos and marks or with blank materials intended for future application of University logos and marks. adidas and the University further agree that the access afforded the designated University official shall be tendered on a confidential basis, with the understanding that this official is at liberty to share the content of archived and contemporary inspection and monitoring reports solely and exclusively with the chancellor of the University.

B. adidas will keep the University continually informed of all facilities involved in the production of goods for the University, whether the involved facilities work directly with University logos and marks or with blank materials intended for future application of University logos and marks.

C. adidas agrees that, if it receives a complaint regarding conditions in a facility that is producing goods for the University, whether the facility works directly with University logos and marks or with blank materials intended for future application of University logos and marks, adidas will make every effort to conduct an immediate inspection of the facility and investigate the particulars of the complaint consistent, at a minimum, with the precautionary standards adopted by the Fair Labor Association for ensuring worker confidentiality and safety.

17. **University/adidas Relationship**.

Each party's performance of services hereunder is in its capacity as an independent contractor. Accordingly, nothing contained in this Agreement shall be construed as establishing an employer/employee, partnership or joint venture relationship between University and adidas. University shall be solely responsible for the payment of all taxes on any compensation received under this Agreement. Provided, however, the University shall only be responsible for taxes imposed directly upon it.

18. **Waiver.**

Failure of either party to enforce any provision of this Agreement shall not be construed to be a waiver of such provision or otherwise limit the parties right to subsequently enforce such provision.

19. **Notices.**

All notices and statements provided for herein shall be in writing and shall be deemed given (i) three (3) days after deposit in the U.S. mail if sent by Registered or Certified mail, postage prepaid, addressed to the parties at their addresses set forth below; (ii) immediately upon personal delivery to a party, (iii) if by courier, on the date that the courier warrants that delivery will occur, or (iv) if by telex or facsimile, when receipt is confirmed by the transmission equipment or acknowledged by the addressee. A party may change its address by giving notice thereof to the other party as provided herein.

To University: Athletic Director
The University of Wisconsin
1440 Monroe St.
Madison, WI 53711
Fax: 608-265-3036

to adidas:

adidas America, Inc.
adidas Promotional Retail Operations, Inc.
5055 N. Greeley Ave.
Portland, Oregon 97217
Attn: Legal Department
Fax No.: (971) 234-4420

20. **Severability.**

Every provision of this Agreement is severable. If any term or provision hereof is held to be illegal or invalid for any reason whatsoever, such illegality or invalidity shall not affect the validity of the remainder of this Agreement or any other provision.

21. **Intellectual Property**

All intellectual property rights in any trademarks, trade names, service marks, logos, symbols and other identified marks of adidas and in any Products supplied by adidas (with exception of University Trademarks) are and shall remain the sole and exclusive property of adidas and University shall not acquire any right, title or interest therein. Likewise, all intellectual property rights in any University Trademarks are and shall remain the sole and exclusive property of University and adidas shall not acquire any right, title or interest therein.

22. **Hold harmless**

University agrees to hold harmless adidas, its officers, employees and agents from any and all liability, including claims, demands, losses, costs, damages and expenses of every kind and description, or damages to persons or property arising out of or in connection with or during the course of this Agreement, where such liability is founded upon and grows out of the acts or omissions of any of the officers, employees, or agents of University while acting within the scope of their employment where the protection is afforded by Wis. statutes S.S. 895.46(1) and 893.82.

Adidas agrees to hold harmless University, and all of its officers, employees and agents from any and all liability, including claims, demands, losses, costs, damages and expenses of every kind and description, or damages to persons or property arising out of or in connection with or during the course of this Agreement, where such liability is founded upon and grows out of the acts or omissions of any of the officers, employees, or agents of adidas.

23. **Laws Governing.**

This agreement shall be governed by and construed in accordance with the applicable laws of the State of Wisconsin.

24. **Mutual cooperation.**

This agreement is entered into with a spirit of mutual cooperation, and the parties agree to seek amicable solutions to any disagreements arising hereunder.

25. **Entire Agreement.**

This Agreement, together with the attached CLC Special Agreement Regarding Labor Codes of Conduct (Exhibit E) constitutes the entire understanding between the parties with respect to the subject matter hereof and cannot be amended or modified except by an agreement in writing, signed by each of the parties. All previous understandings or agreements between the parties shall have no further force and effect.

IN WITNESS WHEREOF, the undersigned authorized representatives of the parties have duly executed this Agreement as of the date first above written.

adidas:

By:____________________________
Kevin Wulff
Director of Marketing

By:____________________________
Paul Erlich
Director of Sports Marketing

Board of Regents
University of Wisconsin System:

By:____________________________
Chancellor

EXHIBIT A

<u>University Bonus Structure</u>

<u>University Group</u>	
University finishes in Sears Cup Top 25	$10,000
University finishes in Sears Cup Top 5	$35,000
University finishes as Sears Cup Champion	$50,000
<u>Football Group</u>	
Football Team wins Big Ten Title	$50,000
Football Team wins Bowl Coalition Game	$75,000
Football Team finishes top 5 final A/P Poll	$100,000
Football Team finish 1st in final A/P Poll	$250,000
<u>Men's Basketball Group</u>	
Men's Basketball Team wins Conference Tournament title	$10,000
Men's Basketball Team wins Big Ten Regular Season Title	$50,000
Men's Basketball Team advances to Final Four	$75,000
Men's Basketball Team finishes top 5 in final A/P Poll	$100,000
Men's Basketball Team finishes 1st in final A/P Poll	$250,000
<u>Women's Basketball Group</u>	
Women's Basketball Team wins Conference Tournament title	$5,000
Women's Basketball Team wins Big Ten Title	$25,000
Women's Basketball Team advances to Final Four	$50,000
Women's Basketball Team finishes top 5 in final A/P Poll	$75,000
Women's Basketball Team finishes 1st in the final A/P Poll	$100,000
<u>Men's Hockey Group</u>	
Men's Hockey Team wins WCHA Title	$10,000
Men's Hockey Team advances to the Frozen Four	$15,000
Men's Hockey wins NCAA championship	$25,000

All bonuses are non-cumulative. The highest applicable bonus amount in each group shall apply in a given contract year. For example, if the football team wins the Big Ten Title and finishes in the top 5 in the final A/P Poll, and the University finishes 5th in the final Sears Cup standings, then the total bonus paid will be $135,000 ($35,000 from the University Group and $100,000 from the Football Group).

EXHIBIT B

Merchandise Allotment and Base Compensation

Contract Year	Merchandise Allotment	Base Compensation
Year One (2005-06)	$900,000	$275,000
Year Two (2006-07)	$900,000	$300,000
Year Three (2007-08)	$910,000	$325,000
Year Four (2008-09)	$910,000	$350,000
Year Five (2009-10)	$925,000	$375,000
Year Six (2010-11)	$950,000	$400,000

EXHIBIT C

Additional Sponsorship Rights for Adidas

Signage

Camp Randall Stadium

Team entrance sign in the north end zone – behind field goal uprights
Logos on the pads or comparable signage in the south end zone – behind field goal

Kohl Center

Basketball team bench chair backs - men's and women's basketball
Hockey dasher boards – two 12' logos in opposite locations
Concourse signage – two 3'x5' back-lit signs

Hospitality

Game Day Hospitality

One hospitality event at a designated football game and one at a men's basketball game. Fifty (50) football tickets and forty (40) men's basketball tickets and hospitality location space will be provided to adidas. Catering will be at the expense of adidas.

Tickets

Football

35 season tickets in preferred seating areas
35 additional season tickets
300 tickets to a single non-conference home game
7 parking passes, four of which are in preferred parking areas
2 sideline passes per home and away game
25 tickets to all away games
10 tickets to a post season bowl game should Wisconsin qualify

Men's Basketball

25 season tickets in the 100 and 200 levels
4 parking passes
10 tickets to all post season and/or tournament games, four of which are in preferred areas
15 additional tickets to NCAA Final Four if Wisconsin is participating

Women's Basketball

10 season tickets in the 100 and 200 levels
4 parking passes
10 tickets to all post season and/or tournament games, four of which are in preferred areas
15 additional tickets to NCAA Final Four if Wisconsin is participating

Men's Hockey

10 season tickets
4 parking passes
10 tickets to all post season and/or tournament games, four of which are in preferred areas
15 additional tickets to NCAA Championship if Wisconsin is participating

Varsity Sports

20 All Sport passes

Media

Television Advertising

Two 30-second spots and opening and closing billboards on the Barry Alvarez Show and the Badger Sports Report, featuring Bo Ryan (men's basketball), Lisa Stone (women's basketball) and Mike Eaves (men's hockey).

Game Program Advertising

One full page, four color advertisement in the following game programs: football, men's basketball, women's basketball, hockey, and volleyball.

Public Address and Electronic Message Board Announcements

One PA announcement and four electronic message board announcements at all athletic events recognizing the support provided by adidas.
One Ring-beam 15-second sponsor acknowledgement to be played four times during all Kohl Center athletic events
One videoboard feature per event at Camp Randall and Kohl Center events.

EXHIBIT D

Products List

Competition uniforms (excluding hockey pants, socks, and pads)
Competition warm ups
Warm-ups (Practice and Hotel)
Fleece Sweats
Travel Bags
T-Shirts
Shorts
Bras
Socks
Basketball Practice Reversible
Polo Shirts
Hats
Head and Wristbands
Footwear (excluding hockey skates)
Rain Suits
Jackets
Mock necks
Tights (Half and Full)
Soccer Balls
Football gloves
Softball batting gloves
Soccer gloves
Golf gloves (Tour play)
T-Shirts for sports camps

EXHIBIT E

CLC SPECIAL AGREEMENT REGARDING
LABOR CODES OF CONDUCT
(January 2003 Document)

This is an Agreement between --------------, a corporation organized under the laws of the state of ------------, having its principal place of business at --------------------- ("Licensee"), and the Collegiate Licensing Company, a Georgia corporation, having its principal place of business at 290 Interstate North, Suite 200, Atlanta, Georgia 30339 ("CLC"), as agent on behalf of the Collegiate Institutions.

WHEREAS Licensee and CLC have entered into and are operating under the terms of the Collegiate Licensing Company Standard Retail Product License Agreement and/or other similar license agreements involving the use of Collegiate Institution indicia (collectively, the "License Agreement");

WHEREAS Collegiate Institutions have adopted certain labor code standards and verification / monitoring procedures regarding the manufacture, production and sale of Licensed Articles ("Code(s) of Conduct");

WHEREAS Collegiate Institutions have directed CLC to implement their respective Codes of Conduct with Licensee as an additional License Agreement requirement;

WHEREAS defined terms not defined herein will have the same meanings as ascribed to such terms in the License Agreement.

NOW, THEREFORE, in consideration of the parties' mutual covenants and undertakings, and other good and valuable consideration the receipt and sufficiency of which are acknowledged, the parties agree as follows:

1. **LICENSEE OBLIGATIONS**

Certain Collegiate Institutions have directed CLC to implement the Code of Conduct requirements as described in this Agreement as an institutional policy and requirement, as provided in the License Agreement. Accordingly, Licensee shall comply with Code of Conduct requirements as directed by the respective Collegiate Institutions and as described in this Agreement in order to remain in compliance with the License Agreement. Licensee shall cooperate with CLC, the Collegiate Institutions and/or their agents or representatives in periodic inspections of Licensee's factory sites to ensure that Licensee is in compliance with such Code of Conduct requirements. Licensee's failure to comply with Code of Conduct requirements for a Collegiate Institution shall be considered a breach of the License Agreement regarding the applicable Collegiate Institution.

2. **CURRENT CODE OF CONDUCT REQUIREMENTS**

Certain Collegiate Institutions have adopted Code of Conduct requirements. Those requirements are set forth on the attached Schedules and Riders.

3. ADDITIONS / MODIFICATIONS OF CODE OF CONDUCT REQUIREMENTS

Additional Collegiate Institutions may from time to time implement Code of Conduct requirements, and Collegiate Institutions may from time to time modify their Code of Conduct requirements. CLC shall give Licensee reasonable written notice of any changes in Code of Conduct requirements. Licensee, upon receipt of the notice, shall be responsible for complying with the new Code of Conduct requirements.

4. TERM

This Agreement shall begin effect on the last date of signature below and shall terminate upon the termination, revocation, cancellation or expiration of the rights granted Licensee under the License Agreement with respect to affected Collegiate Institution(s). Any renewal(s) of said License Agreement shall constitute renewal of this Agreement.

5. SEVERABILITY

The determination that any provision of this Agreement is invalid or unenforceable shall not invalidate this Agreement, and the remainder of this Agreement shall be valid and enforceable to the fullest extent permitted by law.

6. NO WAIVER, MODIFICATION, ETC.

This Agreement, including attachments, constitutes the entire agreement and understanding between the parties and cancels, terminates, and supersedes any prior agreement or understanding relating to the subject matter hereof between Licensee, CLC and Collegiate Institutions. There are no representations, promises, agreements, warranties, covenants or understandings other than those contained herein. None of the provisions of this Agreement may be waived or modified, except expressly in writing signed by both parties. However, failure of either party to require the performance of any term in this Agreement or the waiver by either party of any breach shall not prevent subsequent enforcement of such term nor be deemed a waiver of any subsequent breach.

7. MISCELLANEOUS

When necessary for appropriate meaning, a plural shall be deemed to be the singular and singular shall be deemed to be the plural. The attached schedules are an integral part of this Agreement. Paragraph headings are for convenience only and shall not add to or detract from any of the terms or provisions of this Agreement. This Agreement shall be construed in accordance with the laws of the state of Georgia, which shall be the sole jurisdiction for any disputes

IN WITNESS WHEREOF, the parties hereto have signed this Agreement.

LICENSEE:

By: ____ [Seal]
(Signature of officer, partner, or person
duly authorized to sign)

Title: ____

Date: ____

THE COLLEGIATE LICENSING COMPANY, as agent on behalf of the Collegiate Institutions.

By: ____
(Signature of person duly authorized to sign)

Title: ____

Date: ____

Labor Code Standards
Schedule I

I. *Introduction: The Collegiate Licensing Company ("CLC") and the collegiate institutions represented by CLC ("Collegiate Institutions") are each committed to conducting their business affairs in a socially responsible and ethical manner consistent with their respective educational, research and/or service missions, and to protecting and preserving the global environment. While CLC and the Collegiate Institutions believe that Licensees share this commitment, CLC and certain Collegiate Institutions have adopted the following Labor Code Standards (the "Code") which requires that all Licensees, at a minimum, adhere to the principles set forth in the Code.*

Throughout the Code the term "Licensee" shall include all persons or entities which have entered into a written "License Agreement" with CLC to manufacture "Licensed Articles" (as that term is defined in the License Agreement) bearing the names, trademarks and/or images of one or more Collegiate Institutions. The term "Licensee" shall for purposes of the Code, and unless otherwise specified in the Code, encompass all of Licensee' contractors, subcontractors or manufacturers which produce, assemble or package finished Licensed Articles for the consumer.

II. *Standards: Licensees agree to operate work places and contract with companies whose work places adhere to the standards and practices described below. CLC and the Collegiate Institutions prefer that Licensees exceed these standards.*

A. Legal Compliance: Licensees must comply with all applicable legal requirements of the country(ies) of manufacture in conducting business related to or involving the production or sale of Licensed Articles. Where there are differences or conflicts with the Code and the laws of the country(ies) of manufacture, the higher standard shall prevail, subject to the following considerations. In countries where law or practice conflicts with these labor standards, Licensees agree to consult with governmental, human rights, labor and business organizations and to take effective actions as evaluated by CLC, the applicable Collegiate Institution(s) or their designee, and the applicable Licensee(s) to achieve the maximum possible compliance with each of these standards. Licensees further agree to refrain from any actions that would diminish the protections of these labor standards.

B. Employment Standards: Licensees shall comply with the following standards:

1. Wages and Benefits: Licensees recognize that wages are essential to meeting employees' basic needs. Licensees shall pay employees, as a floor, at least the minimum wage required by local law or the local prevailing industry wage, whichever is higher, and shall provide legally mandated benefits.[1]

2. Working Hours: Except in extraordinary business circumstances, hourly and/or quota-based wage employees shall (i) not be required to work more than the lesser of (a) 48 hours per week and 12 hours overtime or (b) the limits on regular and overtime hours allowed by the law of the country of manufacture or, where the laws of such country do not limit the hours of work, the regular work week in such country plus 12 hours overtime; and (ii) be entitled to at least one day off in every seven day period.

3. Overtime Compensation: In addition to their compensation for regular hours of work, hourly and/or quota-based wage employees shall be compensated for overtime hours at such a premium rate as is legally required in the country of manufacture or, in those countries where such laws do not exist, at a rate at least equal to their regular hourly compensation rate.

4. Child Labor: Licensees shall not employ any person at an age younger than 15 (or 14, where, consistent with International Labor Organization practices for developing countries, the law of the country of manufacture allows such exception). Where the age for completing compulsory education is higher than the standard for the minimum age of employment stated above, the higher age for completing compulsory education shall apply to this section. Licensees agree to consult with governmental, human rights and nongovernmental organizations, and to take reasonable steps as evaluated by CLC, the applicable Collegiate Institution(s) or their designee, and the applicable Licensee(s) to minimize the negative impact on children released from employment as a result of implementation or enforcement of the Code.

5. Forced Labor: There shall not be any use of forced prison labor, indentured labor, bonded labor or other forced labor.

6. Health and Safety: Licensees shall provide a safe and healthy working environment to prevent accidents and injury to health arising out of, linked with, or occurring in the course of work or as a result of the operation of Licensee facilities.

7. Nondiscrimination: No person shall be subject to any discrimination in employment, including hiring, salary, benefits, advancement, discipline, termination or retirement, on the basis of gender, race, religion, age, disability, sexual orientation, nationality, political opinion, or social or ethnic origin.

[1]CLC and the Collegiate Institutions will continue to monitor these issues and will promote studies that examine conditions and factors related to minimum and prevailing wages and employees' basic needs.

8. Harassment or Abuse: Every employee shall be treated with dignity and respect. No employee shall be subject to any physical, sexual, psychological or verbal harassment or abuse. Licensees will not use or tolerate any form of corporal punishment.

9. Freedom of Association and Collective Bargaining: Licensees shall recognize and respect the right of employees to freedom of association and collective bargaining.

COLLEGIATE INSTITUTIONS - LIST I

The following Collegiate Institutions have adopted Labor Code Standards – Schedule I:

1. The University of Alabama
2. Alabama A&M University
3. University of Alaska at Anchorage
4. University of Arizona
5. University of Arkansas-Fayetteville
6. University of Arkansas-Pine Bluff
7. Baylor University
8. Boston College
9. Boston University
10. University of Cincinnati
11. University of Connecticut
12. Cornell University
13. University of Delaware
14. Duke University
15. Drexel University
16. University of Florida
17. Florida State University
18. George Mason University
19. George Washington University
20. Georgetown University
21. University of Georgia
22. Georgia Institute of Technology
23. University of Houston
24. University of Illinois
25. James Madison University
26. Kansas State University
27. University of Kansas
28. Marquette University
29. Marshall University
30. University of Maryland
31. University of Memphis
32. University of Miami
33. The University of Missouri
34. University of Montana
35. University of Nebraska
36. University of New Hampshire
37. University of North Carolina at Greensboro
38. North Carolina State University
39. University of North Carolina
40. Northwestern University
41. The University of Oklahoma
42. The Pennsylvania State University
43. Pepperdine University
44. University of Pittsburgh
45. Purdue University
46. Robert Morris College
47. St. John’s University
48. Saint Joseph’s University
49. San Diego State University
50. San Jose State University
51. Santa Clara University
52. University of South Alabama
53. University of South Carolina
54. Syracuse University
55. The University of Texas at Austin
56. Tulane University
57. University of Utah
58. Utah State University
59. Villanova University
60. University of Virginia
61. Wayne State University
62. University of Wisconsin-Madison
63. University of Wyoming

Labor Code Standard
Rider 1 to Schedule I

Full Public Disclosure:

Each Licensee shall disclose to the Collegiate Institution or its designee the location (including factory name, contact name, address, phone number, e-mail address, products produced, and nature of business association) of each factory used in the production of all items which bear Licensed Indicia. Such information shall be updated upon change of any factory site location. The Collegiate Institution reserves the right to disclose this information to third parties, without restriction as to its further distribution.

COLLEGIATE INSTITUTIONS - LIST II

The following Collegiate Institutions have adopted Rider 1 to Schedule I:

1. University of Alabama
2. University of Alaska at Anchorage
3. Appalachian State University
4. University of Arizona
5. University of Arkansas-Fayetteville
6. University of Arkansas-Pine Bluff
7. Baylor University
8. Boise State University
9. Boston College
10. Boston University
11. California State University, Northridge
12. Colgate University
13. University of Colorado
14. Colorado State University
15. University of Connecticut
16. Cornell University
17. University of Delaware
18. Drexel University
19. Duke University
20. University of Florida
21. Florida State University
22. George Mason University
23. George Washington University
24. Georgetown University
25. University of Georgia
26. Georgia Institute of Technology
27. University of Illinois
28. James Madison University
29. University of Kansas
30. Kansas State University
31. University of Kentucky
32. Louisiana State University
33. University of Louisville
34. Marquette University
35. Marshall University
36. University of Maryland
37. University of Memphis
38. University of Miami
39. University of Michigan
40. The University of Missouri
41. University of Montana
42. University of Nebraska
43. University of Nevada-Las Vegas
44. University of New Hampshire
45. The University of New Mexico
46. New Mexico State University
47. University of North Carolina at Greensboro
48. University of North Carolina
49. North Carolina State University
50. Northern Arizona University
51. Northwestern University
52. The University of Notre Dame du Lac
53. The University of Oklahoma
54. The Pennsylvania State University
55. University of Pittsburgh
56. Purdue University
57. Robert Morris College
58. St. Cloud State University
59. St. John’s University
60. Saint Joseph’s University
61. San Diego State University
62. San Jose State University
63. Santa Clara University
64. University of South Alabama
65. University of South Carolina
66. University of South Florida
67. Syracuse University
68. Temple University
69. The University of Texas at Austin
70. The University of Texas Medical Branch at Galveston
71. Tulane University
72. University of Utah
73. Utah State University
74. Villanova University
75. University of Virginia
76. University of Washington
77. Wayne State University
78. University of Wisconsin-Madison
79. University of Wyoming
80. Xavier University

Labor Code Standards

Rider 2 to Schedule I

Women's Rights:

1. Women workers will receive equal remuneration, including benefits, equal treatment, equal evaluation of the quality of their work, and equal opportunity to fill all positions as male workers.
2. Pregnancy tests will not be a condition of employment, nor will they be demanded of employees.
3. Workers who take maternity leave will not face dismissal nor threat of dismissal, loss of seniority or deduction of wages, and will be able to return to their former employment at the same rate of pay and benefits.
4. Workers will not be forced or pressured to use contraception.
5. Workers will not be exposed to hazards, including glues and solvents, that may endanger their safety, including their reproductive health.
6. Licensees shall provide appropriate services and accommodations to women workers in connection with pregnancy.

COLLEGIATE INSTITUTIONS - LIST III

The following Collegiate Institutions have adopted Rider 2 to Schedule I:

1. The University of Alabama
2. University of Arkansas-Fayetteville
3. University of Arizona
4. University of Connecticut
5. Cornell University
6. Drexel University
7. Duke University
8. The George Washington University
9. Georgetown University
10. University of Illinois
11. James Madison University
12. Marquette University
13. University of Miami
14. The University of Missouri
15. University of Montana
16. University of Nebraska
17. The University of New Mexico
18. Purdue University
19. San Diego State University
20. Syracuse University
21. Tulane University
22. University of Virginia
23. University of Wisconsin-Madison

PAGE 1
JUNE 23, 2004

UNIVERSITY OF WISCONSIN BADGERS

PRIMARY MARKS (ANGLE OF "MOTION W" CAN NOT BE CHANGED)

1

2 — MAY ALSO BE USED IN BLACK

BUCKY MARK

3

BUCKY MARKS

4

5

6

7

BUCKY MARK

8

SECONDARY MARKS

9

10

11

SECONDARY MARKS

12

13

14

15 — FOR HEADWEAR ONLY

VERBIAGE

University of Wisconsin ®	Badgers™
Wisconsin™	Badger™
UW™	Wisconsin Badgers ®
W™	Bucky Badger™
University of Wisconsin Madison™	Bucky™
University of Wisconsin Badgers™	Kohl Center™
	Camp Randall Stadium™

GENERAL INFORMATION

LOCATION: MADISON, WI
MASCOT: BADGERS
MASCOT NICKNAME: BUCKY
ESTABLISHED DATE: 1848
CONFERENCE: BIG TEN

SECONDARY MARKS

16 — FOR HEADWEAR ONLY

17 — FOR HEADWEAR ONLY

18 — FOR HEADWEAR ONLY

WORD MARKS

19

20

WORD MARKS

21 — MAY ALSO BE USED IN BLACK

22

23

24 — MAY ALSO BE USED IN BLACK

25

WORD MARKS

26

27 — MAY ALSO BE USED IN BLACK

28

29 — MAY ALSO BE USED IN BLACK

30

COLOR INFORMATION

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SCHOOL COLORS	PANTONE COLORS	THREAD COLORS		
WISCONSIN RED	PANTONE 200	MADEIRA 1147	RA 2263	GS/SULKY 1147
WISCONSIN BLACK	PANTONE PROCESS BLACK	BLACK	BLACK	BLACK
WHITE	WHITE	WHITE	WHITE	WHITE

WISCONSIN RED | WISCONSIN BLACK

ADDITIONAL PERTINENT INFORMATION

	Yes	No	Restrictions
• University seal permitted on products for resale:	X		For use on high-end products only.
• Alterations to seal permitted:		X	
• Overlaying / intersecting graphics permitted with seal:		X	
• Overlaying / intersecting graphics permitted with Motion W:		X	
• University licenses consumables:	X		Use only for marks on left side of sheet.
• University licenses health & beauty products:	X		Use only for marks on left side of sheet.
• University permits numbers on products for resale:	X		
• Mascot caricatures permitted:	X		Bucky's stance may not be altered.
• Cross licensing with other marks permitted:	X		

• NO USE of current player's name, image, or likeness is permitted on commercial products in violation of NCAA rules and regulations.
• NO REFERENCES to alcohol, drugs, or tobacco related products may be used in conjunction with University marks.

NOTE: The marks of The University of Wisconsin are controlled under a licensing program administered by The Collegiate Licensing Company. Any use of these marks will require written approval from The Collegiate Licensing Company.

PAGE 2
JUNE 23, 2004

UNIVERSITY OF WISCONSIN BADGERS

WORD MARKS

31

32 — MAY ALSO BE USED IN BLACK

33

34 — MAY ALSO BE USED IN BLACK

WORD MARKS

35

36

37 — MAY ALSO BE USED IN BLACK

38

WORD MARKS

39

40 — MAY ALSO BE USED IN BLACK

41

42 — MAY ALSO BE USED IN BLACK

SPORT SPECIFIC MARKS (ALL RED PLATES MAY BE USED IN BLACK FOR ONE COLOR VERSION)

43

44

45

46

VERBIAGE

University of Wisconsin ®	Badgers™
Wisconsin™	Badger™
UW™	Wisconsin Badgers ®
W™	Bucky Badger™
University of Wisconsin Madison™	Bucky™
University of Wisconsin Badgers™	Kohl Center™
	Camp Randall Stadium™

GENERAL INFORMATION

LOCATION: MADISON, WI
MASCOT: BADGERS
MASCOT NICKNAME: BUCKY
ESTABLISHED DATE: 1848
CONFERENCE: BIG TEN

SPORT SPECIFIC MARKS (ALL RED PLATES MAY BE USED IN BLACK FOR ONE COLOR VERSION)

47

48

49

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51

SPORT SPECIFIC MARKS (ALL RED PLATES MAY BE USED IN BLACK FOR ONE COLOR VERSION)

52

53

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56

FOOTBALL MARK

57

INSTITUTIONAL MARKS

58

59

60

61

COLOR INFORMATION

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SCHOOL COLORS	PANTONE COLORS	THREAD COLORS		
WISCONSIN RED	PANTONE 200	MADEIRA 1147	RA 2263	GS/SULKY 1147
WISCONSIN BLACK	PANTONE PROCESS BLACK	BLACK	BLACK	BLACK
WHITE	WHITE	WHITE	WHITE	WHITE

WISCONSIN RED | WISCONSIN BLACK

ADDITIONAL PERTINENT INFORMATION

	Yes	No	Restrictions
• University seal permitted on products for resale:	X		For use on high-end products only.
• Alterations to seal permitted:		X	
• Overlaying / intersecting graphics permitted with seal:		X	
• Overlaying / intersecting graphics permitted with Motion W:		X	
• University licenses consumables:	X		Use only for marks on left side of sheet.
• University licenses health & beauty products:	X		Use only for marks on left side of sheet.
• University permits numbers on products for resale:	X		
• Mascot caricatures permitted:	X		Bucky's stance may not be altered.
• Cross licensing with other marks permitted:	X		

• NO USE of current player's name, image, or likeness is permitted on commercial products in violation of NCAA rules and regulations.
• NO REFERENCES to alcohol, drugs, or tobacco related products may be used in conjunction with University marks.

NOTE: The marks of The University of Wisconsin are controlled under a licensing program administered by The Collegiate Licensing Company. Any use of these marks will require written approval from The Collegiate Licensing Company.

Voting of 2005 Non-Routine
Proxy Proposals

BUSINESS AND FINANCE COMMITTEE

Resolution:

That, upon recommendation of the President of the University of Wisconsin System, the non-routine shareholder proxy proposals for UW System Trust Funds, as presented in the attachment, be voted in the affirmative.

UNIVERSITY OF WISCONSIN SYSTEM TRUST FUNDS
2005 PROXY SEASON REPORT

EXECUTIVE SUMMARY

BACKGROUND

Regent Policy 92-4 contains the proxy voting policy for UW System Trust Funds. Non-routine shareholder proposals, particularly those dealing with discrimination, the environment, or substantial social injury (issues addressed under Regent Policies 78-1 and 78-2, 74-3(a), and 97-1), are to be reviewed with the Committee so as to develop a voting position.

REQUESTED ACTION

Approval of recommended voting positions.

DISCUSSION

In addition to approval of voting in the affirmative on shareholder resolutions under previously approved "social issues," approval to vote in favor of the following new issue is being sought for the 2005 proxy season: “Report on Animal Welfare Standards.” For 2005, a typical resolution on this issue asks firms either to report on animal welfare standards or report on the feasibility of using new methods to minimize pain and suffering experienced by animals.

The full report on non-routine shareholder proposals for the 2005 proxy season, including summaries of pre-approved issues, is attached.

RELATED REGENT POLICIES

Regent Policy 74-3(a): Investments and the Environment
Regent Policy 78-1: Investment of Trust Funds
Regent Policy 78-2: Interpretation of Policy 78-1 Relating to Divestiture
Regent Policy 92-4: Procedures and Guidelines for Voting Proxies
Regent Policy 97-1: Investment and Social Responsibility

UNIVERSITY OF WISCONSIN SYSTEM TRUST FUNDS

Shareholder Proposals and Recommended Votes for 2005 Proxy Season

Background

This annually-provided report is intended to highlight significant "non-routine" proposals, from shareholders or management, which will be voted on by shareholders during the 2005 proxy season. Regent Policy 92-4, "Procedures and Guidelines for Voting Proxies," stipulates that significant non-routine issues are to be reviewed by the Business and Finance Committee so as to develop a voting position on them. Non-routine issues are defined as the following: acquisitions and mergers; amendments to corporate charter or by-laws which might affect shareholder rights; shareholder proposals opposed by management; and “social responsibility” issues dealing with discrimination, the environment, or substantial social injury (issues addressed under Regent Policies 78-2, 74-3(a), and 97-1, respectively).

The majority of significant non-routine proposals are those dealing with social responsibility issues and corporate governance-related proposals which are often opposed by management. To the extent possible, similar shareholder proposals are grouped into identifiable "issues.” Generally, it will be these issues (covering similar or identical proposals at various companies) that are reviewed and potentially approved for support by the Committee. (On occasion, individual, company-specific proposals not falling under a broad “issue” will also be presented.)

The 2005 Proxy Environment

The 2005 proxy season looks likely to be more active than last year, when just under 350 social issues proposals were filed and 200 came to votes. Approximately 330 proposals on social issues have been filed so far for U.S. companies’ annual meetings in 2005, compared with about 270 at this point last year. The dominant social issues for the 2005 season are the following: the environment and “sustainability,” discrimination based on sexual orientation, and animal welfare.

Concerns about the environment have again generated the largest single category of social issue proposals, with more than 60 filed so far. About half of these proposals question companies about whether they have undertaken sufficient strategic planning and action to reduce their greenhouse gas emissions or to prepare for global climate change. Companies will again be asked to engage in sustainability reporting; nearly 20 proposals have been filed so far.

The New York City pension funds and several social investment firms are again filing proposals asking companies to revise their formal anti-bias policies to outlaw discrimination on the basis of employees' sexual orientation. Approximately 30 proposals have been filed on this and other equal employment opportunity issues. In a new issue for this year, nearly 20 companies are being asked to report on job cuts and relocations.

Far more proposals may come to votes this year than in past years on animal welfare issues. People for the Ethical Treatment of Animals (PETA) members have filed about 24 proposals, several of which are urging more humane livestock slaughtering methods.

The majority of this year's corporate governance proposals again involve severance arrangements (e.g.,"golden parachutes") and takeover defense arrangements (e.g.,"poison pills"), executive compensation, and auditor independence.

The Trust Funds proxy voting list may change as more resolutions are filed or come to light. Moreover, some proponents are likely to withdraw their resolutions if the companies agree to some or all of their requests, and other resolutions will be omitted if the Securities and Exchange Commission finds them to be in violation of its shareholder proposal rules.

Specific New Issues for 2005

The table below summarizes the new shareholder proposal "issues" being recommended for affirmative voting in 2005. (Any company-specific proposals not falling under a preapproved or newly recommended issue are given in the voting detail attachment.)

RECOMMENDED NEW ISSUES FOR 2005 PROXY SEASON

Issue	Issue	Recommended Vote	Related Regent Policy
21	Review animal welfare methods	FOR	97-1

Given below is a description of the recommended new issues and detail on the content of the actual shareholder proposals involved.

Issue #21 - Review animal welfare methods

PETA has continued and greatly expanded its shareholder campaign focusing on the welfare of animals, sponsoring resolution spending at 23 companies asking them to encourage their suppliers to engage in more compassionate slaughter practices or decrease their reliance on animal testing.

PETA filed its first shareholder resolution in 1987 and was a prolific sponsor of shareholder resolutions from the late 1980s to the early 1990s, but cut back on its activism in the 1990s. Animal welfare resolutions appeared on only three proxies between 1996 and 2003. In 2004, however, PETA revived animal welfare as a significant shareholder issue, filing resolutions at six companies.

At Applebee's, Denny's, Kroger, Safeway, Wal-Mart, and Wendy's, PETA has sponsored a resolution asking the companies' to report on the feasibility of requiring their suppliers to use a new method for slaughtering chickens. PETA is asking companies to consider controlled atmosphere killing (CAK), in which birds are placed in a sealed environment where oxygen is replaced with an inert (but not poisonous) gas.
The resolution was withdrawn at McDonald's after the company agreed to prepare a report on the issue.

Issues Previously Approved

Given below is a list of those issues that the Committee has previously approved for support (i.e., voting in the affirmative). A brief re-cap of each of these issues then follows.

PREVIOUSLY APPROVED ISSUES

Issue	Issue	Recommended Vote	Related Regent Policy
1	Report on/implement pharmaceutical policy/pricing	FOR	97-1
2	Report on/label genetically modified organisms (GMOs)	FOR	97-1
3	Shareholder approval for future golden parachutes	FOR	Non-routine corp. governance
4	Redeem or vote on poison pill	FOR	Non-routine corp. governance
5	Report on/implement recycling development programs	FOR	74-3(a)
6	No consulting by auditors	FOR	Non-routine corp. governance
7	Endorse core ILO principles	FOR	97-1
8	Predatory lending prevention	FOR	78-1 and 97-1
9	Report on executive compensation as related to performance and social issues	FOR	97-1 and corp. governance
10	Report on global warming	FOR	74-3(a)
11	Report on glass ceiling	FOR	78-1
12	Report on international lending policies	FOR	97-1
13	Global labor standards	FOR	97-1
14	Endorse CERES principles	FOR	74-3(a)
15	Report on EEO	FOR	78-1
16	Increase & report on board	FOR	78-1

	diversity		
17	Implement MacBride principles	FOR	78-1
18	Adopt sexual orientation non-discrimination policy	FOR	78-1
19	Report on health pandemic in Africa	FOR	97-1
20	Sustainability reporting	FOR	97-1

Issue #1 – Report on/implement pharmaceutical policy/pricing

A major new initiative for the 2002 proxy season were proposals to drug companies on the affordability of AIDS, tuberculosis, and malaria drugs in poor countries. The resolutions ask the companies to "develop and implement a policy to provide pharmaceuticals for the prevention and treatment" of the three diseases "in ways that the majority of infected persons in poor nations can afford." As discussed under the issue of reporting on the health pandemic in Africa (#19), individual shareholder proposals should be reviewed to determine what exactly will be expected of the company. Although proposals asking for reporting on the investigation, analysis, and development of policies or programs to provide "affordable" drugs in Africa and other underdeveloped, pandemic-stricken areas should likely be universally supported, proposals requiring implementation of such policies or programs should be individually reviewed.

Issue #2 – Report on/label genetically modified organisms (GMOs)

Food manufacturers are not required to label products made with bioengineered ingredients, and as a result many U.S. consumers may not be aware that they are eating foods made from GMOs. GMO developers, many farmers, and the U.S. government all say that bioengineered plants are safe, but critics worry that the plants may threaten the environment, harm humans, and perhaps lead to the extinction of crops' wild cousins, an important repository of plant genetics. The majority of related resolutions ask companies to label their foods made from bioengineered ingredients or to report to shareholders on their use of bioengineered plants and food ingredients made from these plants, as well as the company's position regarding the risks to which these uses may expose it.

Issue #3 - Approval for future golden parachutes

Large severance compensation agreements for executives, contingent on a change in corporate control have been the subject of shareholder and management interest for many years. Particularly during the 1980s, when hostile takeovers were commonplace, both shareholders and managers came to realize the costs and potential uses of these safety nets. Shareholder proposals typically ask for shareholder approval of future golden parachutes.

Issue #4 - Redeem or vote on poison pill

Under a typical plan, shareholders are issued rights to buy stock at a significant discount from the market price. The rights are exercisable under certain circumstances, such as when a hostile third party buys a certain percentage of the company's stock. If triggered, the pill would dilute the value and voting power of the hostile party's holdings to such an extent that the takeover attempt presumably would never be made. Pills are not intended to be triggered, but rather serve as a tool to deter any hostile takeover and force would-be acquirers to deal with the board of directors and potentially increase their purchase bid. Boards are not required to get shareholder approval to adopt poison pills, and they rarely do so. Various academic and institutional studies have not convincingly shown that poison pills generally work to the benefit of or detriment of existing shareholders from a purely economic standpoint. The adoption of poison pills can more unambiguously serve to entrench existing boards and management. Convincingly, critics say the overriding issue is the right of shareholder/owners to decide for themselves what protections they want.

Issue #5 – Report on/implement recycling development programs

Social investment firms are continuing to press for more recycling. Most proposals ask companies to research how they could make substantive progress in the use of recycled content for their products. Other resolutions ask for a report on the means for achieving a specified percent recovery rate within a reasonable time period. The reports should provide a cost-benefit analysis of options and an explanation of the company's position on recycling policies. In addition, reports should list all steps the company took in investigating options for the cost-effective use of recycled materials.

Issue #6 - No consulting by auditors

There has been a growing concern by both investors and regulators about the provision by auditors of both audit and non-audit services to their audit clients, and the effects of these services on the independence of the audit process. The provision of certain non-audit services by a company's auditor may impair the auditor's independence and impartiality.

Issue #7 – Endorse core ILO principles

The proposals ask companies to endorse core standards promoted by the International Labor Organization (ILO), a multilateral agency affiliated with the United Nations that represents national employer, labor, and government bodies of 174 member states.

Issue #8 - Predatory lending prevention

Predatory lending, most often associated with the subprime sector, is a loosely defined term that encompasses any number of unethical and illegal practices inflicted upon unsuspecting borrowers, often causing them financial distress or ruin. Activist shareholders have intensified a campaign for financial corporations to take steps which address predatory lending. The proposals primarily ask that the companies develop a policy to ensure against predatory lending practices and to report to shareholders on the enforcement of such policies.

Issue #9 - Report on executive compensation

Institutional investors have expressed interest in ensuring that executive pay levels are linked to corporate performance. In fact, increasing pressure since the late 1980s to tie executive compensation more directly to a company's success is contributing to the surge in executive pay. CEO compensation is now steeped with stocks and options, which have become popular vehicles to more closely align management's interests with shareholders' interests. Shareholder groups are asking boards of directors to study and report on executive compensation, and to consider ways to link compensation to corporate financial, environmental, and social performance.

Issue #10 - Report on global warming

Activist shareholders have intensified a campaign for corporations to take steps which address global warming. The typical resolution on global warming asks for a report on (i) what the company is doing in research and/or in action to reduce greenhouse gas emissions, (ii) the financial exposure due to the likely costs of reducing those emissions, and (iii) actions which promote the view that climate change is exaggerated, not real, or that global warming may be beneficial.

Issue #11 - Report on Equal Employment Opportunity: glass ceiling

The "glass ceiling" is a metaphorical term referring to the various barriers that may exist in companies to bar women's advancement to senior management positions. The typical resolution asks for a report on policies that address the issue of the glass ceiling.

Issue #12 - Report on international lending policies

The effect of international bank lending in developing nations has become an increasing concern for shareholders. Proponents concerned about poverty and debt in developing countries are submitting resolutions relating to commercial bank operations and services. The concern is that people in developing countries have not benefited from the recent increased capital flows to emerging markets. Proposals often ask for the development of a policy toward debt cancellation and provisions for new lending to heavily indebted poor countries or ask companies to develop policies which promote financial stabilization in emerging market economies.

Issue #13 - Global labor standards

Concern about conditions in third world factories that supply U.S. corporations has led to a proliferation of shareholder resolutions from a variety of proponents throughout the 1990s. Proxy proposals will ask companies to take measures to ensure their global operations, or those of their suppliers, meet minimum labor and environmental standards. Companies that adopt favorable global labor policies will be less susceptible to negative impacts.

Issue #14 - Endorse Coalition for Environmentally Responsible Economies (CERES) principles

The principles affirm that corporations have a "responsibility to the environment" and that they "must conduct all aspects of their business as responsible stewards of the environment." There are ten principle statements that address environmental protection and management commitment to the environment. A typical resolution on the environment and CERES principles asks that the company endorse the CERES principles.

Issue #15 - Report on Equal Employment Opportunity

The shareholder resolutions generally ask companies to make available information that is gathered for and reported to the Equal Employment Opportunity Commission. The information required includes statistical information in defined job categories, summary information of affirmative action policies, and reports on any material litigation involving race, gender, or the physically challenged.

Issue #16 - Increase and report on board diversity

The shareholder resolutions relating to Board diversity ask companies to report on the following issues: (a) efforts to encourage diversified representation on the board; (b) criteria for board qualification; (c) process of selecting board nominees; and (d) commitment to a policy of board inclusiveness.

Issue #17 - Implement MacBride principles

The MacBride principles offer a statement of equal opportunity/affirmative action principles for operations in Northern Ireland. These principle statements offer a code of conduct to combat religious discrimination in the Northern Irish workplace.

Issue #18 - Adopt sexual orientation non-discrimination policy

The shareholder resolutions ask companies to implement a policy that prohibits discrimination against employees on the basis of sexual orientation. A typical resolution would ask a company to adopt and implement a written equal opportunity policy barring discrimination on the basis of sexual orientation.

Issue #19 - Report on health pandemic in Africa

The shareholder resolutions ask companies with substantial leverage in the labor markets of sub-Saharan Africa to report on the effect of deadly diseases on the company's operations as well as on any measures taken in response. In addition, resolutions ask pharmaceutical companies to "establish and implement standards of response to the health pandemic of HIV/AIDS, tuberculosis, and malaria in developing countries, particularly Africa."

Issue #20 - Sustainability Reporting

A typical resolution asks firms to prepare a sustainability report at a reasonable cost. The most widely used definition of sustainability is "development that meets the needs of the present without compromising the ability of future generations to meet their own needs."

Security Description	Mtg Date	Proposal	Policy	Vote
ADVANCED AUTO PTS INC	5/18	Adopt sexual orientation non-discrimination policy	78-1	Affirmative
AGCO CORP	4/21	Issue sustainibility report	74-3/97-1	Affirmative
ALBERTSON'S	6/1	Issue sustainibility report	74-3/97-1	Affirmative
ALCOA INC	4/22	Adopt sexual orientation non-discrimination policy	78-1	Affirmative
ALCOA INC	4/22	Shareholder approval by auditors	CG	Affirmative
ALLERGAN INC	4/26	Report on greenhouse gas emissions	74-3	Affirmative
ALTRIA	4/27	Limit consulting by auditors	CG	Affirmative
AMGEN INC	4/27	Report on equal opportunity and plans against glass ceiling	78-1	Affirmative
APPLE COMPUTER INC	4/21	Implement ILO Global Labor Standards	97-1	Affirmative
AT&T CORP	5/1	Vote on future golden parachutes	CG	Affirmative
AT&T CORP	5/1	Redeem or vote on poison pill	CG	Affirmative
AVON PRODUCTS	5/5	Report on phasing out parabens in products	74-3	Affirmative
BARD INC	4/20	Implement ILO Global Labor Standards	97-1	Affirmative
BRISTOL-MEYERS SQUIBB	5/6	Report on parabens in products	74-3	Affirmative
CIRCUIT CITY GROUP	6/1	Vote on future golden parachutes	CG	Affirmative
CONOCO PHILLIPS	5/1	Report on protecting key natural sites	74-3	Affirmative
COSTCO WHOLESALE	4/28	Report on land development policy	74-3	Affirmative
COSTCO WHOLESALE	4/28	Implement ILO Global Labor Standards	97-1	Affirmative
CSX CORP	5/4	Vote on future golden parachutes	CG	Affirmative
CUMMINS INC	5/10	Adopt Code of Conduct for China Operations	97-1	Affirmative
CVS CORP	5/12	Vote on future golden parachutes	CG	Affirmative
EXXON MOBIL	5/25	Adopt sexual orientation non-discrimination policy	78-1	Affirmative
EXXON MOBIL	5/25	Implement ILO Global Labor Standards	97-1	Affirmative
EXXON MOBIL	5/25	Report on global climate change	74-3	Affirmative
EXXON MOBIL	5/25	Report on protecting key natural sites	74-3	Affirmative
EXXON MOBIL	5/25	Report on Kyoto compliance plans	74-3	Affirmative
EXXON MOBIL	5/25	Review security arrangements in Indonesia	97-1	Affirmative
FIRSTENERGY CORP	5/17	Report on greenhouse gas emissions	74-3	Affirmative
FORD MOTOR	5/12	Report on greenhouse gas emissions	74-3	Affirmative
FORD MOTOR	5/12	Report on global climate change	74-3	Affirmative
FORD MOTOR	5/12	Report on lobbying against tighter fuel economy	74-3	Affirmative
FORTUNE BRANDS INC	4/26	Redeem or vote on poison pill	CG	Affirmative
GENERAL DYNAMICS	4/27	Issue sustainibility report	74-3/97-1	Affirmative
GENERAL DYNAMICS	4/27	Report on waste storage at nuclear plant	74-3	Affirmative
GENERAL DYNAMICS	4/27	Disclose costs of PCB cleanup	74-3	Affirmative
GLOBAL INDUSTRIES	5/1	Shareholder approval by auditors	CG	Affirmative
HOME DEPOT INC	5/1	Redeem or vote on poison pill	CG	Affirmative
HOME DEPOT INC	5/1	Report on equal opportunity and plans against glass ceiling	78-1	Affirmative
HOME DEPOT INC	5/1	Vote on future golden parachutes	CG	Affirmative
HOME DEPOT INC	5/1	Implement ILO Global Labor Standards	97-1	Affirmative
ILLINOIS TOOL WORKS	5/6	Adopt Code of Conduct for China Operations	97-1	Affirmative
IBM	4/26	Report on product responsibility/recycling	74-3	Affirmative
IBM	4/26	Adopt Code of Conduct for China Operations	97-1	Affirmative
JOHNSON & JOHNSON	4/28	Report on AIDS pandemic impact	97-1	Affirmative
JP MORGAN CHASE	5/17	Report on global climate change risk	74-3	Affirmative
JP MORGAN CHASE	5/17	Vote on future golden parachutes	CG	Affirmative
KIMBERLY CLARK	4/28	Redeem or vote on poison pill	CG	Affirmative
KIMBERLY CLARK	4/28	Implement ILO Global Labor Standards	97-1	Affirmative
KOHL'S	4/27	Vote on future golden parachutes	CG	Affirmative
KROGER CO	6/1	Vote on future golden parachutes	CG	Affirmative
KROGER CO	6/1	Issue sustainibility report	74-3/97-1	Affirmative
KROGER CO	6/1	Vote on future golden parachutes	CG	Affirmative
LOCKHEED MARTIN	4/28	Review /develop broad social standards	97-1	Affirmative

MCDONALD'S CORP	5/11	Report on genetically engineered food	97-1	Affirmative
MCDONALD'S CORP	5/11	Report on plans to answer obesity concerns	97-1	Affirmative
MCGRAW HILL	4/27	Redeem or vote on poison pill	CG	Affirmative
MORGAN STANLEY	3/15	Redeem or vote on poison pill	CG	Affirmative
MOTOROLA	5/2	Redeem or vote on poison pill	CG	Affirmative
NUCOR CORP	5/12	Adopt sexual orientation non-discrimination policy	78-1	Affirmative
NUCOR CORP	5/12	Report on greenhouse gas emissions	74-3	Affirmative
OCCIDENTAL PETROLEUM	5/6	Vote on future golden parachutes	CG	Affirmative
PFIZER INC	4/28	Report on AIDS pandemic impact	97-1	Affirmative
PFIZER INC	4/28	Report on drug price restraint efforts	97-1	Affirmative
PG&E CORP	4/20	Vote on future golden parachutes	CG	Affirmative
PG&E CORP	4/20	Redeem or vote on poison pill	CG	Affirmative
PNC FINANCIAL SERVICES	4/26	Shareholder approval of auditors	CG	Affirmative
REYNOLDS AMERICAN	5/6	Redeem or vote on poison pill	CG	Affirmative
SEMPRA ENERGY	4/5	Redeem or vote on poison pill	CG	Affirmative
TEREX CORP	5/19	Issue sustainibility report	74-3/97-1	Affirmative
TJX	6/1	Report on vendor labor standards	97-1	Affirmative
TJX	6/1	Implement ILO Global Labor Standards	97-1	Affirmative
WACHOVIA CORP	4/19	Report on global climate change	74-3	Affirmative
WAL MART STORES INC	6/1	Report on equal opportunity and plans against glass ceiling	78-1	Affirmative
WAL MART STORES INC	6/1	Issue sustainibility report	74-3/97-1	Affirmative
WAL MART STORES INC	6/1	Report on stock options by race/sex	78-1	Affirmative
WAL MART STORES INC	6/1	Report on genetically engineered food	97-1	Affirmative

Note: A "CG" designation represents a non-routine Corporate Governance proposal.

Security Description	Mtg Date	Proposal	Policy	Vote
KROGER CO	6/1	Review suppliers' animal slaughter methods	97-1	Affirmative
MCDONALD'S CORP	5/11	Review suppliers' animal slaughter methods	97-1	Affirmative
WAL MART STORES INC	6/1	Review suppliers' animal slaughter methods	97-1	Affirmative

UW SYSTEM TRUST FUNDS
ANNUAL ENDOWMENT BENCHMARKING REPORT

EXECUTIVE SUMMARY

BACKGROUND

Each year, NACUBO conducts a detailed survey of college and university endowments regarding such things as their investment and spending policies and practices, investment performance and fees, staffing, etc. The survey provides overall averages, as well as statistics for endowments by different size categories. This data is supplemented by results from a very limited Big Ten survey and other peer information, where available.

REQUESTED ACTION

This item is informational only.

DISCUSSION

While some university systems combine their foundation and university-controlled endowments for reporting purposes (where there are both), others report them separately. UW System Trust Funds are reported to NACUBO on a stand-alone basis. Other UW entities that reported in the 2004 NACUBO survey included the foundations at UW-Madison and UW-Eau Claire.

UW System Trust Funds' true endowment (Long Term Fund only) was valued at $276 million as of June 30, 2004. Although these funds represent only a portion of UW institutions’ endowment assets, Trust Funds alone still ranked 169th in size among the 741 reporting institutions.

While the Trust Funds’ investment return exceeded the average peer performance in fiscal year 2004, performance has been comparable over longer timeframes. Regarding investment-related fees and staffing, UW Trust Funds is very much in line with peer averages. Finally, while UW Trust Funds' spending rate policy is typical, the percentage spending rate (4.5%) remains below the peer average (5.0%).

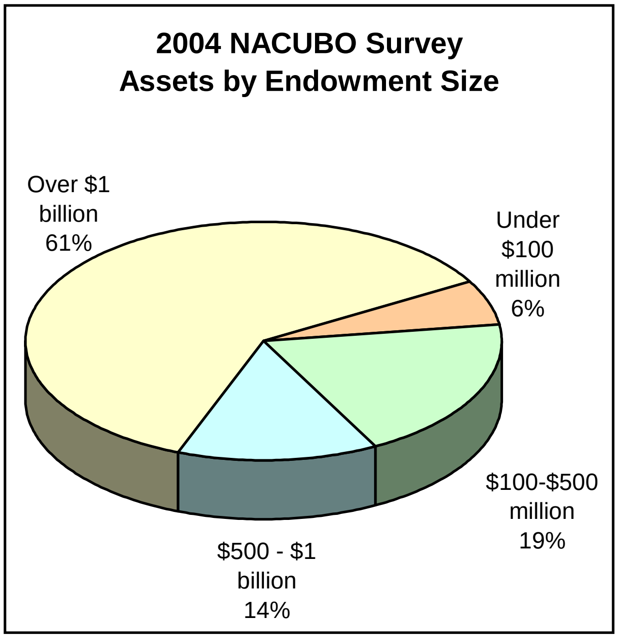
The attached report provides more details on key data from the fiscal year 2004 surveys.

RELATED REGENT POLICIES

None.

UW SYSTEM TRUST FUNDS
Annual Endowment Benchmarking Report
Fiscal Year Ended June 30, 2004

SURVEY SUMMARY STATISTICS



- 741 institutions participated in the 2004 NACUBO survey. Baccalaureate colleges made up the largest category of responding institutions with 237 reporting, master's colleges were second with 234 institutions and doctoral/research institutions were the third largest category with 220 institutions reporting.

- Doctoral/research institutions control nearly 73% of aggregate endowment assets, with baccalaureate institutions a distant second at 14%.

- Endowment assets remain highly concentrated. Only 47 schools (6% by number), each with assets in excess of $1 billion, represent 61% of the total assets. Only 97 schools (13% by number), each with assets in excess of $500 million, represent 74% of the aggregate assets.

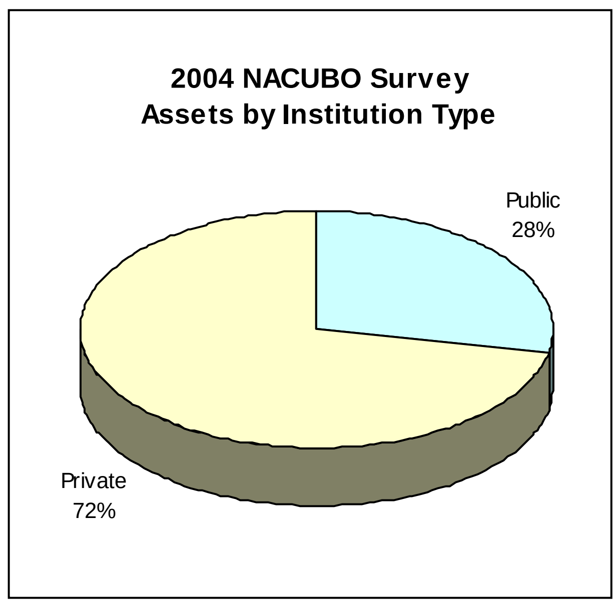
- The NACUBO study included 514 private and 227 public institutions.

- The largest public institution endowment is the University of Texas System's ($10.3 billion) and the largest private institution endowment is Harvard University's ($22.1 billion).

- UW System Trust Funds' true endowment (Long Term Fund only) was valued at $276 million as of June 30, 2004. Although these funds represent only a portion of UW institutions' endowment assets, Trust Funds alone ranked 169th in size among the 741 reporting institutions. UW-Madison Foundation's true endowment assets were valued at $777 million as of December 31, 2003, placing it 65th in size on a stand-alone basis.

- The peer data for the Big Ten in this report includes all eleven institutions with an average endowment pool of $1.3 billion.

- The largest endowment in the Big Ten is the University of Michigan's with $4.3 billion. UW Trust Funds' and UW-Madison Foundation's assets taken together, total $1.1 billion, which would place UW seventh in the Big 10 and 46th in the NACUBO study.

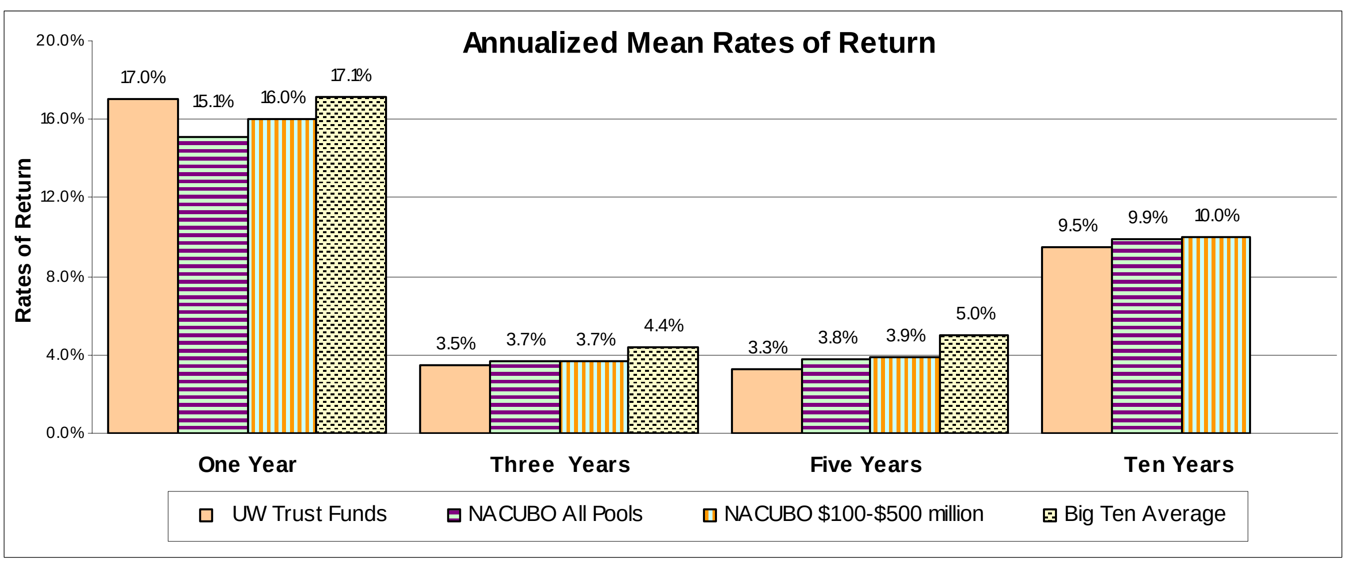


BROAD ASSET ALLOCATION (As of June 30, 2004)

Asset Class	UW Current	UW 2005 target	NACUBO All Pools	NACUBO $100-$500M	NACUBO > $1 billion	Big Ten Average
Equities	76.7%	68.0%	59.9%	59.1%	46.3%	52.9%
Fixed Income	22.2%	18.5%	22.1%	19.5%	15.2%	15.6%
Alternatives	1.1%	13.5%	12.8%	17.2%	35.2%	28.6%
Private Capital	1.1%	3.5%	2.1%	3.2%	8.4%	6.0%
Hedge Funds	0.0%	10.0%	7.3%	10.0%	20.2%	15.9%
Real Estate	0.0%	0.0%	2.8%	3.1%	4.0%	5.1%
Natural Resources	0.0%	0.0%	0.6%	0.9%	2.6%	1.6%
Cash	0.0%	0.0%	3.7%	2.5%	2.7%	1.8%
Other	0.0%	0.0%	1.5%	1.7%	0.6%	1.1%
TOTAL	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

- The primary difference between the UW System Trust Funds' allocation and that of various peer groups is the underweighting to Alternatives.
- The major asset allocation changes versus last year's averages include the following: increase in Equities in NACUBO averages (+3%), while a decrease in Equities for the Big Ten average (-7%); decrease in Fixed Income for both NACUBO and the Big 10 (-3% to -4%); and increase in Alternatives (+2% to +10%), particularly Hedge Funds (+2% to +8%).
- The Alternatives-Private Capital category consists primarily of venture capital and other private equity.
- The Alternatives-Hedge Fund category consists primarily of unregulated private investment partnerships investing in mostly marketable securities, but employing strategies (long/short, convertible arbitrage, leverage, etc.) designed to provide for more absolute returns with low correlation to the markets.
- The Alternatives-Natural Resources category includes timber, oil and gas partnerships, and commodities.
- The UW System Board of Regents approved a new target allocation in December 2002, which includes a 10% allocation to Private Capital and 10% to Hedge Funds. The 2004 target shown above is an interim target.

INVESTMENT PERFORMANCE (Periods Ended June 30, 2004)



- For Fiscal Year 2004, the UW System Trust Funds finished ahead of the NACUBO averages and matched the Big Ten average. Over the most recent five-year period, Trust Funds' performance trailed both the NACUBO averages and the Big 10 average.

- Most investment performance differences are likely due primarily to asset allocation differences, particularly over the shorter timeframes shown.

RANGE OF INVESTMENT RETURNS

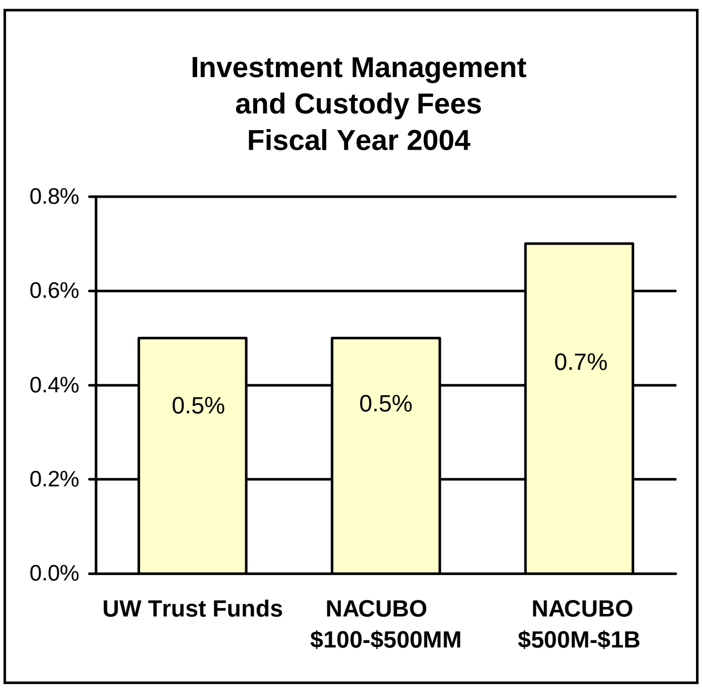
- The UW System Trust Funds' nominal rate of return in Fiscal 2004 was 17.0%, placing it well above the median and close to the 75th percentile of comparable-size endowments.

- For all longer timeframes, UW Trust Funds' endowment return has placed very close to the median return of comparable-size endowments.

Range of Returns: NACUBO All Pools

	One Year	Three Year	Five Year	Ten Year
High	25.2%	18.2%	15.0%	17.0%
75th Percentile	17.7%	4.9%	5.1%	10.8%
Median	16.0%	3.7%	3.5%	9.9%
25th Percentile	13.2%	2.3%	2.1%	8.6%
Low	-0.6%	-5.9%	-4.2%	2.9%
UW Trust Funds	**17.0%**	**3.5%**	**3.3%**	**9.5%**

ENDOWMENT INVESTMENT-RELATED FEES



- Trust Funds' investment management and custody fees for Fiscal Year 2004 totaled $1,386,985 (excluding internal fees on commingled funds) on an average portfolio value of $260,399,259.

- Trust Funds' investment management and custody fees for Fiscal Year 2004, at 0.53% of assets, were in line with the comparable-size peer group and overall group averages.

- As another point of comparison, the UW Foundation, with endowment assets of $777 million, reported investment management fees of 0.55% of assets for the year ending December 31, 2003.

ENDOWMENT GIFTS & BEQUESTS

- Although unsolicited, endowed gifts to the UW Trust Funds as a percent of average assets were comparable to or higher than peer group averages for Fiscal Year 2004.

Total Assets	Average Gifts & Bequests*
NACUBO > $1 billion	2.6%
NACUBO $100-$500 million	4.3%
NACUBO All Pools	3.0%
UW Trust Funds	3.2%

* Rates are based on a percentage of the average of the fiscal year beginning and ending market values.

INVESTMENT MANAGEMENT PRACTICES

- Use of Internal Management

Total Assets	Average % Internally Managed
NACUBO > $1 billion	17%
NACUBO $100-$500 million	5%
NACUBO All Pools	11%
UW Trust Funds *	0%

* This pertains only to the Long Term Fund (true endowment assets). Roughly 15% of the Intermediate Term Fund is managed "internally" by graduate students through the Applied Securities Analysis Program.

- Use of Passive Management

  - Nearly half of the institutions do not report data on use of indexing (or passive management).

  - Roughly 15% of responding institutions keep between 10% and 25% of their assets passively invested or indexed, while approximately 9% invest more than half of their assets passively.

  - The UW Trust Funds does not currently use any passive management.

SPENDING RATE POLICIES

- Spending Rates

NACUBO All Pools' Average	5.0%
Commonfund All Pools' Average	4.8%
UW Trust Funds	4.5%

  - Once again, there is very little variability in spending rates by endowment-size pool. The highest average annual spending rate (5.3%) was reported by institutions with endowments larger than $500 million, and the lowest average spending rate (4.6%) was reported by institutions with endowment assets between $25 and $50 million.

  - Fiscal 2004 marks the widest gap in reported spending rates between public and private institutions, 4.3% versus 5.3%. For public institutions, this marks their lowest spending rate since 1997.

- It should be noted that foundations represent many institutions' reported endowment assets, and foundations must pay out a minimum of 5% of assets annually to avoid tax sanctions; university endowments are not subject to this.

- How the Spending Rate is Applied

  - Most of the reporting endowments (83%) use an annual spending rate that represents a pre-specified percentage of the moving average of their endowment market values.

  - Trust Funds applies the annual spending rate to a 3-year moving average of market value.

INVESTMENT MANAGEMENT COMMITTEE AND STAFFING

- Committee & Staffing Levels

Total Assets	Average Number of Committee Members	Average Investment Staffing	Investment Staff Range
NACUBO $100-$500 mm	10	1	0-4
NACUBO > $1 billion	10	6	0-35
NACUBO All Pools	10	1	0-35
UW Trust Funds	5	2	N/A

- Use of External Consultants

Total Assets	Percent Using Consultants
NACUBO > $1 billion	53%
NACUBO $100-$500 million	86%
NACUBO All Pools	76%

  - UW Trust Funds does not currently use external consultants.

CONSIDERATION OF SOCIAL RESPONSIBILITY

- One investment management feature that has remained relatively stable over the past three years is the lack of consideration of social responsibility as part of an institution's investment policy. The 2004 NACUBO Endowment Study shows that only 19% of reporting institutions consider social responsibility criteria as part of their investment management policies when not required by donors.

- Only 10% of public institutions consider social responsibility criteria, while 22% of private institutions do.

- UW System Trust Funds considers social responsibility criteria in voting shareholder proxy proposals and seeks student and public comment on issues of significant social concern.

March 11, 2005 Agenda Item I.2.d.(3)

SOCIALLY RESPONSIBLE ASPECTS OF TIMBER INVESTING

GMO

North America | Europe | Asia-Pacific

University of Wisconsin Systems Trust Funds

March 10, 2005

GMO Presentation on

Timber Investing

Eva Greger
Carolyn Nelson

Presenters

Eva Greger Ms. Greger is the Managing Partner of GMO's Renewable Resources Group. Prior to joining GMO, she was vice president of Timberlands for UBS Asset Management with responsibility for evaluating and structuring acquisitions. Ms. Greger earned her B.A. in Economics from Harvard University.

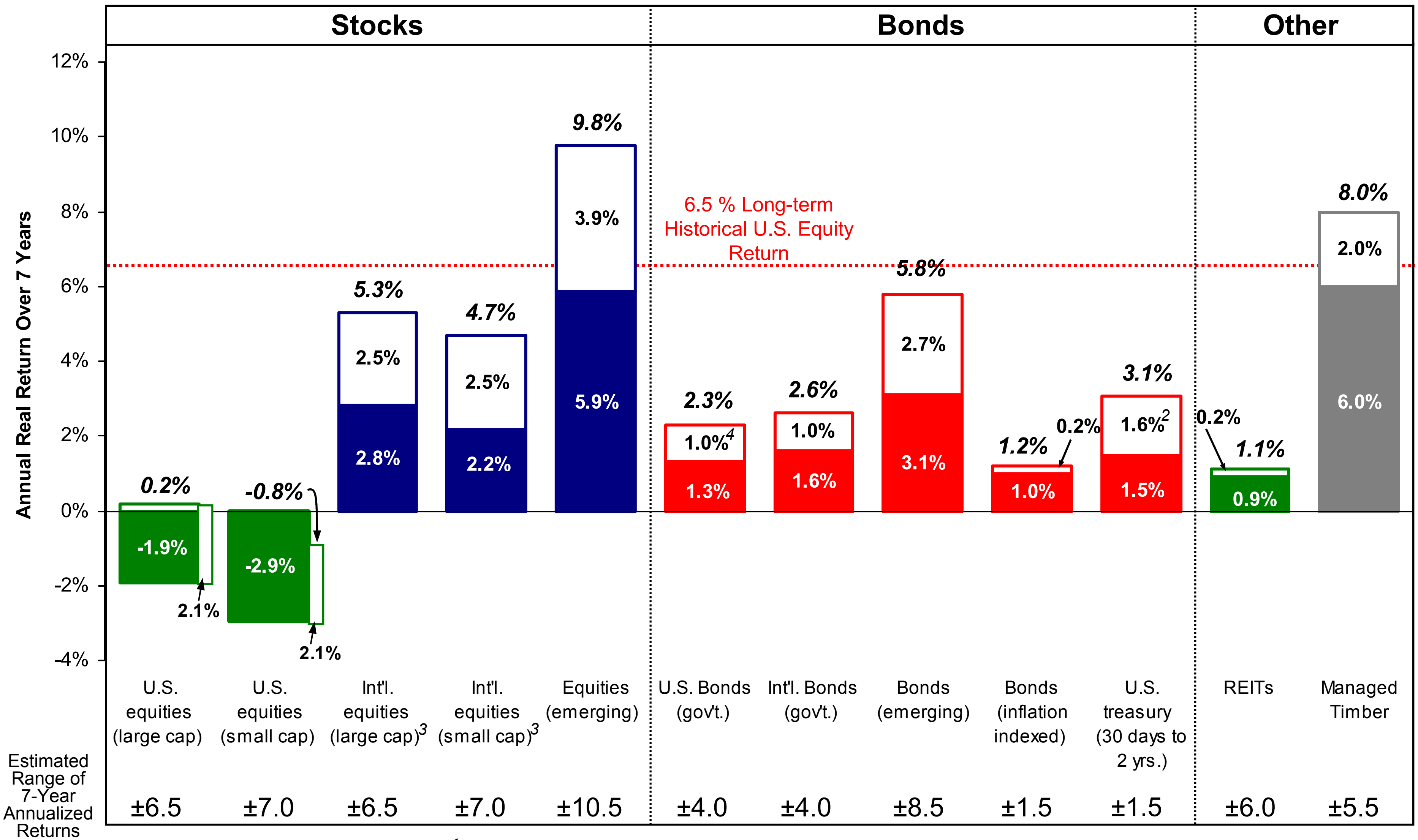
Carolyn Nelson Ms. Nelson is a member of the client service team. Prior to joining GMO, she worked as a marketing officer and manager at State Street Global Advisors. Previously she was a corporate lending officer at ABN Amro Bank. Ms. Nelson earned her undergraduate degree in Finance at the University of Massachusetts at Amherst and holds an M.B.A. from Babson College.

Timberland as an Asset Class

GMO 7-Year Asset Class Return Forecasts*

- Expected Value Added
- Real Return (Asset Class Index)

As of December 31, 2004



***The chart represents real return forecasts[1] for several asset classes and an estimate of value expected to be added from active management. These forecasts are forward-looking statements based upon the reasonable beliefs of GMO and are not a guarantee of future performance.**

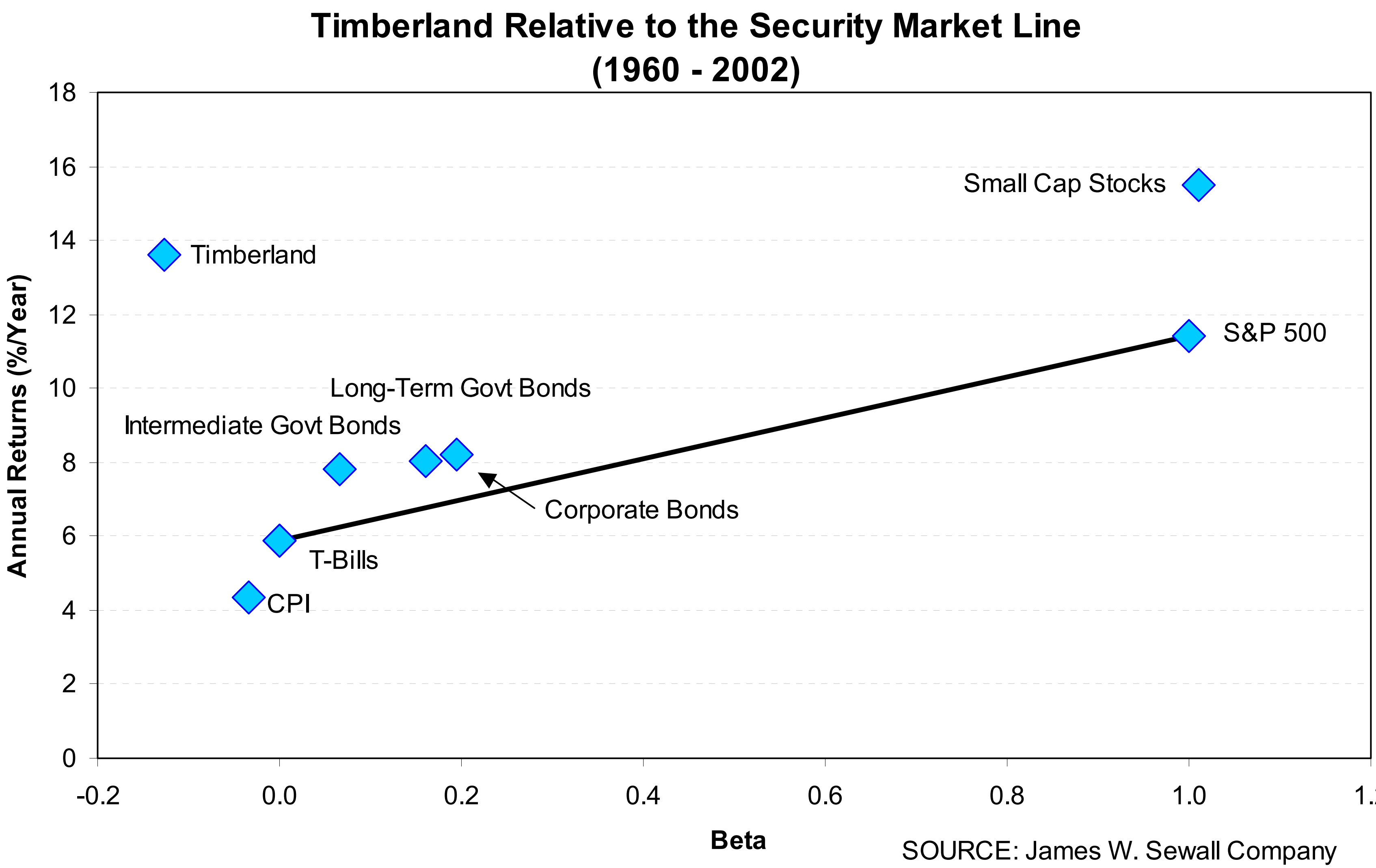
1 Long-term inflation assumption: 2.5% per year.
2 Alpha transported from management of global equities.
3 Return forecasts for international equities are ex-Japan.
4 Alpha transported from management of global bonds.

GMO
CN_UnivWisconSys_3-05

Direct Forest Investments

- GMO Forestry Funds invest directly in land and trees – not financial products.
- Timberland is **not a commodity**. Although many of the end products produced from a forest are commodities, each forest is unique in age distribution, stocking, species mix and site quality.
- Like **private equity**, deals are opportunistic. Experienced research and analysis is rewarded.
- Like **real estate**, a real asset and a hedge against inflation, however, owners have the **option** between harvesting standing timber today or allowing it to grow larger during periods when prices are depressed.

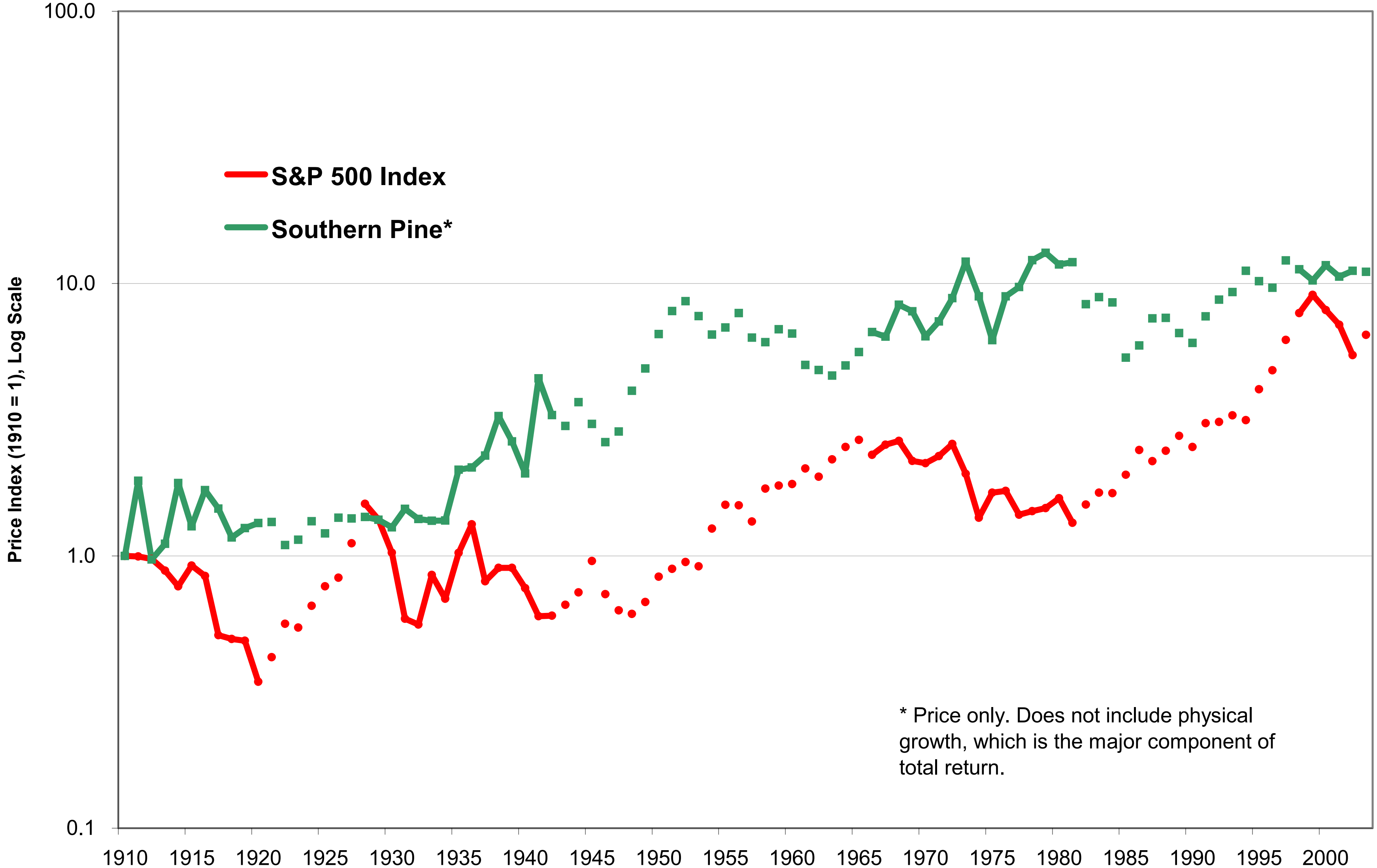
Low Correlation With Equity Markets



SOURCE: James W. Sewall Company
Updates: Bloomberg

This chart shows timberland's performance relative to other asset classes market beta. The asset class plots well above the mean regression line, which means timberland's return profile exceeds all of the other financial assets classes depicted above. In short, when the market is down timberland tends to be up, which causes it to function as an effective, counter-cyclical hedge.

Timber: A Good Hedge in Bear Markets



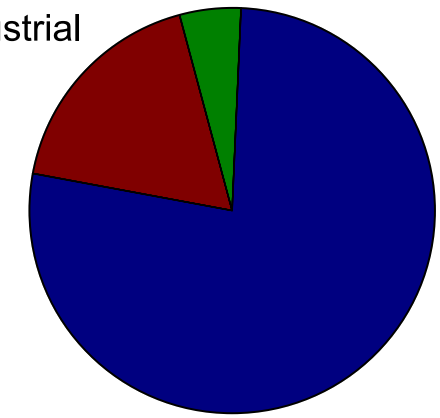
Solid lines indicate bear markets in S&P; dotted lines represent the periods in between bear markets.

As of 12/31/03

Source: U.S. Forest Service and Standard & Poors

Growing Interest in Timberland

- Timberland managed by Timber Investment Management Organizations (TIMOs)
  - 1990 - $1.0 billion
  - 2000 - $10.0 billion
  - 2004-approx $15 billion
  - 2015 - $ 45 billion (?)
- Migration of industrial timberlands to private investors, TIMO's, individuals, and pensions.
- 32.0 million acres of industrial timber lands were sold or securitized from 1996-2003
- 350 million acres in total US private timberland valued at more than $230 billion
- Increased interest in the asset class should lead to falling discount rates and higher timberland prices in the future.



	1996	1997	1998	1999	2000	2001	2002	2003	Total
Acres sold (millions)	8.2	1.6	5.8	6.4	0.7	0.5	3.2	5.2	31.8
Proceeds (US$m)	9,385	1,579	3,853	3,926	1,718	742	2,389	3,969	27,560

Sources: Industry publications, Paperloop, Press releases.

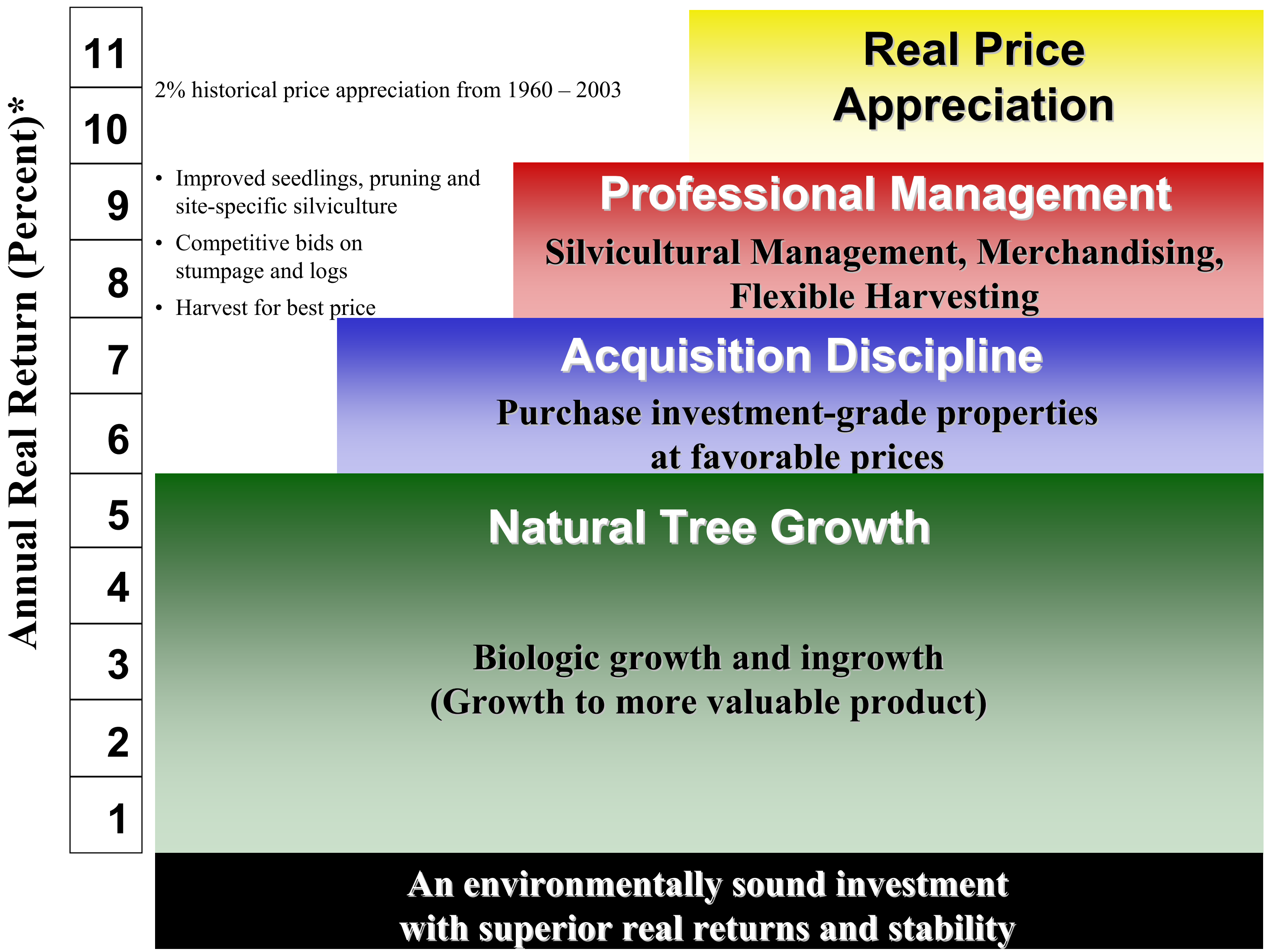
Where Do the Real Returns Come From?

A Value Added Story

This chart is a static representation of timber returns from a balanced forest held for a long period of time. A dynamic model would indicate significant changes in these components, depending on the period of ownership, the business cycle, government policies, changes in supply/demand, plantations versus natural forests, species mix, and regional conditions. From 1987 through 1997, prices for standing timber rose strongly both in the South and West, but have fallen since then.

The primary offshore species, Radiata pine, has been declining in price since the peaks reached in 1993-94.

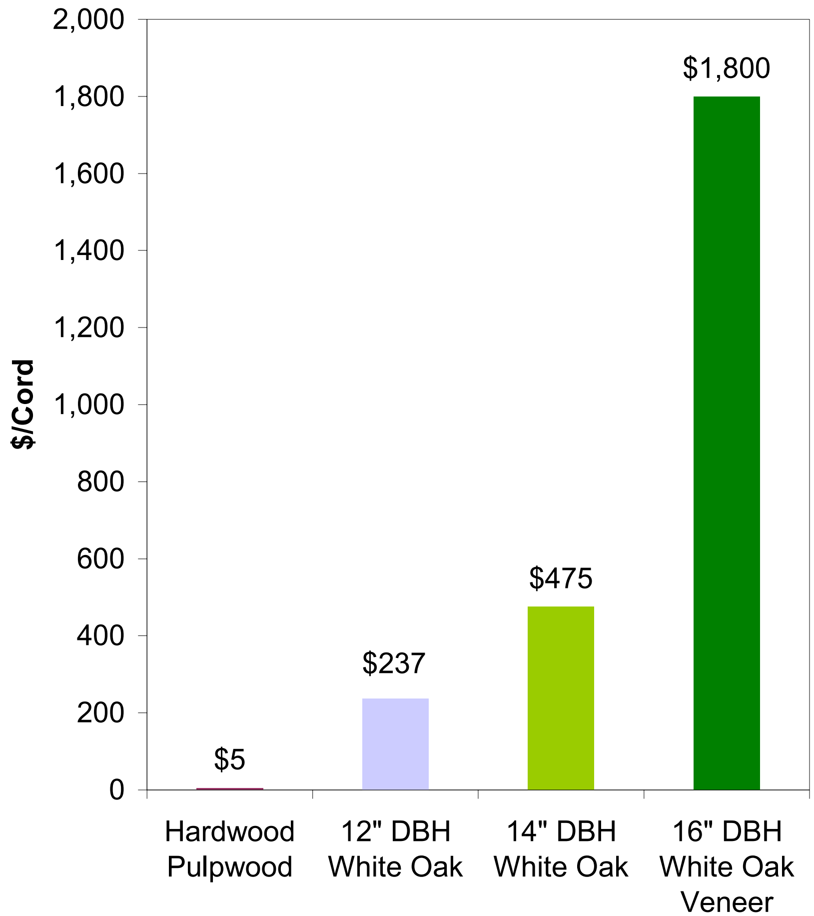
The chart does not indicate enhanced return possibilities from land sales during the investment period.



*Approximate percent target return from each category for a balanced international timberland portfolio.

Sources of Return – Natural Tree Growth

Biologic Growth Moves Smaller Trees into Higher Product Classes to Increase Value



- Average annual growth through a tree's economic life
  - Scandinavia: 1 to 2%
  - US South: 5 to 7%
  - Pacific Northwest: 8 to 10%
  - New Zealand: 12 to 16%

- Value per unit rises with diameter growth
  - Pulp: 5" to 12" diameter
  - Sawtimber: 12" diameter or greater
  - Veneer: 16" diameter or greater

- White Oak value per unit of timber
  - Pulp: $5
  - Sawtimber: $237/$475
  - Veneer: $1800

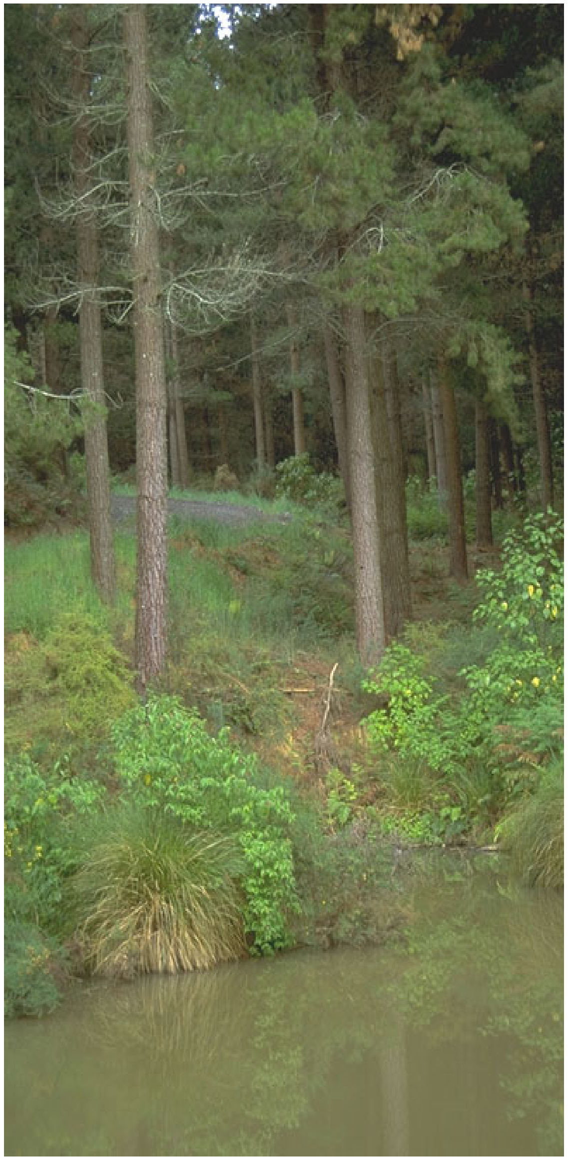
Timberland Investment Risks

- Acquisition, or Imperfect **Market Risk**: *Caveat emptor* is the guiding rule. Optimistic stumpage price and resale assumptions can lead to disappointing results. High quality information is essential. **Overbidding to invest quickly** reduces returns.

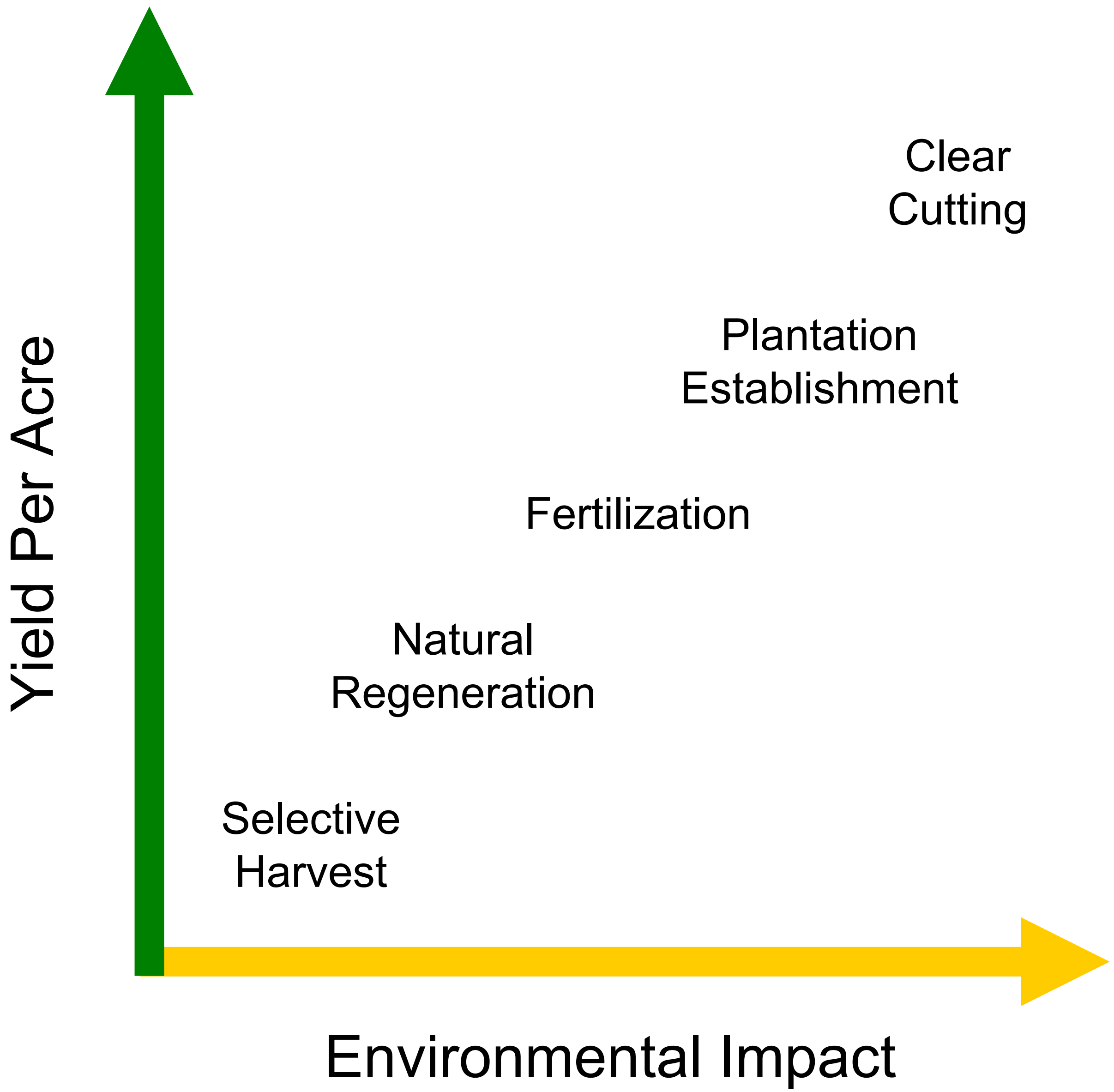
- **Environmental Risk**: Many environmental risks are also opportunities. Increasing environmental pressure heightens the scarcity value of timber.

- **Fire Risk, Ice Damage, Pests**: Less than one half of one percent loss, and rare in good growing regions. Most fire or ice damaged timber can be salvaged. Diversification against **natural risk** can be achieved with non-contiguous parcels in two to three geographic areas.

- **Substitution Risk**: Prices have risen in real terms for the last century in spite of substitution. Diversification against market risk requires diversification of end use, as well as customers.



Range of Management Intensity



State Regulations

- Renewable Resources Funds operate in 17 different states and three foreign countries, with differing levels of environmental regulation

State	Harvest Permitting	Reforestation Rules	Limitations on Clearcuts	Stream Buffers
Washington	Required for ownerships over 20 acres	Required for clearcuts 190 trees per acre	240 acre maximum clearcut	50 foot no cut; strict limits to 200 feet
Maine	Notification required	450 trees per acre within five years	250 acre maximum clearcut	Strict limits within 75 foot; restrictions to 250 feet
Texas	None required	None	None	Voluntary BMP guidelines

- Our forest management plans include standards for operations with a level of environmental awareness exceeding US industry standards, even when those standards are higher than local regulatory requirements.

Conservation Partnerships

- Participation in purchases either through allocation of acres or land rights (such as easements)
- Investor dollars concentrated in core operable forest.

Public-Private Collaboration Protects Habitat and Working Forest

In the first conservation project of its kind, International Paper and Renewable Resources Inc. joined with the State of Tennessee and The Conservation Fund to protect 75,000 acres of forestland on the Cumberland Plateau, located 40 miles northwest of Knoxville, Tennessee. A new model for forestland conservation, this project is a first in that International Paper sold the timber estate and the surface rights to different buyers—Renewable Resources and The Conservation Fund respectively. Plans call for the state to eventually own the land while a shared use agreement will ensure sustainable timber operations, protecting watersheds and species as well as ensuring public use.

"This purchase from International Paper showcases the power of public-private partnerships to conserve and protect Tennessee's landscape," Governor Don Sundquist said. "This magnificent property will be enjoyed by Cumberland Trail hikers, wildlife watchers, sportsmen and other outdoor enthusiasts for years to come. It is truly a treasure for all Tennesseans to enjoy." *http://www.conservationfund.org/?article=2663&back=true*

TUG HILL PLATEAU, NY — June 10, 2002 — The Nature Conservancy of New York announced today a landmark deal to preserve 44,650 acres of forest lands in the Tug Hill Plateau in Lewis County, approximately 30 miles north of Syracuse, marking the largest land acquisition that the Conservancy has negotiated in the state of New York…

Henry Tepper, New York state director of The Nature Conservancy said, "This purchase, bringing together New York State, The Nature Conservancy and a private timber investor, protects one of the largest and most important forested landscapes in the state. We are conserving critical natural resources and wildlife habitat, creating new outdoor recreational opportunities and supporting northern New York's forest products economy." *http://nature.org/pressroom/press/press673.html*

Environmental Easements

- Permanent restrictions of land use
- Typically limit subdivision and uses other than forestry
- May include forest management standards
- Ensure protection beyond the life of the fund

State of Maine
US Fish and Wildlife
The Nature Conservancy
Vermont Land Trust
State of New York

GMO Renewable Resources

GMO RR – Distinguishing Characteristics

Diversified Funds: A Unique Product

Hardwoods and softwoods

High yield plantations and natural forest

US and non-US properties

Focus on Pure Timber Returns

Conservative price assumptions for land and timber

Avoid "real estate-based" return scenarios

Focus on forest productivity and timber market characteristics

Inventory – special focus on tree-size distribution and grade

Sustainable Management that Builds Value

Minimize regulatory risks

Work with conservation groups to augment deal flow

Grow toward exit value

GMO RR – Constructing the Best Portfolio

Allocation Targets Set by Investment Committee

Diversified species mix, forest type and geographic location to minimize investment risk and maximize potential returns

Focus on sawtimber rotations

Best bets given current valuations

Medium to Small Deal Size = Constant Deal Flow

Most deals are in a "sweet spot" between $5 million and $25 million

GMO RR is never "out of the market"

Wide variety of deal sources

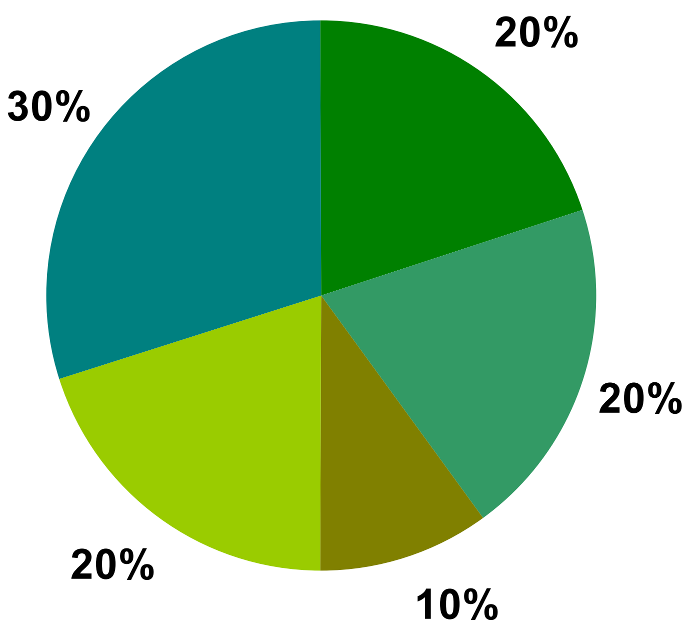
Innovative Deals

Conservation partnerships

Timber deeds

Emerging domestic markets

GMO RR – Target Allocations for Forestry Fund 8



	Allocation Target
Northeast Hardwood	20%
Central Appalachian Hardwood	20%
Southeast Loblolly Pine	10%
Pacific Northwest, Douglas Fir/Hemlock	20%
New Zealand/Australia/Uruguay Pine	30%
Total	**100%**

GMO RR – Outlook

- Rapid price increases can no longer be counted on to enhance returns
  - Plantation supplies are increasing and commodity softwood product prices will remain flat.
  - Managing for quality has become more important in the last decade.

- Selective opportunities exist both domestically and internationally
  - Supply constraints will continue to drive Eastern Hardwood prices higher.
  - Demand is growing in developing countries; China, the Pacific Rim, and Latin America, and low cost, well-positioned exporters (New Zealand, Uruguay, and the Pacific Northwest) will benefit in the long run.
  - Timberland in the U.S. Southeast is still overvalued. Forest investments in this region are dependent on regional, not international, markets.

- Diversification is more important than ever
  - Markets are less stable.
  - Moderate risk can generate substantial rewards.

GMO Forestry Fund 8: Summary of Terms

The Fund:	The fund will invest in a diversified portfolio of trees and timberland.
Objective:	Opportunistic—Invest in the best available deals, with a sufficient geographic spread to minimize risk.
Target Assets:	Geographic target allocation: 70% USA, 30% New Zealand/Australia/Uruguay Diversified by timber type: – Mixed natural stands of hardwoods and/or softwoods – Plantations, both softwood and hardwood
Target Returns:	Absolute return target of 7.5–9.5% **real** annually (net of all fees and expenses)
Term:	10-year term (seven years of management, including investment, followed by a three year liquidation period). Three one-year extensions may be requested by the General Partner to be approved by a majority of Limited Partners.
Commitment Period:	24 months from the closing date. After this period, uncalled capital commitments will be released.
Size:	$658 million (targeted for an investment period of 18 months).
Fees:	Commitments less than $5 million: 150 basis points for the first year and 100 basis points per year thereafter. Commitments of at least $5 million, but less than $10 million: 100 basis points for the first year and 85 basis points per year thereafter. Commitments of $10 million or more: 85 basis points per year. Performance fee: 15% of profits over a 6% nominal return No other fees (acquisition or brokerage fees) are payable to the General Partner.
Minimum Investment:	$1 million
Closed:	November 19, 2004. Capital calls are issued on a pro-rata basis as properties are acquired, with 15 calendar days advance notice.
General Partner:	RR Fund 8, LLC

Performance Prior to GMO

Prior to forming the first timber fund at GMO in 1998, the two founding members of GMO Renewable Resources were the investment division of Resource Investments, Inc., a timber management firm which was sold to Union Bank of Switzerland in 1995. Nominal returns for the funds management by that firm (based on annual appraisal) were: [1]

Investment Responsibility held by Eric Oddleifson / Eva Greger

	1991	**1992**	**1993**	**1994**	**1995**	**1996**	**1997**
Combined[2]	12.4	24.1	7.9	15.0	13.7	11.4	13.3
Domestic	12.4	20.9	8.6	14.3	15.9	11.5	18.6
International	---	32.4	6.3	16.0	11.1	11.4	8.2

Returns are shown gross time-weighted returns to enable comparison among indices. The UBS Asset Management combined IRR net of all fees and expenses (including accrued performance fees) is 10.2 percent. Of the funds which Eric and Eva invested at RII, two completed the fund term and were liquidated prior to their departure. The actual, cash rates of return for those two funds are:

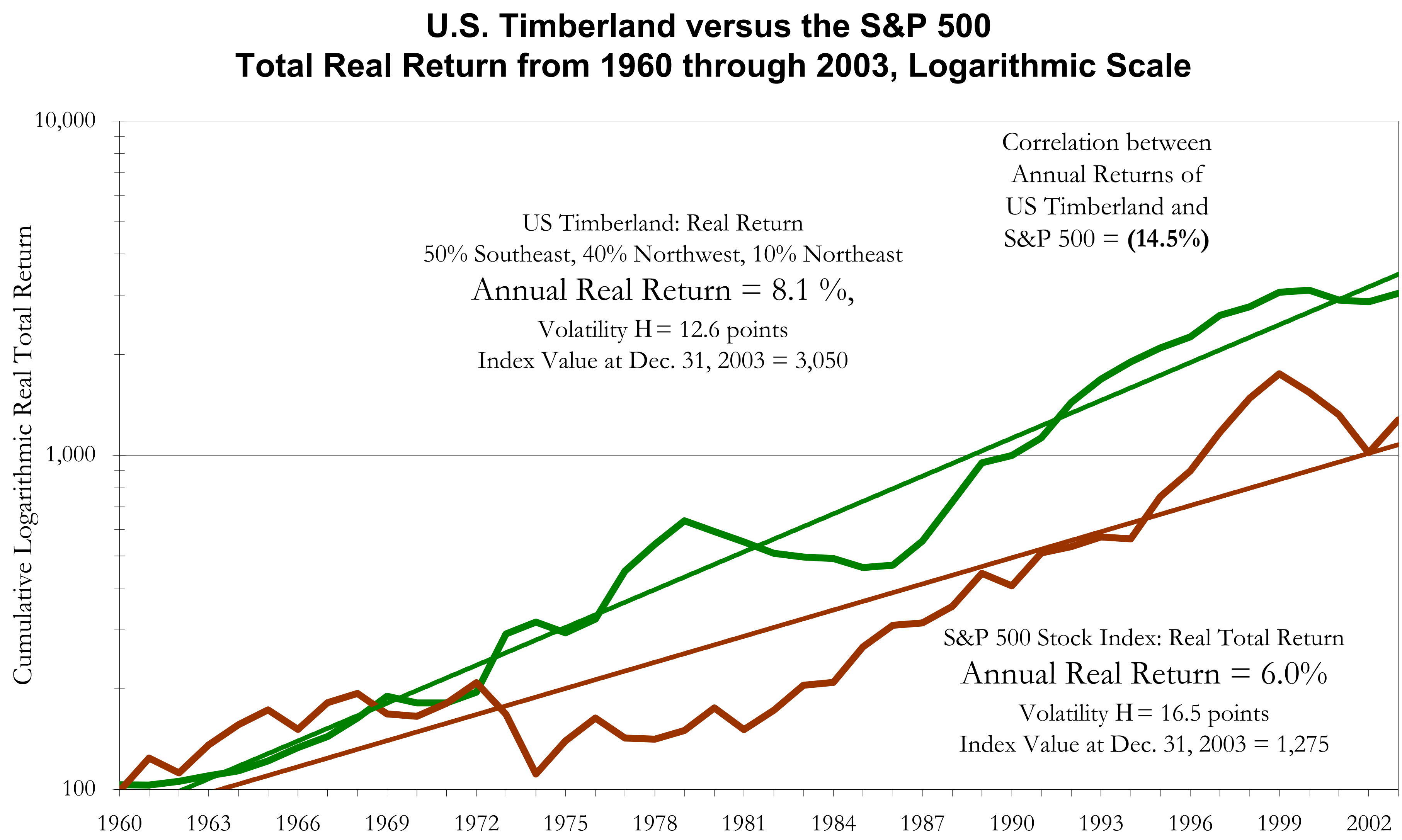
Completed Funds	**Size**	**Inception**	**Termination**	**Cash Flow During Term**	**Ending Value**	**Total**	**IRR[3]**
Equitable Timber Fund	$45m	1987	1996	$20m	$150m	$170m	13.9%
MONY Fund C	$59m	1989	1996	$5m	$160m	$165m	13.1%

[1]After all fees & expenses

[2]Combined includes 11 Timber Funds with a total value of approximately $1.1 billion. The timber funds are comprised of properties in the U.S. Northeast, Northwest, and South, as well as New Zealand, Chile and Australia

[3] Date of inception March 24, 1987

Timberland Outperforms U.S. Equities



(Sources: Equity Returns: Standard & Poors 500 Index; Timber Returns: RR, NCREIF, and Hancock Timber. Assumes all income is reinvested.)

GMO Investment Performance – Notes

General Performance Notes:
Performance data quoted represents past performance and is not a guarantee of future performance. All performance information is net of fees and expenses. The investment return and principal value of an investment will fluctuate and when liquidated may be worth more or less than original cost.

A fully compliant AIMR presentation is available upon request.

GMO firm-wide summary statistics (hit rates and average alpha since 1981) include results for full calendar years through December 31, 2004.

Notes on Products Managed in London by GMO:
UK Equities: Data represents returns achieved by specialist UK equity portfolios.

Returns are £-based and net of fees

Benchmarks:

U.S. Broad Market Blended, weighted average of account benchmarks, many consist of S&P 500 or Russell 3000

S&P/Citigroup PMI EPAC Value Blend, MSCI EAFE prior to 12/31/00, S&P/Citigroup PMI EPAC Value thereafter

International Equity Blended, weighted average of account benchmarks, many consist of MSCI AC World ex-U.S. or MSCI EAFE

Global Equity Blended, weighted average of account benchmarks, many consist of MSCI AC World or MSCI World

Global Balanced Blended, weighted average of account benchmarks, many similar to 48.75% S&P 500, 16.25% MSCI AC World ex-U.S. and 35% Lehman Aggregate

J.P. Morgan EMBI Global +, J.P. Morgan EMBI prior to 8/95, J.P. Morgan EMBI + through 12/31/99, and the J.P. Morgan EMBI Global thereafter

The CAPS Discretionary Index Blend is comprised of the CAPS Median Index from 12/30/1988 to 3/31/2004 and the CAPS Discretionary Index thereafter.

S&P/ASX 300 Blended, S&P/ASX All Ordinaries prior to 3/31/00, S&P/ASX 300 thereafter

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UNIVERSITY OF WISCONSIN SYSTEM TRUST FUNDS
INTRODUCTION TO REAL ASSET CLASSES: COMMODITIES

EXECUTIVE SUMMARY

BACKGROUND

"Real" asset classes are those representing tangible, physical or real assets; or, financial assets designed specifically to provide for real returns. Real asset classes are expected to provide valuable inflation hedging while hopefully providing for some real return over and above inflation. While more traditional financial assets, such as stocks, have been viewed as offering hedges against inflation over long horizons, they are certainly not guaranteed to do so. Furthermore, over short to medium horizons, more traditional financial asset classes may not only fail to keep pace with inflation, they may perform quite poorly. Since endowments typically have an actual targeted real return (e.g., an annual 4.5% payout rate), asset classes that correlate strongly with inflation and provide fairly consistent, stable real returns over all timeframes should be strongly considered as elements in the portfolio mix.

REQUESTED ACTION

None. This item is informational only.

DISCUSSION

The full report attached discusses one such "real return" asset class: commodities. Generally, a commodity represents a consumable or transformable asset that is indistinguishable from producer to producer and by consumer to consumer. Commodities are typically mined, extracted, or agriculturally-produced products, and many are used as raw materials in physical production processes. Further, the attached report demonstrates that a passive investment in an *index* of *commodity futures* is a very viable means to gain exposure to commodities as a broad asset class. Given the inflation-hedging characteristics of diversified commodities, the negative correlation of their returns to the returns of most other asset classes, their potential for real return, and their reasonable risk/return profile, many university endowments have found it is indeed prudent to consider investing in commodity futures. An upcoming asset allocation study may recommend that 5% or more of the Trust Funds Long Term Fund be invested in this asset class.

RELATED REGENT POLICIES

None.

UNIVERSITY OF WISCONSIN SYSTEM TRUST FUNDS
Introduction to Real Asset Classes: Commodities

Introduction

This paper continues a discussion of "real" asset classes, assets representing ownership in tangible, physical, or "real" assets, as opposed to financial assets such as stocks and bonds. Such real assets are expected to provide "real" returns that effectively keep pace with and thereby hedge against inflation, while hopefully providing some excess or real return. At the February meeting, Treasury Inflation Protection Securities (TIPS) and timber were discussed; this paper takes up <u>commodities</u>. (A separate paper will discuss <u>real estate</u>.)

Why consider real asset classes at this time, when financial assets like stocks, bonds, mortgages, etc. have traditionally provided for diversified portfolios with high expected returns at reasonable risk levels? First, by including additional, distinctive asset classes, diversification can be even further enhanced; reducing portfolio risk without necessarily sacrificing expected return. And even if some expected return <u>is</u> sacrificed, resulting portfolios will exhibit better risk-adjusted returns; that is, more return per unit of risk (standard deviation or volatility of returns). Second, traditional financial asset classes will likely generate returns for the foreseeable future that are below their historical averages. Third, although investors have enjoyed a very lengthy period of low-inflation in the U.S. and the Federal Reserve remains committed to keeping inflation under control, most economic and market observers believe that current and foreseeable conditions in the U.S. greatly increase the <u>risk</u> of higher future inflation.

As mentioned in the previous paper, asset classes that can provide significant, stable, consistent real returns - returns over and above a relevant inflation benchmark - are the Holy Grail for foundations and endowments. To provide perpetual spending distributions that grow with inflation, it is only the real return component of realized returns that should be distributed for spending purposes.

Commodities (specifically, commodity futures) will likely be included in an upcoming asset allocation analysis for the Long Term Fund. The purpose of this paper is to further the case that this asset classes can make sense for inclusion, at some level and through some means yet to be specifically determined and recommended. As such, this paper is informational only.

Overview of Commodities

What is meant by a "commodity"? Generally, a commodity represents a consumable or transformable asset that is indistinguishable from producer to producer and by consumer to consumer. Commodities are typically mined, extracted, or agriculturally-produced products, and many are used as raw materials in physical production processes.

One of several reasons that commodities (or any consumable/transformable assets) represent a distinct asset class is that their prices are determined in a fundamentally different way than capital or financial assets. Capital/financial assets such as stocks and bonds are expected to provide a stream of income or payments over time (dividends for stocks, interest for bonds, and lease income for income-producing real estate, as well as a residual value in some cases). Although these income streams are uncertain in many cases, a reasonable and often-used means of valuing them is as the net present value of expected future cash flows. Therefore, a significant determinant of their value will be the discount rate used to present value them. As these discount rates rise (due to increases in inflation and/or real interest rates), the present values of their cash flows will fall, and rise when discount rates fall. Consumable/transformable real assets, on the other hand, are generally not income-producing; that is, they do not yield an on-going stream of value. So for someone buying a physical commodity for investment purposes (not to consume or transform it), the asset is simply held, no income is received, and the return will depend on the price of the commodity when it is sold. And, the prices at which physical commodities are bought and sold are determined almost exclusively by the forces of supply and demand (and the cost to produce and supply them). "Since commodity prices are driven by different economic fundamentals as stocks and bonds, they should be expected to have little correlation or even negative correlation with the prices of capital assets." [Anson 2002]

Also, as with other real asset classes, the inflation-pacing characteristics of commodity prices should result in a low or negative correlation to stock and bond prices. Anson notes further that inflation is expected to have (and has historically had) a damaging effect on the prices of stocks and nominal bonds (not TIPS, however), and that there is a basic reason for this. Physical commodity prices are themselves an underlying source of inflation. As prices of raw materials rise, so too do both producers' prices and subsequent consumer prices. And, some commodities are consumed directly by consumers. Therefore, commodity prices are components of both the producer price index and the consumer price index.

There is another important distinction to be made regarding inflation, and that involves "expected" versus "unexpected" changes in inflation. The prices of financial assets, such as stocks and nominal bonds, will eventually adjust to changed levels of inflation and will, in theory, then produce compensatory returns going forward. In fact, anticipated future inflation will normally be impounded in their current prices and yields. But unanticipated or unexpected changes in inflation, in other words inflation shocks, have a very detrimental impact on capital asset prices but a very favorable impact on commodity prices. Therefore, commodities and other real assets provide a very beneficial hedge against <u>unanticipated</u> inflation.

This isolated focus on the inflation-hedging aspects of commodities in some ways presupposes a constant stock or a steady rate of supply and a steady level or rate of demand. What about significant changes or even shocks to the demand and supply of a commodity?

Demand for commodities would seem to be closely tied to levels of business activity, growth in GDP, etc., so commodity prices would be expected to rise and fall in close lock-step with changes in the business cycle. This suggests another point of departure for commodities versus stocks and bonds. Commodity and capital asset prices have, in fact, been shown to react differently from one another (in an uncorrelated fashion) at various points in the business cycle.

Anson points out that "…financial assets such as stocks and bonds are primarily anticipatory. Their value is derived from expectations regarding long-term earnings and coupon payments. Consequently, they perform best when the economy appears the worst but the prospects for improvement are the highest. Real assets, on the other hand, show the opposite pattern. Commodity prices are determined not so much by the future prospects of the economy, but by the level of current economic activity. Consequently commodity prices are at their lowest when economic activity is at its lowest, and vice versa." [Anson 2002] Therefore, there is counter-cyclical movement between commodity prices and stock and bond prices.

Although the above discussion of stages in the business cycle and level of economic activity touches on the demand side of the commodity price "equation," what about the supply side? Regardless of level of current demand, sudden excess supply relative to that demand should depress prices. Isn't there just as much risk of a sudden inundation of supply of a commodity, depressing prices (and investment returns), as there is of a sudden contraction of supply having the opposite effect?

Actually, it is much more likely that shocks in the commodities markets will reduce rather than increase supply. "Events such as OPEC agreements to reduce the supply of crude oil, a cold snap in winter, war, or political instability can drive up energy prices. Similarly, events such as droughts, floods, and crop freezes all reduce the supply of agricultural products…. These patterns of unexpected shocks to the commodity prices should provide a pattern of positively skewed returns…that is, more return observations to the right of the median (positive) than to the left of the median (negative). Positively skewed return distributions will have a beneficial impact to a diversified portfolio because they can provide an upward return bias to the portfolio." [Anson 2002] In fact, research by Goldman Sachs and others have demonstrated this positive skewness of commodity returns where large positive returns occur more frequently than large negative returns. Obviously too, supply disruptions leading to commodity price increases result in higher raw material prices for producers; this, in turn, will at least for a time depress expected earnings and therefore depress the financial asset prices of these companies. This reinforces again the diversifying nature of commodities versus financial assets.

Finally, it should also be clear from the above discussion of various supply shocks that commodities generally react positively to major negative events (e.g., wars, natural disasters, terrorism, etc.) while financial assets react very negatively. In short, commodities have positive *event risk*, while financial assets have negative event risk. Commodities therefore provide much better downside protection under adverse market conditions.

Vehicles for Investing in Commodities

How does one invest in a commodity or commodities? The most obvious way is to buy the commodities themselves and hold them. This would be impractical for someone not planning to consume or otherwise use the commodity in some way. Physical commodities would have to be physically stored, incurring holding costs, and physically managed or maintained; also, there may not be highly liquid markets for some physical commodities at all times at all locations.

As suggested for how one might invest in timber, in theory, another route to investing in commodities would seem to be investing in the equity of "natural resource" companies, such as oil-producing companies. But, as stated in the timber discussion, investing in commodity-related companies introduces extraneous factors affecting risks and returns. More specifically, such extraneous factors affecting a single company would include the movement of the overall stock market, the financing structure of the company, the company's management quality, and the extent to which the company engages in activities unrelated to the commodity itself. Also, as Greer points out, "Producer companies might also hedge their production, so that profits are *not* exposed to changes in the value of the [commodity itself]." [Greer, 1997]

If an investor does not want to gain exposure to commodities (or any asset class) by directly investing in the commodities (or relevant assets) themselves, or in companies in the "business" of these commodities (or assets), what is the alternative? The alternative is derivatives; derivatives are financial instruments whose value is derived from the value of the relevant underlying asset(s), index, etc. The most common financial derivatives, traded in huge volumes on organized exchanges, are futures contracts.

Futures contracts are traded on most of the major commodities, including oil and other energy resources, many basic agricultural products, as well as industrial and precious metals. Without going into great detail, a futures contract is an agreement to either take delivery of (in which case, you are said to be "long" the futures) or make delivery of ("short" the futures) at a specified future date and a specified price; also, at expiration of the contract (the "delivery date"), the price of the futures will have converged to the cash (or "spot") price of the commodity. Futures are very commonly used by both producers and purchasers of a particular commodity as a means of hedging their exposure to adverse price movements between "now" and the date the commodity will be available or needed; these producers and purchasers essentially lock in the price at which they will eventually transact. (Typically, physical delivery does not occur; instead, contracts are closed out prior to expiration.) As an example, this price hedging occurs as follows for someone who is short the futures (agrees to take delivery at a future date at a specified price). At expiration, the hedger buys the needed commodity, paying the cash/spot price. If the futures price at which they entered the contract at is greater (less) than the spot price at expiration, the hedger receives (pays) the difference between this futures price and the spot price; the effect is always that the price paid is the futures price the hedger locked in.

But aside from the uses of commodity futures by these "natural hedgers," futures (whether commodity- or financial asset-based, like stock index or Treasury bond futures) can also be used by investors (or speculators) to gain exposure to the asset or asset class essentially equivalent to the exposure gained from holding the asset directly. Generally, being long a commodity futures contract (if unleveraged) is a close (but importantly not an identical) substitute for being long the underlying commodity. (More on this will follow in the sections, "Sources of Return" and "Sources of Risk.")

Now, what if an investor does not necessarily want exposure to just certain commodities or does not want to actively choose exposure by commodity type (which would necessitate the use of futures on individual commodities) but wants broad exposure to commodities as an asset class? Also, what if an investor wants a passive benchmark by which to assess the performance of the asset class or against which to evaluate an active commodity futures manager? The answer to both is *commodity futures indexes*. As with stock indexes, such as the S&P 500 Stock Index, a commodity futures index represents an investable, diversified basket of assets representing the broad asset class: for the S&P 500, this is a basket of large-cap stocks; for a commodity futures index, this is a basket of various commodity futures.

It is important to note too that whereas a futures contract on an individual commodity can provide either a leveraged or unleveraged means of investing in that commodity, depending on how the collateral is invested, commodity futures indexes are constructed to provide unleveraged exposure to the component commodities. "The face value of the futures contracts are fully supported (collateralized) either by cash or by Treasury bills. Futures contracts are purchased to provide economic exposure to commodities equal to the amount of cash dollars invested in the index. Therefore, every dollar of exposure to a commodity futures index represents one dollar of commodity price risk…. In this way, an unleveraged commodity futures index represents the returns an investor could earn from continuously holding a passive long-only position in a basket of commodity futures contracts." [Anson 2002]

What commodities are represented in commodity futures indexes? The two most widely-used indexes for investment purposes are the Dow Jones-AIG Commodity Index (DJ-AIGCI) and the Goldman Sachs Commodity Index (GSCI). The DJ-AIGCI is composed of futures contracts on some 20 physical commodities and is designed to be a highly liquid and diversified benchmark for commodities as an asset class. The DJ-AIGCI is re-weighted and re-balanced once per year in January, and commodity weights are then allowed to float with their changing values throughout the year. The GSCI is a composite index of commodity sector returns, representing an unleveraged, long-only investment in commodity futures that is broadly diversified across the spectrum of commodities. Weightings in the GSCI are also set once per year in January, and dollar percentage values are then allowed to float for the remainder of the year.

The compositions of these indexes are provided in the two tables that follow.

Components of Dow Jones-AIG Commodity Index
(as of January 2005)

Energy	**33%**	Natural Gas	12%
		Crude Oil	13%
		Unleaded Gas	4%
		Heating Oil	4%
Livestock	**10%**	Live Cattle	6%
		Lean Hogs	4%
Grains	**22%**	Wheat	5%
		Corn	6%
		Soybeans	8%
		Soybean Oil	3%
Industrial Metals	**18%**	Aluminum	7%
		Copper	6%
		Zinc	3%
		Nickel	2%
Precious Metals	**8%**	Gold	6%
		Silver	2%
Food/Fiber	**9%**	Sugar	3%
		Cotton	3%
		Coffee	3%

Source: AIG Trading

Components of Goldman Sachs Commodity Index
(as of February 23, 2005)

Energy	**73%**	Natural Gas	9%
		Crude Oil	43%
		Unleaded Gas	8%
		Heating Oil	8%
		Gas Oil	5%
Livestock	**6%**	Live Cattle	4%
		Lean Hogs	2%
Grains	**9%**	Wheat	4%
		Corn	3%
		Soybeans	2%
		Soybean Oil	0%
Industrial Metals	**7%**	Aluminum	3%
		Copper	2%
		Zinc	1%
		Nickel	1%
Precious Metals	**2%**	Gold	2%
		Silver	0%
Food/Fiber	**3%**	Sugar	1%
		Cotton	1%
		Coffee	1%
		Cocoa	0%

Source: Goldman Sachs

Why do the weightings of component commodities differ so much between these two indexes, and which is more appropriate as the basis for commodity investment? Component commodities and their relative dollar value in the GSCI are based on an economic-weighting scheme. "The GSCI is a production-weighted index that is designed to reflect the relative significance of each of the constituent commodities to the world economy while preserving the tradability of the index by limiting eligible futures contracts to those with adequate liquidity. The GSCI is constructed using 5-year averages of a particular commodity's contribution to world production." [Anson 2002] For this reason, it is not surprising that the GSCI is dominated by energy-related commodities.

For determining weights in the DJ-AIGCI, liquidity data is primarily relied upon; that is, this index considers the relative amount of trading activity associated with each commodity to determine its weight in the index. Anson notes: "The index also relies to a lesser extent on dollar-adjusted production data to determine index weights. Therefore, the index weights depend primarily on endogenous factors in the futures markets (liquidity), and secondarily, on exogenous factors to the futures markets (production)." Also, the DJ-AIGCI applies the following two diversification rules: 1) no related group of commodities (e.g., energy products, precious metals, grains, etc.) may constitute more than 33% of the index, and 2) no single commodity may constitute less than 2% of the index. And in the DJ-AIGCI's composition, we see that energy-related commodities are capped at 33%, whereas they are uncapped and now represent 73% in the GSCI.

Regarding which index and construction methodology might represent the most appropriate basis for investing in commodity futures, first, the GSCI's production-weighted basis is essentially analogous to the capitalization-weighted scheme used for most stock indexes, such as the S&P 500 Index. The rationale behind these schemes is that the more economically important a component or asset is, the more weight it should have in an index. The DJ-AIGCI index, by contrast, uses primarily an activity-based weighting scheme; here, the more actively traded the futures are on a particular commodity, the more heavily it is represented in the index. This methodology assures maximum liquidity for portfolios tracking the DJ-AIGCI (presumably, futures on the DJ-AIGCI futures index should be even more liquid than futures on the GSCI index). The question of which index(es) may be most appropriate will be revisited later on.

In ending this discussion on "Vehicles for Investing in Commodities" it is believed *commodity futures* are the investment vehicles of choice. (Why was this not the conclusion with timber, which one might classify as another commodity? For one thing, although there are some futures contracts on lumber, only one of the possible products derived from timber/timberland, there are no timber derivatives available. Also, there is a low carrying cost to holding timber, as opposed to many other physical assets.) Further, a passive investment in an *index* of *commodity futures* is recommended as a viable means to gain exposure to commodities as a broad asset class. Therefore, as sources of risk and return are explored, portfolio contributions, etc. throughout the remainder of this paper, the actual investment vehicle discussed will be *commodity futures* and *commodity futures indexes*.

Sources and Levels of Expected Returns

In the section "Overview of Commodities," the price and valuation characteristics of physical commodities themselves were the focus, and for an investor choosing to own the actual commodities, the return realized (absent consideration of holding costs) would simply be the difference between the purchase price and the selling price; in other words, the return would reflect the change in the cash or spot price of the commodity over the holding period. Although commodity futures prices move closely and are very highly correlated with spot prices, they are not one in the same, and the sources of return from futures market versus spot market investing are different.

What then are the sources of return one should expect from investing in commodity futures or commodity futures indexes? Do commodity futures provide any "inherent" return, in the sense that financial assets provide some inherent or intrinsic returns (e.g., bonds provide coupon interest, stocks provide dividends, real estate provides lease income, etc.)? The earlier discussion would suggest not, as actual commodities themselves provide no such on-going streams of income or value. Rather, the earlier discussion pointed to the interplay of supply and demand as being the principal driver of commodity values and therefore investment returns, although the expectation is that commodity prices will rise with (and be a contributor to) general inflation levels, barring significant supply/demand shocks.

There are actually two sources of return from investing in commodity futures or commodity futures indexes, one of which could be considered "inherent" (basically, because a futures contract is also a financial asset derived from the price of an underlying real asset). These two sources, each separately discussed, are as follows:

- Collateral yield
- Changes in the prices of the futures contracts

<u>Collateral Yield</u> - As mentioned already, investing in a futures contract does not require a cash outlay of the entire value of the futures contract (the value of the investor's exposure to the asset) but only a small initial margin deposit. It is this feature of the futures market that provides the ability to greatly leverage one's exposure. However, if the collateral is instead invested in T-bills or cash equivalents, the position is not leveraged in anyway. Also mentioned earlier, commodity futures indexes represent unleveraged exposure to the commodities in the index. They are unleveraged because the economic exposure underlying the basket of futures contracts is fully collateralized by the purchase of U.S. T-bills. Therefore, for every dollar invested in a commodity futures index the investor receives one dollar of diversified commodity exposure plus interest on one dollar invested in U.S. T-bills. The interest earned on the T-bills is called the *collateral yield*, and it can be a significant part of the total return to a commodity futures index. Since changes in inflation rates are reflected in the yield on T-bills, this is another way that a commodity futures index provides inflation hedging. (Greer notes that T-bill yields generally

reflect *expected* inflation, whereas commodity spot prices move primarily in response to *unexpected* inflation, as well as unexpected market surprises or supply/demand shocks.)

<u>Changes in the Prices of the Futures Contracts</u> - Since futures contracts expire at the delivery date, to maintain a long futures position an investor must close out or sell their futures contract near the expiration date and "roll" the proceeds into another futures contract. As mentioned earlier, as delivery date nears, the futures price and the spot price converge; at the expiration date, the futures price will equal the spot price. This means that another source of return to the long futures investor for the holding period will therefore be the difference between the futures price at the inception of the contract and the futures price when the contract is sold, which is essentially the then-current spot price (because futures and spot prices must converge at expiration). That is intuitive - as with any asset, the return here is just the difference between what you paid for it and what you sell it for. Some refer to this return component as the "roll yield"; again, this is the yield or return represented by the amount by which prices of futures contracts (when purchased) differ from future spot prices at expiration. [Anson 2002, Bazdarich and Grannis 2005] But what drives the expected and realized differences between an initial futures price and the future spot price at expiration? If there is a return to be expected here, what are its sources?

First, it should be noted that a futures price will embed the market's <u>expectations</u> of what the future spot price will be at expiration. But the futures price will generally not be <u>equal</u> to this expectation of the future spot price if there is a net imbalance between holders/producers of commodities who want to hedge the price of their future production and purchasers of commodities who want to hedge the price of their future purchases. When there is an imbalance (as there normally is as explained later), then the "excess" hedgers must entice investors/speculators to assume the price risk they are hedging away. To do this, they must compensate the investors for providing this price insurance. This compensation is referred to as the "risk premium," which also must be imbedded in the futures price. Therefore (excluding consideration of carrying costs of physically holding the commodity), <u>the futures price must equal the expected future spot price minus the risk premium</u>. [Chance 2003] "If today's future price is set below the expected future spot price, a purchaser of futures will on average earn [this risk premium]. If the futures price is set above the expected future spot price, a seller of futures will earn a risk premium." [Gorton and Rouwenhorst 2004]

Take the case where the futures price is below the expected future spot price (a situation called "normal backwardation"). If the spot price at expiration does turn out to be equal to the expected spot price, then the long futures investor will pocket the premium as expected (that is, the futures price will rise by the amount of this risk premium to converge to the spot price at expiration, and the holder sells the futures contract at a higher price than it was purchased at). It is this "risk premium" that has historically provided long-only investors in commodity futures with a significant, if not the primary, source of return. (This risk premium has been approximately 5%, or roughly equivalent to the historical risk premium from stocks.)

Are there theoretical reasons for there to be a positive risk premium, and for it to typically accrue to investors that are long futures? "Keynes, in 1930, theorized that commodity producers, the natural sellers of commodity futures contracts, would be willing to sell their future production forward at a discount [to the expected future spot price] in order to hedge the value of their future production. Speculators, in turn, would be willing to assume offsetting long positions if that promised a return equivalent to an insurance premium. The data [referring to the Gorton and Rouwenhorst study], stretching all the way back to 1959, appear to confirm this theory. Collateralized commodity investing [in futures] has produced returns that greatly exceed spot market returns." [Bazdarich and Grannis 2005] Robert Greer of PIMCO provides additional theoretical support here: "Long-only futures positions earn what some people call an insurance premium and other call a risk premium, because the long-only futures position is absorbing price risk that producers of commodities don't want. Producers… are the natural sellers in the futures market and that is not offset by natural purchases from the ultimate consumer of commodities because the ultimate consumer has much less price risk. The processor, who is the buyer of the commodity, has very low inventory and low fixed costs relative to the high inventory and high fixed costs of the producer. Therefore, on average, the long-only investor provides a bit of pricing risk transfer and is compensated for that."

Also, it should be noted that another conclusion from the discussion here is that for investors in commodity futures, <u>expected</u> movements in the spot price of the commodity are <u>not</u> a source of return, because those <u>expected</u> changes are reflected in the futures price at which they invest. Unexpected changes in spot prices, however, or spot prices at expiration that turn out to be different than the expected future spot price impounded in the initial futures price, <u>will</u> be a source of return, at least in the short term. However, "[u]nexpected deviations from the expected future spot price are by definition unpredictable, and should average out to zero over time for an investor in futures…" [Gorton and Rouwenhorst 2004] Therefore, over the longer term, these deviations would be expected to add to the volatility of realized returns but would not necessarily be a source of long-term return. (However, importantly, this volatility would move in the opposite direction of the volatility experienced by stocks and bonds in the general case of unexpected inflation.) Also, this discussion suggests that <u>it is possible to earn a positive return from a commodity futures investment when spot commodity prices are falling.</u> In fact, the Gorton and Rouwenhorst study shows that this has historically been the case, because the primary components of commodity futures returns have been the collateral yield (inflation-pacing T-bills) <u>plus</u> a positive risk premium of about 5%.

Finally, a simple example illustrates the expected and realized returns from a long futures position. This example is taken from the Gorton and Rouwenhorst paper: "Assume the spot price of oil is $30 a barrel and that market participants expect the price of oil to be $27 in three months. In order to entice investors into the market, the futures price is set at $25, which is a discount to the expected future spot price. The difference between the futures price and the expected future spot price, or $2, is the risk premium that the investor expects to earn for assuming short-term price risk. Now suppose that at the time the contract expires, oil is trading at the expected price of $27. An investor in physical commodities, who cares about the direction of spot prices, has just lost $3 (i.e., $30 - $27). An investor in the futures contract, however, would have gained the difference between the final spot price of $27 and the initial futures price of $25, or $2…. But suppose the expectation of a price of $27 is *not* realized and instead the final spot price turn out to be $26. Then the realized return to the investor would be $1. This realized return can be broken down into the risk premium ($27 - $25 = $2), [plus] the difference between the final [actual] spot price and the expected spot price ($26 - $[27] = [-]$1)…. The total return earned by the investor… will therefore be the change in the futures price and the interest on the $25 [the initial futures price]…" Gorton and Rouwenhorst make the following important conclusion, which recaps the conclusions already drawn: "The expected payoff to a futures position is the risk premium. The realized payoff is the risk premium plus any unexpected deviation of the future spot price from the expected future spot price." (This statement does not consider the collateral yield.)

What has the historical experience been and how has it compared to that of other asset classes? The most comprehensive study to date, using the longest detailed data series, was recently completed by Professor Gary Gorton of Wharton and Professor K. Geert Rouwenhorst of Yale (this study has already been referenced numerous times). The table below summarizes their findings.

Annualized Returns and Standard Deviations
(July 1959 - March 2004)

	Commodity Futures	Stocks	Bonds	T-Bills
Return	11.02%	11.02%	7.71%	5.52%
Standard Deviation	12.12%	14.90%	8.47%	0.78%

It should be noted that the Gorton and Rouwenhorst study involved the construction of an <u>equally-weighted</u> index of commodity futures going back to 1959 (long before actual futures indexes were available). But although the two most popular indexes today (the DJ-AICI and the GSCI) are <u>not</u> equal-weighted, Western Asset Management reported that return and volatility numbers for these actual indexes were quite similar to the "G&R" index for a shorter, more recent period as shown below.

Annualized Returns and Standard Deviations
(1970 - 2004)

	"G&R" Index	GSCI	DJ-AIGCI
Return	11.82%	12.04%	12.35%
Standard Deviation	13.55%	19.79%	15.60%

Gorton and Rouwenhorst draw the following important conclusions from their detailed study of the returns from investing in commodity futures:

- "There are large differences between the historical performance of spot commodity prices and collateralized commodity futures returns. The historical return to an investment in commodity futures has far exceeded the return to a holder of spot commodities."
- "Both commodity spot prices and commodity futures returns have outpaced inflation."
- Returns from a futures position are highly correlated with movements in the spot price.
- In particular, "…an investment in commodity futures benefits from unexpected increases in spot prices. Especially in times of high spot market volatility, the returns to spot and futures will be highly correlated."
- Though their return series are very highly correlated, they "diverge because of differing trends. The spot index includes trends in the spot price, which are excluded from the futures index. In turn the futures index rises with the risk free rate [collateral yield] plus any risk premium earned by the futures position."
- "Over the last 43 years, the average annualized return to a collateralized investment in commodity futures has been comparable to the return on the S&P 500. Both outperformed corporate bonds."
- "The historical risk premium on commodity futures has been positive at about 5% during the 1959-2004 period…[which] is about the same as the risk premium on stocks (S&P 500), and more than double the risk premium of bonds."
- "The estimated risk premium…is not only consistent with the theory of *normal backwardation*, but - more importantly - it also shows that the risk premium has been economically large and statistically significant."

In summarizing expected returns from investing in commodity futures: Components of return will result from unexpected changes in spot prices (related to unexpected changes in inflation as well as unexpected supply/demand shocks), the underlying collateral yield (that should track and reflect expected changes in inflation), and the risk premium. As the first two components provide primarily an inflation-hedge, it is the risk premium that provides the real return component. Gorton and Rouwenhorst's data show that this real return has historically been about 5%.

Sources and Levels of Expected Risk

Gorton and Rouwenhorst draw the following important conclusions about the risks, and particularly the volatility of returns, from investing commodity futures:

- Although returns on commodity futures and stocks have been about the same, they conclude that the standard deviation of stock returns is slightly higher. (However, the volatilities of the actual, non-equal-weighted commodity futures indexes for the 1970-2004 period provided above are higher than that of the equal-weighted index constructed by these researchers for the 1959-2004 period. In any case, the risk-adjusted returns of the commodity futures indexes and the S&P 500 are remarkably similar in all cases.)
- "The return distribution of equities has negative skewness, while the distribution of commodity [futures] returns has positive skewness…. The slightly higher [volatility] of

equities, and the opposite skewness, together imply that equities have more downside risk relative to commodities."

The earlier discussion on sources of return would also suggest that while commodity futures should react positively to unexpected inflation or unexpected supply/demand decreases/increases, they should react in opposite fashion to unexpected deflation or unexpected supply/demand increases/decreases. On the inflation front, in either situation, commodities and commodity futures provide the desirable inflation hedge (both expected and unexpected). On the supply/demand front, on average, shocks in the commodities markets tend to reduce rather than increase supply.

Finally, the importance of the risk premium as the expected source of a <u>real</u> return from commodity futures investing has been noted. Is there a risk that this risk premium will evaporate? Theoretically, yes. "There is… one… situation in which the risk premium could disappear or even turn negative. Suppose holders of the asset who want to hedge their holdings could find other parties who need to purchase the asset and who would like to hedge by going long. In that case, it should be possible for the two parties to consummate a futures transaction with the futures price equal to the expected future spot price. In fact, if the parties going long exerted greater pressure than the parties going short, it might even be possible for the futures price to exceed the expected spot price." [Chance 1003] Historically, there has been more natural hedging on the short side than on the long side, requiring investors to take the additional long positions (for a price) that are "unmatched" by natural longs. This is expected to continue to hold for most major commodities. However, as with any asset, if more and more investment dollars flow in (in this case, to compete for these limited long positions), futures prices could be bid up so as to compress the risk premium (that is, the shorts would have to pay less to transfer their price risk).

Potential Portfolio Contributions

The Gorton and Rouwenhorst paper offers these findings about the portfolio contributions from the inclusion of commodity futures into a diversified portfolio:

- "Over all horizons… [the total return from commodity futures] is negatively correlated with the return of the S&P 500 and long-term bonds. This suggests that commodity futures are effective in diversifying equity and bond portfolios."
- "The negative correlation between stocks and bonds tends to increase with the holding period. This suggests that the diversification benefits of commodity futures tend to be larger at longer horizons."
- "During the 5% of the months of worst performance of equity markets, when stocks fell on average by 9.18%, commodity futures experienced a positive return of 1.43%..."
- "During the 1% of months of lowest performance of equity markets, when equities fell on average by 13.87%, commodity futures returned an average of 2.32%."

- "Commodity futures returns are positively correlated with inflation, and the correlation is larger at longer horizons…. [while] stocks and bonds are negatively correlated with inflation."
- "The negative sensitivities of stocks and bonds to inflation stem mainly from sensitivities to *unexpected* inflation…. Commodity futures are also more sensitive to unexpected inflation, but again in the opposite direction."
- As with earlier researchers, Gorton and Rouwenhorst also conclude that in regards to differing points in the business cycle, commodity futures perform best (worst) when stocks/bonds perform worst (best), providing valuable "business cycle" diversification that virtually <u>no</u> other asset class provides.
- Overall, they conclude: "It seems that the diversification benefits of commodity futures work well when they are needed most."

Many other researchers have drawn similar conclusions. For instance, Anson reported in 2002 referring to five then-recent studies that "[a]ll five studies conclude that an investment in a passive commodities futures index provides a good diversifier for stocks and bonds as well as an effective hedge against inflation." Further, in one of his own analyses of downside risk improvement from a hypothetical inclusion of commodity futures to a diversified portfolio for the period 1990-2000, Anson found the following: "These [results] demonstrate that a small allocation to commodity futures benchmarked to a passive futures index can provide average annual protection against downside exposure of 0.72% to 1.06%. To put this in context, compare these results to the world of active equity investing where an annual alpha, or excess return, of 100 basis points is considered excellent performance. Yet, a 10% passive allocation to commodity futures can provide return protection on par with excess return offered by active managers."

Anson also reported this finding from a 1998 study: "[I]nvestment in non-financial futures contracts benchmarked to one of the four unleveraged commodity futures index improves the Sharpe ratios [return per unit of risk] for a diversified portfolio of domestic and foreign stocks and bonds." His 1999 paper found further that the more risk-averse an investor is (risk-aversion being defined as the desire for the best possible risk-adjusted returns at any desired level of risk or return), the more the allocation to commodity futures should be in a portfolio consisting otherwise of only stocks and bonds (up to as high as 23% in commodity futures for the most risk-averse investor). [Anson 1999]

De Villiers noted that two other researchers, Abanomey and Mathur, also made the argument that in the context of a global portfolio, "the risk-reducing benefits of commodity futures may become increasingly important as globalization reduces the diversification benefits of international stocks and bonds." And further, their studies showed "that portfolios constructed from international stocks, bonds, and commodity futures are always more efficient than similarly constructed portfolios that exclude commodity futures." [de Villiers 2000]

Finally, a comment should be made regarding the liquidity of commodity futures, as this is a concern in a portfolio setting when drawdowns for net distributions are sometimes required and rebalancing to asset allocation targets is necessary. With timber, we saw that liquidity in that asset class is a major concern (and the same concern will be seen with direct private real estate investment in an upcoming paper). But commodity futures themselves are highly liquid, transacting in large volumes on a daily basis, allowing investors to buy and sell in a very timely manner. How an investor chooses to gain exposure to a commodity futures *index*, however, may introduce some liquidity issues. This is taken up in the next section.

Investment Management Considerations

How does one actually invest in a commodity futures index? The stock index analogy can be used again: to invest in the S&P 500 Stock Index, one can either buy all 500 stocks to mirror the index's weightings and rebalance as necessary, or one can buy futures on the S&P 500 index. By the same token, to invest in a commodity futures index, one can either buy the component commodity futures to mirror the index's weightings, or one can buy futures on an index of commodity futures such as the GSCI. Other derivatives are often used by institutional investors to gain exposure to a commodity futures index, such as *commodity-linked notes* or *swaps.* A simple form of a commodity-linked note would be a zero-coupon note whose value at maturity is a function of the value of the commodity index to which it is linked, compared to the value of the index when the note was purchased. [Greer 1997] A simple swap contract might involve swapping the returns of say 30-day T-bills with the returns of a commodity futures index. Such commodity-linked notes or swaps, which may or may not be customized contracts, would generally trade on over-the-counter (OTC) markets, and would therefore be less liquid than futures on an index. Also, such notes and swaps would be exposed to counterparty credit risk, whereas exchange-traded futures on an index would not, as clearinghouses provide a guarantee against default.

There has been increasing institutional use of products that track commodity futures indexes. One market commentator recently noted: "When making these types of investments, pension funds and endowments tend toward commodity-related companies and indices, like the Goldman Sachs Commodity Index. Four years ago, about $8 billion tracked its index, says Goldman. Now, that figure is more than $25 billion. In 2000, about 50 institutional investors had passive commodity investments; today, it's about 150, experts estimate." [Hill 2004]

Also, not surprisingly, some investment management firms have begun to offer institutional and even retail mutual funds that invest in commodity futures or commodity futures indexes. Still, it appears there are currently only a handful of funds available, including Oppenheimer's *Real Asset Fund*, Merrill Lynch's *Real Investment Fund*, Jim Rogers's (beloved author of *Investment Biker*) *Raw Material Fund*, and PIMCO's *CommodityRealReturn Strategy Fund*. Also, apparently State Street Global Advisors will be offering products tied either the GSCI or the DJ-AIGCI.

So far, detailed information has been obtained on just one of these products, the PIMCO *CommodityRealReturn Strategy Fund*. This fund invests in derivatives linked to the DJ-AIGCI (these can be futures on the index, but mostly OTC swaps are used apparently). Also, PIMCO invests the collateral in TIPS rather than T-bills to give what they call a "double real™" exposure, and they actively manage this TIPS portfolio to provide an "enhanced index" strategy. Fees on the fund are at 0.74%. Presumably, all of these commodity-related funds offer or will offer frequent liquidity without significant restrictions or associated transaction costs to the investor.

What index may be the most appropriate for gaining access to the commodity futures asset class? In reviewing again the returns and volatilities of the three indexes considered (including the equal-weighted one created by Gorton and Rouwenhorst), returns from the GSCI and the DJ-AIGCI have essentially been the same, but the volatility of the GSCI has been quite a bit higher. This is likely due to its much higher energy component. Energy commodities exhibit significant spot market volatility, and since futures prices are highly correlated with spot prices, the energy futures exhibit high volatility as well. However, returns of the two indexes are very similar, probably because the principal driver of returns for both is the collateral yield plus the risk premium. This would suggest that the DJ-AIGCI would be the better index (or an equally-weighted one like Gorton and Rouwenhorst's, if this were feasible), as it has the better Sharpe ratio.

Finally, although this has not been fully explored yet, an option for gaining exposure to a commodity futures index would be purchasing and rolling futures on the index "in-house," rather than hiring a manger to do this or using a mutual fund. This would be a relatively simple, passive investment management technique than could likely be done in-house (or be given to the Applied Securities Analysis Program as another learning experience).

Some Conclusions

The discussion so far has essentially focused on commodity futures from a long-term strategic allocation standpoint, as it should with any asset class for a long-term investor. However, when moving into any asset class for the first time (or exiting an asset class for that matter), it is also worthwhile to at least consider whether it may be a tactically opportune or inopportune time to do so.

First, although commodities as an asset class are certainly receiving more attention and capital flows from institutional investors these days, inflows are likely to remain miniscule compared to the amounts continuing to flow into hedge funds (and venture capital too), and commodity price bubbles certainly do not seem to be erupting. Oil and other energy-related commodity prices (which account for a very large proportion of commodity indexes) have certainly been spiking, but this seems to be due more to demand, supply, and "event" shocks than from increased investor attention.

Second, there is little doubt that we are entering a more restrictive monetary policy environment as the Federal Reserve telegraphs that it expects to continue to raise short-term rates to more "normal levels." And several researchers have shown that most of the benefits of commodity investing have accrued during periods when the Fed is following a restrictive monetary policy (and little if any during periods of expansionary policy). "Since periods of restrictive monetary policy tend to coincide with periods of heightened inflationary concern, this evidence is consistent with the view that [commodity] futures improve diversification as an inflation hedge." [Jensen, Johnson, and Mercer 2002]

Third, as discussed in the "Overview of Commodities" section, commodities and stocks/bonds react in counter-cyclical ways to points in the business cycle. Stocks and bonds are priced in a more "anticipatory" fashion and therefore perform best when business activity is troughing but prospects for improvement are brightest. Commodity prices act in reverse fashion; they perform best when business activity is peaking and prospects for further improvement are dimmest. Most observers would agree that we are currently closer to the latter point in the business cycle than the former.

Lastly, the investment management firm PIMCO's current secular outlook regarding commodities and inflation indicates that commodity prices will continue to rise for a considerable time to come for the following reasons:

- Secular reflation, mitigated by excess global supply of labor and manufacturing capacity
- Commodity infrastructure has suffered from under-investment.
- Commodity demand continues to grow (e.g., China, India, other emerging economies).
- Emerging economies will likely increase per capita commodity consumption.
- Commodity surprises are more likely to be to the upside.

All (or hopefully at least most) things considered, it appears that it is not an inopportune time to begin investing in commodity futures. Some overall conclusions regarding how commodity futures fit in the strategic asset allocation context are as follows.

Greer concluded his presentation at the 2004 Annual CFA Seminar, entitled "Commodity Indexes in Strategic Asset Allocation: Expect the Unexpected," as follows: "Is it prudent to ignore this asset class?" Given the inflation-hedging characteristics of diversified commodities, the low or negative correlation of their returns to the returns of most other asset classes, their potential for real return, and their reasonable risk/return profile, it is prudent to consider investing in commodity futures. An upcoming asset allocation study may recommend that 5% or more of the Trust Funds Long Term Fund be invested in this asset class.

Someone has said that commodities are the Rodney Dangerfield of investments - they get no respect. It’s hoped that this paper demonstrates that commodities deserve some respect after all.

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REVISED

I.3. Physical Planning and Funding Committee

Thursday, March 10, 2005
Van Hise Hall
1220 Linden Drive, Madison

11:00 a.m. All Regents – Room 1820 Van Hise Hall

- Review of Regent Policy on Tuition and Financial Aid
- Accountability Report
- 2005-07 Capital Budget Recommendations

12:30 p.m. Box Lunch

1:00 p.m. Joint Session with Business and Finance Committee – Room 1920 Van Hise Hall

a. Energy Efficiency Pilot Projects Report

1:15 p.m. Physical Planning and Funding Committee Meeting – Room 1511 Van Hise Hall

b. Approval of the Minutes of the February 10, 2005 Meeting

c. Report of the Assistant Vice President

- Building Commission Actions
- Capital Budget Discussion

d. UW-Green Bay: Phoenix Sports Centre Expansion and Remodeling (Design Report)
[Resolution I.3.d.]

e. UW-Madison: Dayton Street Residence Hall (Design Report)
[Resolution I.3.e.]

f. UW System: Maintenance and Repair Project
UW-Platteville: Residence Hall Site Utility Extension
[Resolution I.3.f.]

g. UW-Madison: Camp Randall Budget Increase Using Gift Funds
[Resolution I.3.g.]

x. Additional items that may be presented to the Committee with its approval

z. Closed session for purposes of considering personal histories, as permitted by s.19.85(1)(f), *Wis. Stats*., related to the naming of a facility at UW-River Falls

UNIVERSITY OF WISCONSIN SYSTEM

ENERGY EFFICIENCY PILOT PROJECTS

BACKGROUND

In the early 1990's, an energy conservation program was initiated to reduce energy consumption by all state agencies. The Wisconsin Energy Initiative managed by the Department of Administration audited state facilities and developed a list of various energy conservation opportunities. A simple payback number was calculated for each opportunity to determine the time period in years required to repay the cost to implement each item based on the predicted annual energy savings. Since interior building lighting opportunities had the lowest simple payback figures and lighting retrofit work could be accomplished easily on a large scale, the main focus of the initial phases of the program was to reduce the electrical energy consumed for lighting. In general, the program replaced 40 watt fluorescent tubes fed by magnetic ballasts with 32 watt fluorescent tubes fed by electronic ballasts in the existing fixtures through-out the system. These common four foot tubes in four foot long fixtures are used to illuminate most building space. The later phases of the program focused on a variety of energy conservation opportunities with higher simple payback figures and more complex installation requirements. Opportunities included the installation of occupancy sensors for lighting control, replacement of plumbing fixtures to save water, upgrade of campus energy management systems, and steam trap replacement to increase the efficiency of steam distribution from central heating plants. These opportunities were not uniformly implemented across the system.

REQUESTED ACTION

This report is for information only and no action is needed.

DISCUSSION

Utility costs for the twenty-six campuses of the UW System are funded from the university's Fuel and Utilities Fund (Fund 109). Currently, this fund is approximately $20 million in deficit. In order to reduce energy expenditures, it is necessary to evaluate various energy conservation strategies beyond those implemented under the Wisconsin Energy Initiative to determine which strategies should be implemented throughout the system. UW-Eau Claire, UW Colleges, and UW-Madison have proposed pilot energy efficiency projects. UW-Oshkosh proposes to implement the final phase of the Wisconsin Energy Initiative. Some projects contain strategies identified under later phases of the Wisconsin Energy Initiative but not implemented for a variety of reasons. Novel strategies include the replacement of chemical fume hoods with low air flow fume hoods and renovation of related building ventilation systems, installation of additional electrical energy use metering linked to campus energy management systems to avoid high electrical demand charges, and installation of a wind generator to provide electrical power for use in campus buildings.

OVERVIEW

UW-Eau Claire – Electrical Peak Shaving ($120,000): All campus electrical billings have both a KWH total energy charge and a KW electrical demand charge. The KW demand charge is based on the highest electrical usage peak reached over the last one year period. This project would expand the electrical meter data monitoring system and interface it with the campus EMS system to avoid high peak charges. This expanded system would allow monitoring of electrical usage trends in all facilities, anticipation of eminent campus peak energy usage events, and control of large electrical loads to avoid a peak event. Electrical loads under consideration for control include building and central plant chilling equipment, large water pumps, and large building air handling units. Also under consideration is the operation of the emergency generator at the central heating plant to drop the heating plant equipment load from the utility supply. This peak shaving strategy can reduce demand charges and save substantial energy cost.

UW Colleges – Multi-Campus Energy Efficiency Improvements ($124,000): This project provides professional energy system training for 15 HVAC and maintenance staff at all two year College campuses. It will also implement energy efficiency improvements at seven, two year campuses. Boiler controls will be upgraded with high efficiency units at UW-Fox Valley, UW-Marathon County, UW-Marinette, and UW-Richland Center to reduce the cost to heat the facilities on these campuses. Energy management systems will be improved at UW-Barron County, UW-Marinette, and UW-Rock County to allow campus staff to manage energy more effectively. Thirty-five year old water heaters will be upgraded with more efficient units at UW-Marshfield/Wood County and UW-Marinette to reduce gas consumption. Light switches in 60 classrooms will be replaced by motion detector light switches at UW-Marinette. UW-Fox Valley will partner with Winnebago County, Menasha Utilities, and Focus on Energy to install a 10KW wind generator to supply power to campus buildings. This will reduce the energy needed from the local utility, make progress toward the state's renewable energy source goal, and provide a project to demonstrate the use of wind power.

UW-Madison – Fume Hood Exhaust Systems Renovation ($2,850,000): There are over 2000 fume hoods in various conditions on the UW-Madison campus. Many hoods and associated supply/exhaust systems require extensive renovation in order to meet current safety standards and to minimize energy consumption. These systems move large volumes of air and are very energy intensive. This project will renovate fume hood exhaust systems in multiple buildings. An evaluation will be conducted to determine the number of fume hoods required in each building per the academic and research programs that are housed in each facility. Based on this evaluation, some hoods will be eliminated, some hoods will be reconditioned, and others will be replaced. Reconditioned fume hoods will be upgraded to current lab safety standards to ensure user safety. Sash position stops will be installed to reduce sash openings when appropriate to reduce air flow volume through hoods. New fume hoods will be low air flow type. Building ventilation deficiencies will be corrected. Renovation of these systems can substantially reduce energy usage. In addition to energy consumption reduction, user safety will be improved since new and reconditioned fume hoods will capture more chemical spills, splashes, or vapors. Indoor air quality will also be improved with better air balance between the various building ventilation systems.

The campus has ear-marked about $350,000 per year over the next four years or about $1,400,000 to approximately match $1,450,000 requested from the state to fund this program.

<u>UW-Oshkosh – Wisconsin Energy Initiative Conservation Opportunities ($800,000)</u>: This project will implement various energy efficiency strategies to reduce electrical, fuel, and water consumption. Approximately 63 toilets and 29 urinals will be replaced with new ultra low flow units. High bay lighting fixtures in two gymnasiums will be replaced with more efficient light fixtures. Day-lighting sensors will be installed in the main dining hall at the student union to reduce lighting intensity when adequate natural light is available. The campus energy management system (EMS) network software will be upgraded to allow the system to be expanded to several buildings not currently connected. In several buildings, hot water heating system temperatures will be controlled based on the outside air temperature. Semi-automatic pool covers will be installed on two swimming pools to reduce the amount of energy needed to maintain adequate water temperatures. Approximately 1030 steam traps will be audited and failed units replaced to improve the efficiency of the campus steam distribution system. Also, approximately 46 vending machines will be equipped with occupancy sensors to activate the machines only when someone is standing in front of the machine.

FUTURE

<u>UW-Madison – Install 5-7 MW Backpressure Turbine Generator ($4,000,000)</u>: This project would install a steam driven turbine generator and associated building at the Charter Street Heating Plant to generate five to seven megawatts of electrical power to supply campus buildings. The power generated at the heating plant would replace more costly power purchased from the local utility. This project is included in the UW System 2005-07 Capital Budget All Agency Utility Repair and Renovation funding request.

<u>UW-Milwaukee – Steam / Electrical Chiller Conversion ($1,500,000)</u>: This project would install new variable speed electrical motor drives on two 1350 ton steam turbine driven chillers in the Central Heating Plant. This would allow the campus flexibility to operate the chillers using either steam or electrical energy. The choice of energy source would be determined based on the cost to generate steam versus the cost to purchase electrical energy. This project is included in the UW System 2005-07 Capital Budget All Agency Utility Repair and Renovation funding request.

Approval of the Design Report and Authority to Construct and Increase the Project Budget of the Phoenix Sports Center Expansion and Remodeling Project, UW-Green Bay

PHYSICAL PLANNING AND FUNDING COMMITTEE

Resolution:

That, upon the recommendation of the UW-Green Bay Chancellor and the President of the University of Wisconsin System, the Design Report be approved and authority be granted to (a) construct the Phoenix Sports Center Expansion and Remodeling project; and (b) increase the project budget for an estimated total project cost of $32,000,000 ($7,500,000 General Fund Supported Borrowing, $15,000,000 Program Revenue Supported Borrowing, and $9,500,000 Gift Funds).

THE UNIVERSITY OF WISCONSIN SYSTEM

Request for
Board of Regents Action
March 2005

1. Institution: The University of Wisconsin-Green Bay

2. Request: Requests approval of the Design Report and authority to (a) construct the Phoenix Sports Center Expansion and Remodeling project; and (b) increase the project budget for an estimated total project cost of $32,000,000 ($7,500,000 General Fund Supported Borrowing, $15,000,000 Program Revenue Supported Borrowing, and $9,500,000 Gift Funds).

3. Description and Scope of Project: This project will construct a 126,000 ASF / 174,000 GSF additions to the existing Phoenix Sports Center. Expansion and remodeling of the existing building will help correct major space deficiencies while increasing the use of the facility for current programs, campus events, athletic practice and competition, recreation and intramural use, student and community memberships, and campus-community academic collaborations. The expansion and remodeling will also address NCAA gender equity issues and Title IX requirements.

   The main component of the expansion is a 4,000 seat events center with a hardwood playing surface that will host commencement, convocation, student events, women's basketball, and women's volleyball. An adjoining auxiliary gym will be used for practice by the men's basketball team and for student recreation and intramurals. Additional spaces dedicated to recreation and intramurals include 17,000 ASF of general fitness space and a 12,000 ASF turf gym. The project will also construct a new sports medicine and rehabilitation area and new locker spaces for both the men's and women's basketball and soccer programs, women's volleyball, and visiting teams. New classroom spaces and officials' locker rooms will double as support spaces for pre-event functions, press activities, and dressing rooms. Proposed siting of the expansion necessitates the replacement of existing athletic staff offices with 5,400 ASF of new offices and support spaces. A new 330-stall parking lot will be constructed southwest of the facility.

   The project includes minimal remodeling of the existing facility, limited to surface treatments in locker rooms, public corridors, and possible finish changes in the existing gymnasium.

4. Justification of the Project: The Phoenix Sports Center was constructed in 1976 and includes two major activity spaces; an eight-lane by 25-yard swimming pool with diving area and a gymnasium with two full-size basketball courts with bleacher seating for 1,400 spectators. Since 1974, no major renovations have taken place in the facility, but major trade-offs have been made to accommodate increasing demands for usage of the facility.

Storage rooms have been converted into weight rooms and offices, racquetball courts into cardiovascular and fitness rooms, and pool spectator areas into instructional, practice, and aerobic space. This was in response to a 49 percent increase in student enrollment, along with a substantial increase of on-campus residency and the intercollegiate athletics program move to Division I.

Currently, the Phoenix Sports Center is the only recreational facility on campus that serves the needs of:

- physical education classes, including certification in coaching;
- potential academic programs in health promotion and wellness;
- student, faculty and staff recreation memberships;
- participants in intramural programs;
- practice and competition for fourteen Division I athletic teams consisting of more than 200 student-athletes;
- community memberships; and
- thousands of users/attendees for numerous camps, clinics, swim programs, campus and community events, and activities.

In fall 2004 the University of Wisconsin-Green Bay served a total student headcount enrollment of about 5,700 (on- and off-campus enrollments). Currently males are 34 percent of enrolled students and females are 66 percent. Existing facilities do not accommodate this male and female differential, nor do they meet NCAA gender equity requirements. The expansion and remodeling of the Phoenix Sports Center on campus will help avoid potential Title IX concerns and will provide a balanced and equitable facility for both genders.

The university's Division I women's basketball team currently plays on campus, but the seating capacity of 1,400 bleacher seats curtails the ability to sell season-tickets. An event floor and a 4,000 seat arena will create a well-needed space for other large attendance events such as commencement, convocation, Introduction to College program, student organization events, seminars, and educational conferences. When major events occur in the gym, the current configuration of spaces offers no flexibility.

5. Budget and Schedule:

Construction	$25,665,000
A/E Design and Other Fees (9%)	2,161,000
DFD Management Fee	1,093,000
Contingency (7%)	1,787,000
Work by Agency	55,000
Movable & Special Equipment	1,159,000
Percent for Art	80,000
Estimated Total Project Cost	$32,000,000

6. Previous Action:

August 25, 2000 Resolution 8175	Included the Phoenix Sports Center Expansion and Remodel in the biennial capital budget at $30,000,000 ($7,500,000 General Fund Supported Borrowing, $15,000,000 Program Revenue Supported Borrowing, and $7,500,000 Gifts).

Approval of the Design Report, Authority to Demolish Ogg Hall, and Construct the Dayton Street Residence Hall Project and New Green Space, UW-Madison

PHYSICAL PLANNING AND FUNDING COMMITTEE

Resolution:

That, upon the recommendation of the UW-Madison Chancellor and the President of the University of Wisconsin System, the Design Report be approved and authority be granted to: 1) construct the Dayton Street Residence Hall project; 2) demolish Ogg Hall and create new recreational space; and 3) construct new green space as part of the East Campus Pedestrian Mall on the campus of the University of Wisconsin-Madison for a total project cost of $35,900,000 ($34,900,000 Program Revenue Supported Borrowing and $1,000,000 Program Revenue Cash).

THE UNIVERSITY OF WISCONSIN SYSTEM

Request for
Board of Regents Action
March 2005

1. Institution: The University of Wisconsin–Madison

2. Request: Requests approval of the Design Report and authority to 1) construct the Dayton Street Residence Hall project; 2) demolish Ogg Hall and create new recreational space; and 3) construct new green space as part of the East Campus Pedestrian Mall on the campus of the University of Wisconsin-Madison for a total project cost of $35,900,000 ($34,900,000 Program Revenue Supported Borrowing and $1,000,000 Program Revenue Cash).

3. Description and Scope of Project: This project will construct a 615-bed 135,780 ASF/188,240 GSF residence hall to be located on the southeast corner of Dayton and Park Streets. It will provide housing for 600 first-year and second-year students and 15 house fellows. The bathroom will be organized around four double room clusters. A typical double room will be 258 square feet. The only single rooms in the residence hall will be for the house fellows. Five of these clusters will constitute a forty bed "house" which will be managed by a house fellow. Each of the five floors will be composed of three houses with a central access point.

   Common space on each floor will include two study spaces and a main lounge with an adjacent kitchen area. All other building support and common space will be located on the main floor. Possible bid alternates will include basement space and the resulting necessary changes to the first floor space. Other bid alternates may include upgrading certain wall finishes, fitting out closets, and additional landscaping materials.

   Required utility relocations are being planned and constructed as part of a campus utility project. The new residence hall will include laterals for campus steam and chilled water, sanitary, storm water, and telecommunications.

   The site plan for the new residence halls includes an entry court with open lawn space that will also function as an exterior space for events. Also included in the design is an infiltration courtyard which will alleviate storm water run-off.

   The Dayton Street hall, together with the residence hall being constructed at Park and Regent Streets, will replace the current beds in the two towers of Ogg Hall. Ogg Hall will subsequently be demolished after the residence hall is complete. The recreational space will be developed in its place. The design has terraced sand volleyball and basketball courts to be constructed on the former Ogg Hall site.

The landscaping, hardscaping, and improved pedestrian circulation along Murray Street extending north of Dayton Street to Gordon Commons are part of the UW-Madison's continuing development of the East Campus Pedestrian Mall. The site design will incorporate the same standards being incorporated into the mall adjacent to the Park Street Residence Hall. Together, the landscaping for the residence hall along with the new green space and Murray Street improvements will create a large campus quad in this densely student populated area.

This project has been classified as a Type I project requiring an environmental impact statement. The public comment period ends March 4, 2005, and distribution of the final report is scheduled for May of 2005.

4. Justification of the Request: UW-Madison has a long standing commitment to providing on-campus housing. Throughout its history, the Division of University Housing has made improvements such as replacing outdated building systems and changes required by new regulatory codes. Some of the upgrades have included window replacement, fire alarm systems, sprinkler systems, elevator modernization or replacement, as well as electrical and accessibility upgrades. A major investment in the building of new residence halls and the complete remodeling of selected halls has occurred to provide quality on-campus housing. The average age of housing at UW-Madison is fifty years old. The university has developed a master plan for the student residence halls that extends from 2004 to 2020 to address this issue.

The Dayton Street Residence Hall project provides for construction of a residence hall as the second phase of housing to replace that which will be lost through the planned demolition of Ogg Hall (980 beds). The first phase of replacement housing for Ogg Hall, the Park Street Residence Hall (425 beds), is currently under construction at the corner of Park and Regent Streets. Ogg Hall, an 112,572 ASF/206,565 GSF 13-story building, was first occupied in 1965. Deteriorating facility conditions and the statutory requirement to sprinkler Ogg Hall by January of 2008 led the campus, in part, to undertake a residence hall and food service master plan.

This plan considered a number of alternatives to the demolition of Ogg Hall. An option to remodel Ogg Hall to bring the building up to code and provide modern facilities was estimated at a cost of nearly $40 million and would have reduced occupancy by approximately 300 beds. This project provides the opportunity to expedite the replacement of Ogg Hall and avoid costly investments in a structure that ultimately will be demolished. The proximate location of the two new residence halls will provide a food service cluster for efficient staffing and service to the residents of the Park Street and Dayton Street residence halls, avoiding the expense of an additional food service facility.

The proposed East Campus Pedestrian Mall along the Murray Street corridor will function as the unifying design feature to the east campus development by offering a pedestrian mall with an exciting collection of outdoor gathering spaces, an outdoor sculpture garden near the Elvehjem Museum, and possible outdoor performance spaces.

Construction of the pedestrian mall was initiated as part of the Park Street Development project. The section of the mall associated with this project is the second phase. The remaining phases will be accomplished in conjunction with other planned developments. When completed, the mall will run from Lake Mendota to just north of Regent Street. This first phase will develop the mall from the railroad trestle south to Regent Street.

5. Budget:

Construction Cost	$30,114,900
Contingency	$1,528,500
A/E Fees	$1,850,000
DFD Mgmt	$1,288,000
Plan Review/Testing/EIS	$129,000
Energy Mgmt. Sys	
Hazardous Material Abatement	$900,000
Movable Equipment	$0
% for Art	$89,600
Total Project Cost	$35,900,000

6. Previous Action:

February 5, 2004 Resolution 7893	Granted authority to seek enumeration in the Spring 2004 legislative session for Dayton Street Housing Development, estimated at $34.9 million Program Revenue Sported Borrowing – Housing.

PHYSICAL PLANNING AND FUNDING COMMITTEE

Resolution:

That, upon the recommendation of the President of the University of Wisconsin System, authority be granted to design and construct a New Residence Hall Site Utility Extension project at an estimated total project cost of $1,652,000 PRSB – Utilities Repair & Renovation funding.

THE UNIVERSITY OF WISCONSIN SYSTEM

Request for
Board of Regents Action
March 2005

1. Institution: The University of Wisconsin System

2. Request: Requests authority to design and construct the New Residence Hall Site Utility Extension project at an estimated total project cost of $1,652,000 PRSB – Utilities Repair & Renovation funding.

UTILITIES REPAIR & RENOVATION

INST	PROJ. NO.	PROJECT TITLE	GFSB	PRSB	PR CASH	GIFT/GRANT	BTF	TOTAL
PLT	05B1K	New Res Hall Site Utility Ext	$ -	$ 1,652,000	$ -	$ -	$ -	$ 1,652,000
		UR&R SUBTOTALS	$ -	$ 1,652,000	$ -	$ -	$ -	$ 1,652,000

	GFSB	PRSB	PR CASH	GIFT/GRANT	BTF	TOTAL
MARCH 2005 TOTALS	$ -	$ 1,652,000	$ -	$ -	$ -	$ 1,652,000

3. Description and Scope of Project: This request constructs maintenance, repair, renovation, and upgrades through the All Agency Projects Program.

Utilities Repair and Renovation Requests

PLT – 05B1K – New Residence Hall Site Utility Extension ($1,652,000): This project extends steam, condensate, power, and signal utilities to the boundary of the proposed residence hall and new south campus engineering building site. This project extends fiber optic cable from the campus data network hub in Gardner Hall and coaxial cable from the campus TV network, including sufficient cable lengths coiled in the new manhole for future extension and termination into the new residence hall's main telecommunication closet. New manholes will be constructed at the end of both mechanical and power/signal utility extensions to provide termination points for this project and convenient start points for the future residence hall project.

This project provides the required utility extensions to a new student residence hall anticipated for occupancy in August 2006. The nine existing residence halls (constructed from 1961 to 1969) are currently operating at overflow capacity, housing 2,400 students in the spring of 2004. The campus currently has housing demand to fill a 348-bed residence hall without the projected enrollment increases from the UW-Platteville Tri-State Initiative.

4.

Justification of the Request: UW System Administration and Division of State Facilities continue to work with each institution to develop a comprehensive campus physical development plan, including infrastructure maintenance planning. After a thorough review of approximately 250 All Agency Project proposals and 520 infrastructure planning issues submitted, and the UW All Agency Projects Program funding targets set by the Division of State Facilities (DSF), this request represents high priority University of Wisconsin System infrastructure maintenance, repair, renovation, and upgrade needs. This request focuses on existing facilities and utilities, targets the known maintenance needs, and addresses outstanding health and safety issues. Where possible, similar work throughout a single facility or across multiple facilities has been combined into a single request to provide more efficient project management and project execution.

5. Budget:

1,652,000	PRSB – Utilities Repair and Renovation
$ 1,652,000	Total Funding Request

6. Previous Action: None.

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Authority to Increase the Budget of the Camp Randall Expansion and Renovation Project Using Gift Funds, UW-Madison

PHYSICAL PLANNING AND FUNDING COMMITTEE

Resolution:

That, upon the recommendation of the of the UW-Madison Chancellor and the President of the University of Wisconsin System, authority be granted to increase the budget of the Camp Randall Stadium Expansion/Renovation project by $2,137,000 Gift Funds, for a revised total project cost of $109,442,900 ($85,104,900 Program Revenue Supported Borrowing, $11,538,000 Gift/Grant Funds, and $12,800,000 General Fund Supported Borrowing).

THE UNIVERSITY OF WISCONSIN SYSTEM

Request for
Board of Regents Action
March 2005

1. Institution: The University of Wisconsin–Madison

2. Request: Requests authority to increase the budget of the Camp Randall Stadium Expansion/Renovation project by $2,137,000 Gift Funds, for a revised total project cost of $109,442,900 ($85,104,900 Program Revenue Supported Borrowing, $11,538,000 Gift/Grant Funds, and $12,800,000 General Fund Supported Borrowing).

3. Description and Scope of Project: The Camp Randall Stadium Expansion/Renovation project is providing a comprehensive renovation to the nearly 85-year-old Camp Randall Stadium in order to improve and expand restroom capacity; upgrade basic infrastructure such as electrical, HVAC, and plumbing; increase accessibility with elevators and seating for disabled customers; expand suites and club seating; consolidate offices for coaches and staff; expand concession services; expand concourses and entry ways; rebuild the south endzone seats; improve landscaping, fencing and lighting; remodel the press box; and, provide a new video replay scoreboard, sound system, and field lighting. The work was divided into two phases.

   Phase I was completed in August 2004. Phase II work began in September 2004 with completion scheduled for August 2005. Phase II work includes expansion and renovation of the lower west concourse, including entry gates, rest rooms and concessions; stadium seating bowl changes with cross aisles, four new access portals, and lower north end zone seating; renovation of the lower level east side tunnel restrooms, concessions and installation of new meeting space; renovation of the press box, including a new elevator; and new west side field lighting.

   The requested increase will fund an upgrade to the press box area beyond the original scope. The original scope of work in the press box included a second elevator and renovation of the ninth level as a seating area on game days. The new elevator shaft displaced functional space that cannot be replaced as part of the original budget. For life/safety building code reasons, the security booth is also being expanded. Lastly, the finishes are being upgraded to match those of the new construction areas in the rest of the stadium. The proposed budget increase will also be used to replenish the contingency fund. Unforeseen costs incurred during Phase II of the renovation project (asbestos abatement, life/safety issues, etc.) exhausted the contingencies originally built into the project scope. It is expected that because the building is nearly 90 years old, additional items could arise throughout the final stages of this project and the contingency reserve should be replenished.

4. Justification of the Request: The Athletic Department raised more than $2,000,000 than originally anticipated for the project. Included in that amount is a $1 million gift to upgrade the press box beyond the scope of the original plans for the stadium. Athletics is offering to use the balance of these gift funds to replenish the contingency fund and offset any additional costs required to complete the entire project.

   Approval of this request will allow the Athletic Department to fulfill the donor's upgrade within the current project schedule and to restore a project contingency amount to make sure the project is complete by August without additional budget adjustments.

5. Budget:

	Cost
Construction	$1,637,000
Design Fees	
DSF Fees	
CM Fee	
Contingency	500,000
Total Estimated Project Increase	$2,137,000

6. Previous Action:

November 10, 2000 Resolution 8241	Granted authority to seek enumeration for construction of a Camp Randall Stadium Renovation and Expansion Project, as part of the 2001-03 Capital Budget, at an estimated project cost of $99,700,000 ($72,700,000 Program Revenue Supported Borrowing, $17,000,000 Gift Funds and $10,000,000 General Fund Supported Borrowing – All Agency appropriations for Repair and Renovation). The project was subsequently enumerated at $99,800,000 ($72,800,000 Program Revenue Supported Borrowing, $17,000,000 Gift Funds, and $10,000,000 General Fund Supported Borrowing).
November 10, 2000 Resolution 8242	Clarification of the expectations of the Board of Regents regarding implementation of a major renovation project at UW-Madison Camp Randall Stadium proposed for enumeration as part of the 2001-03 Capital Budget, with additional approval from the Board of Regents, prior to construction, as follows: Summer/Fall 2001: Following legislative approval of the 2001-03 Capital Budget, Regent approval will be requested for construction of the first stage of work, primarily focused on infrastructure and utility work estimated at approximately $14.6 million.

	Winter/Spring 2002: Regent approval will be requested for the balance of work, to include a financing plan with, at a minimum: a commitment of at least $17 million in gift funding; and assurances that sufficient revenues are available from multi-year leases of suites and club seats, from the Badger Fund, and from other receipts to amortize the program revenue bonding and pay ongoing operating costs.
September 7, 2001 Resolution 8426	Approved the Design Report and authorized construction of the Utility Upgrade phase of the Camp Randall Stadium Expansion and Renovation project at an estimated total project cost of $11,200,000 ($7,275,000 General Fund Supported Borrowing, $3,625,000 Program Revenue Supported Borrowing from the 2001-03 Major Project, and $300,000 General Fund Supported Borrowing from the Randall Street Substation Upgrade project).
December 6, 2002 Resolution 8626	Approved the Design Report and authority to construct the Camp Randall Stadium Renovation and Expansion project at an estimated cost of $72,500,000 ($63,775,000 Program Revenue Supported Borrowing, $6,000,000 Gift Funds, and $2,725,000 General Fund Supported Borrowing for a total project cost of $83,700,000 ($67,400,000 Program Revenue Supported Borrowing, $6,000,000 Gift Funds, and $10,300,000 General Fund Supported Borrowing).
May 7, 2004 Resolution 8832	Approved authority to grant an increase to the budget of the Camp Randall Stadium Renovation and Expansion project by $7,804,500, Program Revenue Supported Borrowing, for a revised total project cost of $106,904,900 ($85,104,900 Program Revenue Supported Borrowing, $6,000,000 Gift Funds, and $15,800,000 General Fund Supported Borrowing). Fundraising specifically for this project prior to bond funding for this project shall be used to offset at least 50% of the additional amount of Program Revenue Supported Borrowing requested.

REVISED

BOARD OF REGENTS OF THE UNIVERSITY OF WISCONSIN SYSTEM

March 11, 2005
9:00 a.m.
1820 Van Hise Hall
1220 Linden Drive
Madison, Wisconsin

II.

1. Calling of the roll

2. Approval of the minutes of the February 10 and February 11, 2005 meetings

3. Report of the President of the Board
   a. Discussion of 2005-07 Biennial Budget - Senator Alberta Darling and Representative David Ward invited
   b. Resolution of Appreciation: Chancellor Don Mash
   c. Report on the February 18, 2005 meeting of the Higher Educational Aids Board
   d. Report on the March 9, 2005 meeting of the Hospital Authority Board
   e. Additional items that the President of the Board may report or present to the Board

4. Report of the President of the System

5. Report of the Physical Planning and Funding Committee

6. Report of the Business and Finance Committee

7. Report of the Education Committee

8. Additional resolutions
   a. Adoption of 2006 meeting schedule
      [Resolution II.8.a.]

9. Communications, petitions and memorials

10. Unfinished or additional business

11. Recess into closed session to confer with legal counsel, regarding pending or potential litigation, as permitted by s.19.85[1][g], *Wis. Stats*, to consider a salary adjustment and personal histories at UW-Madison, as permitted by s.19.85[1][c] and [f], *Wis. Stats;* to consider honorary degree nominations by UW- Parkside and UW-Oshkosh, and to consider personal histories related to naming of a facility at UW-River Falls, as permitted by s.19.85[1][f], *Wis. Stats.*

The closed session may be moved up for consideration during any recess called during the regular meeting agenda. The regular meeting will reconvene in open session following completion of the closed session.

BOARD OF REGENTS

Resolution:

That the attached meeting schedule for 2006 be adopted.

March 2, 2005

To: The Board of Regents
President Reilly

From: Judith Temby

Following is a draft meeting schedule for 2006.

Meetings are planned at UW-Green Bay in April, at UW- Milwaukee in June and UW-Platteville in October. Other meetings would be held in Madison.

The meeting dates were selected in accordance with board bylaws that provide for board meetings to be held on the Friday following the first Monday in the month and in August the third Monday, unless otherwise specially ordered. An exception to the bylaw provision would be to hold the August meeting on the Friday following the second, rather than the third Monday of the month, in order to provide a three-week, rather than a two-week interval between the August and September meetings.

BOARD OF REGENTS MEETING SCHEDULE

2006

January 5 and 6 (cancelled, circumstances permitting)

February 9 and 10

March 9 and 10

April 6 and 7 (UW-Green Bay)

May 4 and 5

June 8 and 9 (UW-Milwaukee)

July 6 and 7 (cancelled, circumstances permitting)

August 17 and 18

September 7 and 8

October 5 and 6 (UW-Platteville)

November 9 and 10

December 7 and 8

Board of Regents of
The University of Wisconsin System

Meeting Schedule 2004-05

2004

January 8 and 9
(Cancelled, circumstances permitting)

February 5 and 6

March 4 and 5

April 1 and 2

May 6and 7

June 10 and 11 (UW-Milwaukee)
(Annual meeting)

July 8 and 9 (cancelled, circumstances permitting)

August 19

September 9 and 10

October 7 and 8 (UW-Superior)

November 4 and 5

December 9 and 10

2005

January 6 and 7 (cancelled, circumstances permitting)

February 10 and 11

March 10 and 11

April 7 and 8

May 5 and 6

June 9 and 10 (UW-Milwaukee)
(Annual meeting)

July 7 and 8

August 18 and 19
(Cancelled, circumstances permitting)

September 8 and 9

October 6 and 7

November 10 and 11

December 8 and 9

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BOARD OF REGENTS OF THE UNIVERSITY OF WISCONSIN SYSTEM

President - Toby E. Marcovich
Vice President - David G. Walsh

STANDING COMMITTEES

Executive Committee
Toby E. Marcovich (Chair)
David G. Walsh (Vice Chair)
Mark J. Bradley
Elizabeth Burmaster
Guy A. Gottschalk
Jose A. Olivieri
Jesus Salas

Business and Finance Committee
Mark J. Bradley (Chair)
Eileen Connolly-Keesler (Vice Chair)
Charles Pruitt
Gerard A. Randall
Peggy Rosenzweig

Education Committee
Jose A. Olivieri (Chair)
Elizabeth Burmaster (Vice Chair)
Roger E. Axtell
Danae D. Davis
Gregory L. Gracz
Beth Richlen

Physical Planning and Funding Committee
Jesus Salas (Chair)
Guy A. Gottschalk (Vice Chair)
Milton McPike
Brent Smith

Personnel Matters Review Committee
Danae D. Davis (Chair)
Roger E. Axtell
Jose A. Olivieri
Gerard A. Randall

Committee on Student Discipline and Other Student Appeals
Charles Pruitt (Chair)
Milton McPike
Brent Smith
Beth Richlen

OTHER COMMITTEES

Liaison to Association of Governing Boards
Guy A. Gottschalk

Hospital Authority Board - Regent Members
Roger E. Axtell (Vice Chair)
Charles Pruitt
Peggy Rosenzweig

Wisconsin Technical College System Board
Peggy Rosenzweig, Regent Member

Wisconsin Educational Communications Board
Eileen Connolly-Keesler, Regent Member

Higher Educational Aids Board
Gregory L. Gracz, Regent Member

Research Park Board
Mark J. Bradley, Regent Member

Teaching Excellence Awards
Danae D. Davis (Chair)
Charles Pruitt
Beth Richlen
Jesus Salas

Academic Staff Excellence Awards Committee
Brent Smith (Chair)
Guy A. Gottschalk
Milton McPike
Jose A. Olivieri

Public and Community Health Oversight and Advisory Committee
Patrick Boyle, Regent Liaison

Special Regent Committee for UW-River Falls Chancellor Search
Charles Pruitt (Chair)
Eileen Connolly-Keesler
Danae D. Davis
Jesus Salas
Brent Smith

Special Regent Committee for UW-Whitewater Chancellor Search
Roger E. Axtell (Chair)
Milton McPike
Peggy Rosenzweig
Brent Smith

The Regents President and Vice President serve as ex-officio voting members of all Committees.