

**University of Memphis Foundation
Investment Committee Meeting**

Committee Members Present:

		<u>In Attendance</u>
John Wilfong	Treasurer/Chair Investment Committee	Yes
Fred Towler	President	Yes
Harry Smith	Immediate Past President	Yes
Dr. Douglas Scarboro	Secretary	Yes
Sudhir Agrawal		Yes
Tanya Hart		
Raaj Kurapati	University CFO	Yes
Dr. P.K. Jain	University Faculty-FCBE	Yes
Dr. M. David Rudd	By Virtue of University Position	

Not Present:

Tanya Hart
Dr. M. David Rudd

Others Present:

		<u>In Attendance</u>
Holly Ford	AVP, UMF	Yes
Bill Burns	Out-Sourced Chief Investment Officer (OCIO)	Yes
Matt Ruhl		Yes
Mike Petraglia		Yes

A quorum was present, and Treasurer Wilfong called the Investment Committee for the University of Memphis Foundation Meeting to order at 9:00am.

I. Opening Prayer – John Wilfong, Committee Chairman

II. Approval of Minutes – John Wilfong, Committee Chairman

UMF Investment Committee Meeting Minutes, August 26, 2021

Treasurer Wilfong asked if there any revisions to the minutes provided in the Investment Committee Meeting Packet sent in advance. There were no revisions. A motion was made by Sudhir Agrawal, seconded by Harry Smith, the motion was carried and the minutes were approved by the Committee.

III. UofM Financial Update – Raaj Kurapati, University of Memphis EVP and CFO

Financial Update

Mr. Kurapati presented a University Financial Update. He explained the University produces a few iterations of the budget annually. The proposed budget is presented at the beginning of the financial year, then there is a revised budget in the middle of the financial year, which is presented to the Board of Trustees, taking the proposed budget

and adjusting it to show actual tuition from the Fall semester, taking into account any tuition increases, including state appropriations, as well as reserve funds.

The initial proposed unrestricted and restricted revenue budget was \$571.3M for FY22 and the University is revising this budget increasing it to \$616M in the form of revenue and presented this to the Board of Trustees on December 8th. The bulk of the increase is from funds received from federal stimulus packages.

There was a tuition increase, but didn't realize any revenue from it, because it was used to offset a reduction in fees for students taking online classes vs. in-person classes.

Mr. Kurapati shared tuition and fees were slightly down and also down in resident and undergrad side due to COVID-19 compared to 2019, but the University made up for this with international and out-of-state enrollment. The University is also focusing on recruitment domestically.

Mr. Kurapati went on to explain the difference between the revised anticipated revenue of \$616M compared to the estimated \$642M in expenses for FY22. Additional funds will come from reserves and compared it to a spending of retained earnings.

A question was asked regarding the impact of inflation. Mr. Kurapati shared the University is seeing the impact of inflation in the capital projects when the bids come in much higher than budgeted and / or anticipated. The University is trying to consolidate their buying power and they have also alerted the state to see if there is support from the state to help offset the inflation impact, which is anticipated to be in place for the foreseeable future.

Mr. Burns chimed in regarding inflation and says Vanguard is expecting inflation will be higher at the beginning of 2022 and then slightly more subdued the 2nd half of 2022.

IV. Vanguard Update and Discussion – Bill Burns, Matt Ruhl and Mike Petraglia

Mr. Burns reiterated good performance in 2021 in spite of so much uncertainty. In addition to uncertainty around the pandemic, there's also uncertainty regarding inflation, the market, etc... the recommendation as we enter 2022 is stick to the plan in times of uncertainty.

Mr. Ruhl referenced page 5 of their presentation (global equity market returns show are as of 10/31/2021) and mentioned the market volatility seen in the fall of '21. Growth stocks outperformed their value counterparts for the quarter with Big Tech lifting the market.

Energy and financial sectors lead significantly for the year-to-date perspective.

Regarding fixed income, Mr. Ruhl stated the best case scenario for the next 6 months is for the 10-year yield curve % to be in the 1.6 to 2.1% range and we are slightly below this currently (1.55%), even though it has come up in the last week.

The various variants of COVID will continue to be the wildcard short-term related to inflation, the markets in general and the Fed. They do expect inflation to be above 3%.

Economic resilience remains strong. They do expect above trend growth globally in 2022.

Mr. Burns moved to page 10 to discuss the portfolio from a YTD basis. 2nd line down, the UMF consolidated (net) portfolio out-performed at 18.01% versus the composite benchmark, which was 16.97%. The reason for this is really private equity, which is typically on a 3 to 6 month lag to the market.

Mr. Burns also reminded the Board of the transition to Vanguard from Cambridge in June of 2020. Vanguard is still liquidating some holdings from Cambridge, which were illiquid. There is still approximately \$1.3M tied up in these funds, but Mr. Burns assured the committee we are getting close to moving towards the committee and the Board's investment strategy when funds were moved to Vanguard. He's expecting we will be fully liquidated and fully into our new strategy this year.

He also mentioned adherence to the Investment Policy Statement, specifically calling out the portion of the statement indicating 20% in Private Equity and 5% in Real Assets. He explained the reason we are currently off in these areas is, because significant commitments were made to HarborVest in the last two years and they are ramping up the allocation to Private Equity to meet the 20% target and we will see this shortly although it has taken awhile, but they have the commitments.

Mr. Kurapati inquired about the remaining assets from the previous firm managing the Foundation's portfolio and when will they be liquidated. Mr. Burns is expecting the approximate \$1M from Kingston, should be in the first half and the rest in the first three quarters. Mr. Burns confirmed once those funds are made available to Vanguard they will be invested according to the targets based on the IPS (Investment Policy Statement).

Mr. Burns mentioned Fixed Income returns, stating they are significantly muted. The recommendation is to move from the Total Bond Market Index to a Core Bond Market, which is similar, but less treasuries. The dollar amount would be \$15M. There is a cost to do this from 3.5 basis points to 10 basis points.

Mr. Agrawal asked what would happen to the duration of the portfolio. Mr. Burns confirmed it would drop the duration slightly from 6.8 years to 6.2 years. Treasurer Wilfong asked what the current yield is for core bond and Mr. Ruhl stated it is approximately 1.5% and the total bond rate is 1.2% range and expense ratio difference is 6.5 basis points. Mr. Burns explained instead of being in treasuries, we'll see managers

looking for opportunities to get additional return in a 3-5 year period rather than sitting static with the benchmark.

Mr. Kurapati made the motion to accept Vanguard's recommendation is to move from the Total Bond Market Index to a Core Bond Market. Mr. Smith gave a second to the motion. Mr. Wilfong asked if there was any additional discussion. Treasurer Wilfong offered his opinion stating beginning this year, the 3-year annualized trailing return on taxable bonds was above 5%, which he believes is powerful if considering the yields during this period of time were just slightly more than 1%. While we've had a lot of appreciation based on the right direction of interest rates, but he believes this will be against us moving forward and having an allocation in treasuries would be a negative return for the Foundation and so he likes the recommendation to have active management. Mr. Kurapati added he believes if there is opportunity, he agrees to take advantage. There was on other discussion, all were in favor and the motion carried.

Mr. Burns transitioned to discussing the Expendable Pool, which is 90% fixed, to 10% Equity. Discussion started around transitioning to a more aggressive allocation, such as an 80/20 or a 70/30. Mr. Kurapati stated he would be in support of considering an 80/20 approach if agreeable by the committee and upon evaluating the current usage of the Expendable Pool. Mr. Agrawal added his insight saying 70/30 is what he would suggest considering and he also stated he liked the idea of high yield dividends. Dr. Scarborough asked if changes would require a change in the policy statement and Mr. Wilfong confirmed it would. Mr. Wilfong asked for the Vanguard team to prepare modeling for 80/20, 70/30 and 60/40. He also asked if who would a motion be presented to, in order to propose lowering the spend rate on the Endowment Pool further. In response, Mr. Kurapati, reminded the committee the spend rate was lowered at the beginning of this fiscal year from 6% to 5.5%. He suggested if we were to consider going down again, he would suggest going down by half a percentage point and it would be presented to the President of the University. Mr. Kurapati stated he would work with Ms. Ford regarding a budget impact to see how an additional reduction would impact the foundation and the University, so something could be presented to the President for consideration. Mr. Smith offered his thoughts stating a reduction could impact the fundraising efforts of the Advancement team, as well and Mr. Kurapati agreed with this point. Ms. Ford added reducing the budget could impact plans of adding staff for the Foundation, as well as the Advancement Team and there are plans to add for both. President Towler added, an adjustment of the spend rate of the Endowment Pool falls under the purview of the Finance Committee and as a reduction is considered, the conversation would need to be taken to the Finance Committee and discussed with the President of the University. President Towler, suggested this consideration be moved to the Finance Committee. Mr. Kurapati agreed and outlined the next steps to be receiving modeling from Vanguard to be reviewed by the Investment Committee and shared with the Finance Committee for them to review when considering a reduction in the spend rate at the time with the Finance Committee is reviewing the budget for the next fiscal year, which will be in the Spring. They would need to consider impacts when making a recommendation to be shared with the Board and the University President.

Treasurer Wilfong and Mr. Burns transitioned to the discussion to the Endowment to \$500M in ten years. Modeling was created to reduce the spending by 1% for the next five years. Treasurer Wilfong asked if this was feasible and asked for feedback if it needs to be adjusted. President Towler suggested reviewing this with Joanna Curtis, the VP of Advancement for the University.

V. Other Business – John Wilfong, Committee Chairman

None to discuss

VI. Adjourn – John Wilfong, Committee Chairman

Treasurer and Investment Committee Chairman, John Wilfong, called for a motion to adjourn. Raaj Kurapati made the motion, Secretary Douglas Scarboro seconded the motion, all were in favor and the meeting was adjourned at 11:05am.