

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		Yes
Raaj Kurapati	University CFO	Yes
Dr. P.K. Jain	University Faculty-FCBE	Yes
Dr. M. David Rudd	By Virtue of University Position	

Not Present:

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
Carolyn Stanley	ED, UMF	Yes

A quorum was present, and Treasurer Wilfong called the Investment Committee for the University of Memphis Foundation Meeting to order at 2:00PM.

I. Opening Prayer – John Wilfong, Committee Chairman

II. Approval of Minutes – John Wilfong, Committee Chairman

UMF Investment Committee Meeting Minutes, May 21, 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 Raaj Kurapati, seconded by Tanya Hart, the motion was carried and the minutes were approved by the Committee.

III. Updates and Announcements – Holly Ford, AVP

The 2021 Fall Semester started August 23rd. Wishing our Students, Faculty and Staff a successful and fruitful semester.

COVID-19 mask guidelines on campus have recently changed due to the increase of cases in the tri-state area. Wearing a mask is required indoors on campus or in areas where social distancing is not possible.

Football season starts September 4th. Thanks to Joanna Curtis and the Advancement Team for hosting the Board on September 18th when the Tigers take on the Mississippi State Bulldogs. Ms. Ford asked for anyone who has not RSVP'ed to do so soon.

IV. CFO Update – Raaj Kurapati, University of Memphis EVP and CFO

As a result of the pandemic, the University placed its focus on the student's during these unique times and the University relied on federal and state aid, as well as a reduction in expenses. As a result, at the beginning of the year, there was a budget gap. Debt burden against housing and investments were made when interest rates were higher and so there was opportunity to refinance the debt and realize savings close to \$18M.

Also drew on federal funding for Auxiliary Services yielding positive outcomes, with one exception.

Received nearly \$19M in direct student aid and \$28M in institutional aid. Mr. Kurapati stated he is very proud of using \$.73 of every dollar and invested it back in the students. He shared, had this not been done the University would have lost approximately 10% of enrollment. For the FY21 Fall semester enrollment is down by approximately a percentage point and this could have been much higher if this action hadn't been taken.

Mr. Kurapati stated the net assets of the University have grown in the middle of the pandemic to the tune of \$75M and the University is just under \$1B in net assets as a primary entity (the UofM). When adding the foundations, the UofM and the foundations collectively will end the fiscal year at around \$1.5B in net assets, growing the balance sheet to nearly \$70M in the middle of a pandemic. Mr. Kurapati explained this is approximately a \$125M turnaround given the anticipated shortfall of \$55M.

Mr. Kurapati reported, the cash pool for the University of Memphis is approximately \$267M, nearly \$80M increase within the past few years.

Expenses were reduced by approximately \$30M YOY.

Mr. Kurapati shared a few campus improvements, such as the Brad Martin Rec Center, the Patterson street realignment, Browning Hall Renovation, Field House improvements, and the Scheidt Music Center, Leftwich Tennis complex, the Rose Aquatic Center, and the Campus Middle School, which are all still under construction.

Secretary Scarboro acknowledged the budget shortfalls reported by Mr. Kurapati seemed to be more pandemic related and he asked if Mr. Kurapati foresaw any concerns moving forward. Mr. Kurapati responded stating concern for the continuing drop-off in student enrollment, as well as

the reduction of in-state student enrollment. He shared the University has earmarked some of the federal aid funds to compensate for this and ensure the University is able to continue to support the student's financially. He did share campus housing is at 98% occupancy, which he translates to a migration of students wanting to be back on campus.

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

Key take-aways – market impacts: fiscal policy, monetary policy, covid, inflation, etc... Mr. Burns states not to get distracted with the headlines and stay focused on long-term gains.

From a market recap, the equity markets have a lot of rotations, from the end of 2020, to early this year, there have been a lot of sharp rotations. As rates rise bonds went down and then this quickly changed and bonds went back up. Our investment strategy yielded growth even through the volatility of the market.

Performance numbers are net of expenses, since moving assets to Vanguard, the return was 33.61%, slightly under the composite benchmark initially established. It's under performing slightly, because its index based, so fees are part of it and also because international equity has fair market pricing... the market closes at different times throughout the day, but the fund closes at 4, so it's fair value to price, which is required by the FCC. He explained it self-corrects the next day.

Year to date performance we are 12.32% returns, last quarter 3.39% returns. And even in FY22 we are up through Q1 up 1.25%.

Mr. Burns truly believes the diversified strategy is why the performance has been positive through the pandemic.

Mr. Burns reported, the portfolio as of the end of July is just under \$115M and \$116.5M as of the day prior to this meeting.

Mr. Burns asked for any questions regarding the Vanguard advised portfolio. There were no questions.

In the consolidated portfolio, which includes illiquid holdings. There is just under \$2M left from the hedge funds and separate accounts from the Foundation's former investment firm. They will continue to wind this down.

On a one-year performance we are standing at a 31.17% return, which is about 47 basis points outperforming the Vanguard Advised Portfolio driven by the private equity.

Mr. Kurapati asked as far as the asset allocation, are we within the parameters of our IPS and Mr. Burns confirmed we are and added a clarifying point, we have a target of 20% in private equity and we are committing to get there and it is a ramp up to get there as the private equity managers call the proceeds. It is approximately 14-15% in the private equity markets today and he projects we will hit the target in 3 years given the calls we're expecting.

Treasurer Wilfong asked about a \$10M capital commitment and the only contributed capital is \$50k. What is the reason behind the short? Mr. Burns stated it boils down to line of credit. It is so inexpensive to use a line of credit rather than calling the capital. He expects they will call about 15-20% by the end of the year.

Mr. Jain asked what's not being called. Mr. Burns said it is being invested in the equity markets in our broad strategic asset allocations. He said when it is called he will look at where we are overweight and if we're overweight in fixed income he will pull it from there or if we're overweight in equity, he'll pull from there. Generally, it's invested in the equity market.

Mr. Agrawal asked if there was a sector chart to see how it's invested. Mr. Burns committed to sharing a chart and said it is market cap weighted. And he'll include it in future reports. Mr. Agrawal wants to see the sectors since there could be opportunity specifically in healthcare and technology and evaluate if we should be overweighted in those areas.

Mr. Ruhl shared some detailed info and Treasurer Wilfong asked for it to be shared with the group afterwards, to which, Mr. Ruhl agreed to send the fund detail pages and include them in the appendix moving forward.

Mr. Burns is expecting international to out-perform the U.S. in the next 5 years by about 75 basis points and looking at 10 years it is expected to be 300 basis points out-performing the U.S.

Mr. Agrawal asked what the breakdown is for international equity holdings. Mr. Ruhl said 80% developed markets, 20% emerging. So biggest exposure is Japan, China, UK and Germany.

President Towler asked Mr. Burns about crypto currency and wanting to know if anything has changed since their last discussion on this topic considering the Fed's observations on potential regulations on crypto. Mr. Burns believes we are still early in the idea crypto is an investable vehicle. They do believe there will be new types of crypto, but he did say bitcoin proved their view on crypto with how it swings. It can be a trading vehicle, but not for a long-term investment vehicle.

Mr. Burns reviewed page 27, which highlights Expendable Portfolio, which is 90% fixed income, 10% equity. Returned 4.88% since we've converted to Vanguard and at a YTD basis of 4.21%. He explained there are short duration bonds in the portfolio.

Mr. Burns referenced page 35, which was a summary of our Investment Policy Summary (IPS). The current goal, as of today is to meet the 6% spend need annually, plus inflation and try to maintain or grow the corpus using the asset allocation described, with this the objective is to use indexing broad based republic markets and then use private equity up to 20-25% of the portfolio to maximize the performance. Then we transitioned to page 36, he presented modeling to get to \$500M throughout the next 10 years. The options would be to reduce the spending gradually over 5 years, do nothing, or cut-off spending immediately and then infuse with capital campaigns. Mr. Burns explained the key to get to \$500M in 10 years would be to reduce spending, increase the capital campaign funding brought in and then the market is the 3rd line of

defense to continue to grow the portfolio.

Another option is declining the spend in the next 5 years and \$10M added each year, would put the portfolio near \$300M.

Secretary Scarborough asked Mr. Kurapati how a reduced spend scenario would impact the University. Mr. Kurapati expressed there might be opportunity to reduce the University support spend. And the other side would be as we take-in new Scholarship donations, there could be an opportunity to ask the donors to wait for disbursement until the corpus is allowed to grow.

President Towler suggested engaging Dr. Rudd and Joanna Curtis in this conversation, as well as the impact of the \$600M campaign. President Towler applauded Treasurer Wilfong for thinking this way to have the Investment Committee and the Board look at growing the funds to \$500M.

Treasurer Wilfong suggested having further discussion with the group and engage the suggested parties so we could continue building a plan. He then commended Mr. Kurapati and the team for their incredible financial work during the pandemic.

VI. Call to Adjourn the Investment Committee for the University of Memphis Foundation Meeting

Treasurer and Investment Committee Chairman, John Wilfong, called for a motion to adjourn. Sudhir Agrawal made the motion, all were in favor and the meeting was adjourned at 3:28PM.