

University of Memphis Foundation Investment Committee Meeting

Committee Members Present:

Committee Members		<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
Dr. B. Hardgrave	University President	Yes
Tanya Hart		Yes
Raaj Kurapati	University CFO	No
Dr. P.K. Jain	University Faculty-FCBE	No

Others Present:

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

I. Opening Prayer – John Wilfong, Committee Chairman

Committee Chairman Wilfong opened the meeting with prayer and announced Raaj Kurapati would not be in attendance for the state of the school presentation. A quorum was present, and Committee Chairman Wilfong called the Investment Committee for the University of Memphis Foundation Meeting to order at 9:06 a.m.

II. \$500M Campaign - John Wilfong, Committee Chairman

Committee Chairman Wilfong addressed the committee's goal of reaching half a billion dollars (\$500M). He spoke on a recent meeting where discussion took place regarding all assets under the Foundation's control, totaling \$330M. Assets consists of Foundation funds, state managed funds – *Ms. Ford will investigate how this is allocated*- and the Carnegie R1 match from the state, expected in July.

If considering an average of \$7.5M added to the Endowment each year and also taking into consideration scholarships being awarded, and at a spend rate of 5.5%, Committee Chairman Wilfong said the endowment would arrive at \$505M (including \$80M the state manages) by 2031.

Discussion regarding state managed funds ensued. Ms. Ford said the referenced \$80M is for the Chairs of Excellence and explained how these draw similar to how the Foundation draws on the endowment for scholarships: average of three (3) years / 12 quarters and then a 4% spend rate. Ms. Ford said she would do more research, with Mr. Kurapati's help of understanding these funds.

Aside from estimating a 5.25% return on the portfolio for the next ten years, Mr. Wilfong said the two (2)

biggest influencers are the amount of money coming in and potentially going out every year.

III. Approval of Minutes – John Wilfong, Committee Chairman

Mr. Wilfong asked if there were any revisions to the minutes from the February 24, 2022, meeting provided in the Investment Committee Meeting Packet sent in advance. There were no revisions. Mr. Smith made a motion to approve, and the motion was seconded by Ms. Hart. All were in favor and the motion carried to approve the minutes as they stand.

MOTION TO APPROVE: Mr. Smith

SECOND: Ms. Hart

MOTION CARRIED

IV. Vanguard Update and Discussion – Bill Burns and Matt Ruhl

Bill Burns explained the Vanguard team, himself and Matt Ruhl, would present a market update, discuss long term goals, review the portfolio and present modeling and forecast outlooks.

Mr. Ruhl began with a recap of the market, stating spring 2022 had been very challenging, uncertain, and rare. Growth index is the worst performer on the equity side and US growth stocks are down 20% (down 26% YTD as of last night). This compares to the now 17% decline for the broader US market, as of last night. On the fixed income side, it has been bad quarter of equities. There are no areas, which have been spared.

Mr. Ruhl said on the US equity side, the median expectation over the next ten years has climbed to 4.3% from the high 3% earlier this year. The non-US equity median expectation has climbed to 7% from the high 6%. The investment grade bond universe centered around 3.5% and investment grade credit above 4%. US equity forecast remains muted even with the most recent drop, still trading at pricey levels. He explained this as one reason Vanguard recommended an increase in non-US equity exposure over the past year. Value is still looking more favorable than growth even with the large pullback seen on the growth side. There is more exposure to value with non-US stocks given higher yields and less exposure to technology and more exposure to value-oriented sectors.

In conclusion, Mr. Ruhl stated, on average, in previous periods, value stocks in non-US equities have performed better while bonds did not fare as well. Growth stocks have mostly done poorly. He explained, one takeaway is this cycle has been more clearly broadcasted by the Fed ahead of time. Therefore, what has played out to date may have been the market moving ahead of the Fed in advance of the full cycle because it has been broadcasted.

Mr. Burns added 90% of variability comes from the portfolio's asset allocation, so they want to remain focused on that, especially during time of uncertainty. Any different movement would be a guess in the raw market.

Mr. Burns continued by presenting on performance in three sections: Vanguard portfolio, consisting of public equity and Vanguard private equity 2) consolidated performance, which includes history going back to 1995 to show legacy holdings and higher endowments and 3) expendable portfolio.

He asked the group to keep in mind markets have ups and downs and that long term focus asset allocation is the key driver.

Mr. Burns referred to Performance Net Expenses, which is the Vanguard portfolio and recommendations. This includes public holdings, two private equity vintages, and newly included FYTD at request of the committee. Given the backdrop of the negative performance on the YTD, FYTD is down -8.69%, slightly under performing the composite benchmark. Historically, a portfolio like this expects a return of 8-10%, and this portfolio is above that average. He said the markets have been friendly and benefitted from being broadly diversified in the market over last two years.

Mr. Burns said the total portfolio information on page 15 combines all legacy holdings. There is approximately \$250k that remains with some hedge funds and illiquid public options at Cambridge. President Towler asked about the timing and if there was anything the committee could do to make this happen sooner. Mr. Burns said Vanguard started at \$15-20M still with Cambridge and they have been slowly liquidating quarter to quarter. While it should come this quarter, it remains in holding until the portfolio manager sends it over. Cambridge is doing their audits and there are some liquid items in holdings they cannot raise the capital to liquidate and send over. Once completed, this will be the end of the non-private investments with Cambridge.

Continuing on, Mr. Burns said the total portfolio, consolidated net, is -5.47% net of expenses, FYTD as of April 30. Mr. Burns said the one caveat on the number is private equity investments, as they are still waiting on six (6) of the private equity holding legacies to give 12/31 evaluations. Committee Chairman Wilfong asked about the benchmark, to which Mr. Burns replied it is -5.46%. Based on audit recommendations, Mr. Burns said they will be doing an annual deeper dive on private equity investments.

Mr. Burns asked for questions on performance. Committee Chairman Wilfong asked to go through current allocations. Mr. Burns referred the group to the bottom the page, which focuses on asset allocation. He explained the private investments target is to have a 25% long term target and they are not there yet since it takes time. Also, he said they fell further behind than original forecasting. However, the reason for this is because of such a positive return last year (35% return). Mr. Burns continued on to say he modeled this year's commitment down to \$15M because of volatility in the market and not knowing where the portfolio will end in a year or two.

Mr. Burns said on the public investment side, Vanguard's recommendation is to be between 35-40% in international. The 60%-40% US to international weight is close to market the capped weight on a global market cap and slightly underweight internationally.

Committee Chairman Wilfong invited Dr. Bill Hardgrave to speak on his ideas for the next 3-5 years. Dr. Hardgrave said his observations over past seven (7) weeks in raise rates, endowment, and spend, was the University will need to raise \$70M a year to aggressively grow the endowment, but he recognizes there is a need for more Development staff do achieve this.

Dr. Doug Scarboro entered 10:11 AM

Mr. Burns posed a question for the committee regarding the 2022 vintage. He asked if the preference was to remain conservative and stick with a flat \$140M, or would there be incoming contribution donations that will pay the 5.5%? Dr. Hardgrave responded 2024 is the very earliest the University could start seeing a difference. Mr. Burns' recommendation is to stay conservative and can adjust next year. Committee Chairman Wilfong received verbal agreement from each committee member.

Mr. Wilfong asked Mr. Burns how the \$50M to be received in July factors in. Mr. Burns said his

recommendation is to put it into play into the market as it is received. Ms. Ford suggested a huddle meeting before the next Investment Committee meeting to discuss the plan.

Mr. Burns continued his presentation with discussion on expendable portfolio, referenced on page 24. 90% is allocated to fixed income and 10% allocated to equity. He pointed out that in FYTD even in a conservative portfolio there was a -4.51% return.

Mr. Burns continued with his presentation reviewing fees, which is approximately \$800k, all-in, on an annual basis. Committee Chairman Wilfong asked if this would be 60 basis points for the whole portfolio, to which Mr. Burns confirmed is an estimate. He then stated in comparison, all-in basis points with the previous firm was 80 to 150 basis points.

Mr. Burns asked for questions. Committee Chairman Wilfong stated at the next meeting he would like to take a deep dive on how private equities are performing, cash flows in, and expectations. Mr. Agrawal asked about modeling and projection expectations for the next 10 years. Mr. Ruhl said their fixed income is the most accurate. The non-US forecast is about 1% off their ten-year average expectation; US is 8% off.

V. Other Business – John Wilfong, Chairman

No other business.

VI. Call to Adjourn the Investment Committee for the University of Memphis Foundation Meeting – John Wilfong, Chairman

Investment Committee Chairman, John Wilfong, called for a motion to adjourn. Ms. Hart made the motion, and Dr. Scarboro seconded the motion, all were in favor and the meeting was adjourned at 10:55 a.m.

MOTION TO APPROVE: Ms. Hart

SECOND: Dr. Scarboro

MOTION CARRIED