

**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	Out-Sourced Chief Investment Officer (OCIO)	Yes
Mike Petraglia	Vanguard Investment Analyst	No
Michael Li	Vanguard Investment Analyst	Yes

A quorum was present, and Mr. Wilfong called the Investment Committee for the University of Memphis Foundation Meeting to order at 2:02pm.

**I. Opening Prayer – John Wilfong, Committee Chairman**

**II. Approval of Minutes – John Wilfong, Committee Chairman**

UMF Investment Committee Meeting Minutes, December 9, 2021

Mr. Wilfong asked if there any revisions to the minutes provided in the Investment Committee Meeting Packet sent in advance. There were no revisions. Mr. Kurapati made the 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.

**III. UofM Financial Update – Raaj Kurapati, University of Memphis EVP and CFO and Holly Ford, Foundation AVP**

VP of Advancement, Joanna Curtis, was unable to attend the meeting and so Ms. Ford presented on her behalf. For this fiscal year, as of January 31<sup>st</sup>, the fundraising efforts thus far show pacing comparable to two years ago. CYTD is nearly \$27M. As it relates to Endowment Commitments, pacing is slightly off to prior year, but not by a significant difference. Ms. Ford reminded the Committee the plan to create a \$100M endowment fund related to the University's R1 recent designation, which would include a \$50M budget recommendation from the State of Tennessee, to be matched 1:1 with private gifts within the next three years. Thus far, approximately \$13.4M in private gifts have been committed and another \$11M+ is in current negotiation. Governor Lee's recommendation is pending based on legislative approval. Should Governor Lee's recommendation pass, Mr. Kurapati asked for recommendation on where these funds would be managed. His suggestion is for it to be with the Foundation given the established investment management infrastructure already in place with the Foundation. Committee Chairman Wilfong agreed to this suggestion. Mr. Wilfong asked when the \$50M would be available. Mr. Kurapati stated they will request for the funding to be made available upon state budget approval, as there are some initial investments related to the R1 status. Mr. Wilfong was also supportive of this thought process and offered assistance in support of encouraging the availability of funds upon budget approval.

Mr. Wilfong expressed interest in funding sources as it relates to grants and corporate support. Mr. Kurapati and Ms. Ford committed to working with Ms. Curtis to provide this information as follow-up.

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

Mr. Burns began with discussing three take-aways as it relates to investing and the market. The market has been impacted by the global pandemic for some time and now we will see additional impact based on the very recent conflict in the Ukraine involving Russia. We are seeing uncertainty and any time there is uncertainty there is volatility. In spite of the uncertainty and volatility, it is important to not lose sight of the expected positive returns within the next five to ten years, it will likely be a bumpy ride.

Mr. Ruhl moved to the Market review of the report. Both domestic and international equities ended the quarter and year positively. U.S. stocks continued to set record highs and non-U.S. stocks reversed the losses experienced in November.

In light of the conflict in the Ukraine, as of last evening, U.S. equities and broad market

are both down double digits.

Mr. Wilfong asked Mr. Burns and Mr. Ruhl about positioning moving forward in the next three to five years in light of both growth and U.S. Stocks out-performing. He asked is the Foundation positioned correctly? Are any changes recommended? Where does real estate fit in the portfolio in light of inflation? Mr. Ruhl responded stating there is one more shift to take the portfolio to 60/40, U.S. / Non-U.S., which would bring it to global market cap weight. He explained, when Vanguard was first hired the portfolio was approximately 10% under weight non-U.S. equities so the team has made-up most of this gap, which is ideal. Mr. Ruhl went on to say, he would want to see a bigger spread between U.S. vs non-U.S. before going over-weight or closer to equal weight, U.S. vs non-U.S. The non-U.S. side has more exposure to financials and energy, so by increasing the non-U.S., we will increase the value exposure in the portfolio and they wouldn't recommend any further changes. Mr. Ruhl also stated the portfolio has real estate exposure from some of the legacy investments we have from when we were with the prior firm and a market cap weight within the Vanguard Total Stock Market Index. Discussion occurred about real estate potentially being a fit in the expendable pool to provide income and diversification.

The committee moved to discussion around the portfolio with Mr. Burns presenting. As of December 31, 2021, the UofM Foundation's consolidated (net) portfolio is \$141M and we stand at a 19.63% return against a benchmark of 18.4% and compared to 9.79% five years ago. The portfolio is in compliance with the target asset allocation, with the exception of 1% in private equity and the reason being, is it takes more time to invest in private equity. Mr. Burns expects us to be at target within the next two years.

Mr. Burns referenced a report from the National Association of College and University Business Offices, stating for fiscal year '21, the NACUBO study stated the 1-year portfolio return rate was 30.6% vs. the UMF's return was 35.7%, so we out-performed the median return of our university peer groups by almost five percentage points.

Moving to assets transitioned from the Foundation's prior Investment Firm, Mr. Burns mentioned there were some lingering assets, which were illiquid that Vanguard was working on moving over. To provide an update, we are down to \$250k and he's being told should have by the end of June.

Mr. Burns then transitioned to the Expendable Portfolio, which as of December 31<sup>st</sup> was at \$24.6M with a return of 1.59% in line with the benchmark and with the conservative investment strategy to this portfolio. The asset allocation is 89.5% U.S. Fixed income, which is in line with the IPS. Mr. Burns reminded the committee of dialogue from a

previous meeting to analyze what the UofM draws from an expense standpoint on the expendable pool to see if we could adjust the IPS to have more equity risk for higher return on this portfolio. Mr. Wilfong stated we weren't ready for this discussion as we still need to have a full understanding of what the University uses on an annual basis. Mr. Wilfong went-on to pose the question, at what level does the Foundation and the University want to take-on additional risk for potential additional return and his opinion would be it could be somewhere around 70/30, fixed / equities, considering what the impact would be on the portfolio at this level. Once an annual analysis on the expendable pool has been conducted and if it is determined that the University and Foundation aren't using 100% of the funding this pool annually, his recommendation would be to keep three years of the average annual usage amount liquid / fixed income, and then consider longer- term thinking with the balance, which could offer a greater return than what the portfolio is currently achieving. Mr. Kurapati added, the income from the expendable pool contributes to the annual University Support Allocation from the Foundation, so there could be two impacts... better earnings and if the return from the expendable pool increases, it could allow for an additional reduction on the spend rate of the endowment.

Mr. Wilfong and Mr. Kurapati agreed to allow for time to conduct and review an analysis of cash usage from this pool before making a recommendation to the committee and ultimately the Board.

Mr. Burns provided an estimate on where we stand for the full portfolio as of COB the prior day, which is approximately \$189M. There were no questions on this estimate.

Mr. Burns transitioned to the outlined plan Vanguard has created in response to the Investment Committee's stated goal of strategically looking to see how to grow the Endowment to \$500M in 10 years. With a projected annual median return of 4.68% and a spend rate of 5.5%, we would need to be bring in \$36M in contributions to the Endowment to get to \$500M in 10 years. Mr. Wilfong asked for consideration to increase the projected median percentage of return to 6%. Mr. Kurapati added as the corpus grows there would be opportunity for the 5.5% spend rate to be reduced, as well. Dr. Jain stated the market has moved into a lower rate of return environment and cautioned against increasing the percentage of return. Mr. Kurapati suggested modeling both.

Mr. Burns then asked if there were any questions. He then recapped action items to be, modeling for both versions of the endowment growth plan to \$500M, as well as investment recommendations for the expendable pool once Mr. Kurapati and Ms. Ford have provided them with an annual analysis.

**IV. Other Business – John Wilfong, Committee Chairman**

None to discuss

**V. Adjourn – John Wilfong, Committee Chairman**

Investment Committee Chairman, John Wilfong, called for a motion to adjourn. Harry Smith made the motion, Ms. Hart seconded the motion, all were in favor and the meeting was adjourned at 3:16pm.