

MINUTES OF THE FINANCE COMMITTEE OF THE
UNIVERSITY OF LOUISVILLE FOUNDATION, INC.

December 2, 2004

In Open Session

The Finance Committee of the University of Louisville Foundation, Inc. met in the Alumni Board Room of the Chancey Center, on Thursday, December 2, 2004, with members present and absent as follows:

Present: Mr. Burt Deutsch, Chairman
Mr. H. Scott Davis
Mr. Nathaniel E. Green
Mr. Robert W. Rounsavall, III (arrived at 12:20)

Absent: Mr. William Wilcox

Other Directors

Present: Mr. Frank Hower
Mr. J. Chester Porter (arrived at 12:35 p.m.)

From the

University: Dr. James R. Ramsey, President
Dr. Shirley Willihnganz, Executive Vice President and Provost
Mr. Mike Curtin, Vice President for Finance
Mr. Joe Beyel, Vice President for University Advancement
Ms. Susan Ingram, Director of Budget
Mr. Rex Davidson, CPA, Controller's Office
Mr. Joe Gahlinger, Controller's Office
Mrs. Kathleen Smith, Assistant Secretary
Mrs. Debbie Dougherty, Board Liaison

Others

Present: Mr. Kennedy Helm, Stites & Harbison
Mr. Kent Myers, Cambridge Associates
Mr. John Tyler, Cambridge Associates
Mr. Bernie Backert, Deloitte & Touche
Ms. Gretchen Newton, Deloitte & Touche

I. Convene Meeting

Having determined a quorum present, Chair Deutsch called the meeting to order at 12:05 p.m.

Action to approve minutes, September 7, 2004

Mr. Green made a motion, which Mr. Davis seconded, to approve the minutes of September 7, 2004. The motion passed unanimously.

II. Information Updates

Report on Investment Performance

Mr. Tyler, from Cambridge Associates, briefed the Committee on investment performance, noting the Foundation assets returned 0.5% for the quarter. The calendar year to date and cumulative trailing 12-month performance continued to be solid, up 4.9%, and 15.1% respectively.

Mr. Tyler reported EII performance was up 200 basis points to its benchmark for the last quarter and up 140 basis points for the past three quarters.

Mr. Tyler noted NAM's performance for the past three years was 220 basis points below the index.

Chairman Deutsch asked Messrs. Davis and Wilcox serve as a subcommittee to work with Cambridge on investments following the MALT strategy.

Endowment Performance

Mr. Gahlinger reviewed the endowment performance by manager. (Mr. Porter arrived at 12:35 p.m.) Mr. Gahlinger discussed a recent meeting with Commonfund. Chair Deutsch observed the investment performance incorporated fundraising and distribution activities. He said staff was developing a companion chart to depict the net contribution number and show fundraising results. The companion chart will allow the Committee to focus on two important factors: how funds are invested and how revenues are raised. He preliminarily viewed charted information a couple of weeks ago but it only represented cash. Since the Foundation receives cash and pledges, he asked that the companion chart include both.

Chairman Deutsch noted the Courier-Journal article about the Brown Cancer Center gift. Mr. Deutsch expressed appreciation to Messrs. Rounsavall and Hower for their many years of great support to the University. President Ramsey expressed gratitude to Mr. Rounsavall for serving as chair of the cancer campaign and as a member of the hospital and Brown Foundation board. His commitment reflects a considerable amount of time invested. Dr. Ramsey reported renovations were complete for the third floor clinical space and suggested that a future meeting for the Foundation Finance Committee be held at this location.

III. Action Item: Approval of FY 2004 Financial Statements

Chairman Deutsch asked Vice President Curtin, Mr. Backert and Ms. Newton to update the Committee regarding the audited financial statements. Vice President Curtin reported the financial condition of the Foundation remained strong, noting that of the \$691 million total liabilities and assets, \$542 million represents investments. Of the \$84 million of total liabilities, \$37.9 million represented debt for two dorms. Mr. Curtin stated that Mr. Gahlinger promptly invests Foundation funds which has enhanced short term results. Mr. Curtin reported the UofL Athletic Association also made payments to the Foundation toward the Cardinal Park loan.

Mr. Backert thanked Mr. Curtin for his overview, and concurred with his statements. He also reported a clean and unqualified audit. Ms. Newton reviewed the balance sheets for the Committee. She complimented Rex Davidson for his assistance throughout the audit process. Chairman Deutsch noted the audited financial statements included the combined financial statements of UofL Foundation and ULH, Inc. In response to Mr. Rounsavall's inquiry about a management letter, Mr. Backert said the ULF statements do not specifically contain the letter, but the University's audited financial statements will. Vice President Curtin agreed to share the University's letter, when available, with the Foundation Board of Directors. Mr. Rounsavall made a motion, which Mr. Davis seconded, to approve the

Finance Committee's recommendation that the Board of Directors accept the audit report for the University of Louisville Foundation, Inc. for the year ended June 30, 2004, and 2003, as prepared by Deloitte & Touche (copy available upon request).

The motion passed unanimously.

IV. Action Item: Approval of Banking Resolution

Mr. Gahlinger explained the existing banking services contract with Republic Bank and Trust Company expires on December 31, 2004. Through a competitive request for proposal process, the University selected National City Bank of Kentucky, Louisville, Kentucky to provide banking services to the University of Louisville Foundation, Inc., effective January 1, 2005. In order for accounts to be operational on January 1, 2005, new resolutions opening the accounts and designating signature authority and limitations must be approved. These resolutions, if approved by the Board, will establish the accounts at National City Bank and assign signatory authorizations. Mr. Davis made a motion, which Mr. Green seconded to approve the

President's recommendation that the University of Louisville Foundation, Inc. Board of Directors adopt the attached resolutions relating to bank accounts at National City Bank of Kentucky, Louisville, Kentucky.

The motion passed unanimously.

V. Action Item: Approval of Reauthorization of Special Project Fund

Chairman Deutsch reported in 1992 the Foundation established a special project fund of \$10 million to enable President Swain to launch new initiatives that had a positive impact on fundraising. Additionally, the Foundation has committed approximately \$7 million over 2-3 years on high profile projects like the Cancer Center. Mr. Deutsch asked that, as the University moves aggressively to complete by 2008 the strategies contained in the Challenge for Excellence, the Foundation provide President Ramsey with a similar support. Mr. Davis made a motion, which Mr. Green seconded, to approve the

Finance Committee's recommendation that the Board of Directors reauthorize the establishment of a special fund from unrestricted undesignated monies in the Foundation, from which the principal and proceeds would be used by the President to carry out significant projects that a) advance the reputation of the University; b) expedite the completion of strategic initiatives in the Challenge for Excellence; c) partner with individuals and organizations to carry out capital projects of substantial significance to the University, e.g., Shelby Campus infrastructure; d) implement university programs, e.g., Hallmark Scholars, campus transformation, etc. to underscore the preeminence of the university's mission; and e) assist the University in meeting its goals. The fund would be renewable and set at an initial level of \$5 million over the next five years.

The motion passed unanimously.

The Committee took a short break at 12:50 p.m.

VI. Presentation of Money Managers

The Committee reviewed investments with MALT and heard presentations from EII, NAM, and discussed asset allocation.

Chairman Deutsch noted at the September 15, 2004 meeting, the Foundation Board of Directors approved restructuring target asset allocations to increase holdings in Marketable Alternatives (MALT) from 2% to 10% and reduce target allocations in other equity asset classes (primarily U.S. Equities). The Board also approved hiring Cambridge Capital Advisory Services (CCAS) to develop a MALT investment strategy and recommend individual money managers to implement it. Based on the CCAS proposal presented to the Finance Committee, Mr. Green made a motion, which Mr. Davis seconded, to approve the

Finance Committee's recommendation to

- 1. Invest \$27.5 million in the Marketable Alternatives (MALT) asset class in the first quarter of calendar year 2005. This investment will be funded with new money received and reallocations from existing money managers consistent with the revised allocation targets approved at the September 15, 2004 Board Meeting.**
- 2. Allocate the funds as follows:**

Absolute Return Managers

- \$ 6.1 mm** **Three multi-strategy arbitrage managers employing event arbitrage, convertible arbitrage, capital structure arbitrage, special situations equity and distressed securities strategies. Two would invest globally, but principally in Europe and the U.S.**
- \$ 2.7 mm** **Two event-driven arbitrage managers, one investing in the U.S. and one in Asia.**
- \$ 1.5 mm** **One dedicated convertible arbitrage manager, but with multi-strategy capabilities and a global focus.**
- \$ 1.8 mm** **One manager doing credit arbitrage and long/short credit.**

Long/Short Equity Funds

- \$ 8.8 mm** **Four U.S. long/short managers with varying strategies in different markets, in order to diversify risk and exploit different inefficiencies.**
- \$ 2.2 mm** **One global ex-U.S. long/short manager.**
- \$ 4.4 mm** **Two regional long/short managers (Europe and Japan).**

- 3. Authorize the Foundation Staff, in consultation with Cambridge Associates, LLC, to identify and select suitable MALT investment managers, execute limited partnership agreements with the selected managers and reallocate funds from existing managers as required to fund the new investments.**

The motion passed unanimously.

VII. Adjournment

The meeting adjourned at 4:00 p.m.

BOARD ACTION:

Passed X
Did not pass
Other

Asst. Secretary *Katalin M. Smith*