

MINUTES OF THE FINANCE COMMITTEE OF THE
UNIVERSITY OF LOUISVILLE FOUNDATION, INC.
JUNE 7, 2004

The Finance Committee of the University of Louisville Foundation, Inc. met on Monday, June 7, 2004, with members present and absent as follows:

In Open Session

Present: Mr. Burt Deutsch, Chairman
Mr. H. Scott Davis
Mr. Nathaniel E. Green
Mr. Robert W. Rounsavall, III
Mr. William Wilcox

From the University: Dr. Shirley Willihnganz, Acting Executive Vice President and Provost
Mr. Mike Curtin, Vice President for Finance
Ms. Terri Rutledge, Asst. VP for Bus Affairs
Mr. Dave Barker, CIA, Director of Internal Audit
Ms. Susan Ingram, Director of Budget
Mr. Rex Davidson, CPA, Controller's Office
Mr. Joe Gahlinger, Controller's Office
Mr. Jeff Spoelker, Office of the VP Finance
Mrs. Kathleen Smith, Assistant Secretary
Mrs. Debbie Dougherty, Board Liaison

Others Present: Mr. John Tyler, Cambridge Associates
Mr. Bob Gunnell, The Commonwealth Group
Ms. Laura Coomes, Creative Alliance
Mr. Andrew Aebersold, Creative Alliance
Ms. Yvonne Haller, Creative Alliance
Ms. Sumedha Mandpe, Creative Alliance

I. Convene Meeting

Having determined a quorum present, Chairman Deutsch called the meeting to order at 12 Noon. Mr. Deutsch welcomed Dr. Shirley Willihnganz to the meeting, in her permanent role as Executive Vice President and Provost and Executive Vice President of the Foundation.

Approval of Minutes, April 7, 2004

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

II. Information Item: Presentation of Website

Ms. Laura Coomes, of Creative Alliance, introduced the team working on the website and annual report. Ms. Coomes presented the Foundation's website, and reported the website will launch next week. It will include a copy of the annual report. Chairman Deutsch welcomed recommendations from Committee members. Ms. Coomes noted the Foundation's website will link to the Finance Committee's site. Vice President Curtin said the Finance Committee's link will be password protected. Ms. Smith said the ULF website will include current and past minutes, meeting agenda, schedule of meetings and other materials. Chairman Deutsch congratulated the Creative Alliance team for their excellent work. Ms. Smith will circulate the website address to the Foundation Finance Committee.

III. Information Update

Interim Financial Statements through March 31, 2004

Vice President Curtin reviewed the financial statements as of March 31, 2004 (copy available upon request). Mr. Curtin stated net assets increased over \$100 million, due primarily to positive gains in the stock market over the last quarter. Mr. Curtin noted that Kurz Hall was listed as an asset and a liability. Mr. Curtin reaffirmed the Foundation's strong financial position. He noted only one area to watch under gifts. Two major gifts originally pledged were written off; the first was \$5 million pledged for one of the Baxter Research Buildings, and the second was a Bucks for Brains pledge of \$4 million. He confirmed, however, that other gift areas had increased.

Mr. Davidson reported on the expense statement, under Academic Support that the change in position of about \$4 million reflects the transfer of the ULF's grant to the James Graham Brown Cancer Center.

Investment Performance Report

Mr. Tyler distributed updated market value and asset allocation analyses through March 31, 2004 (copy available upon request). He noted the first quarter of 2004 began with all the momentum and speculation that characterized the fourth quarter of 2003. With 144 endowments reporting, the UofL Foundation ranked in the 21st percentile for the quarter with total assets returning 3.9% (net) as compared to the Cambridge Associates total endowment median of 3.4%. The Foundation's quarterly return also compared favorably to its college and university peer group, outperforming the median return of 3.4% by 50 basis points, with a top quartile ranking (46 institutions reporting). Mr. Tyler complimented the committee regarding the very strong performance of the Foundation's portfolio.

In response to Mr. Davis' question concerning Varde, Mr. Tyler said Varde focuses on the broader index base and is a stronger measure. Mr. Gahlinger reported on the action item to move funds from Varde V to Varde IP Fund. Mr. Davis made a motion, which Mr. Green seconded, to approve the

Recommendation to transfer funds from Varde V to Varde IP Fund.

The motion passed unanimously.

Mr. Tyler stated distressed securities continue to be strong relative to performance over time. He recommended the Foundation terminate its investment in Rogers Raw Materials and deploy its natural resource investments in a manager with a larger institutional quality platform.

Chairman Deutsch thanked Mr. Tyler for his responsive report, noting that Cambridge had quickly brought this information to the Committee's attention. The Committee supported the recommendation to liquidate \$5 Million from Rogers Raw Materials and apply that toward short term cash. The Committee also agreed to hear presentations from commodities area managers at a future meeting. Mr. Davis thanked Mr. Tyler for his research. Mr. Rounsavall made a motion, which Mr. Green seconded to approve the

Recommendation to terminate the investment with Rogers Raw Materials and assign those funds to the 2003-04 spending plan.

The motion passed unanimously.

Mr. Tyler proposed the Committee review marketable alternatives at the September meeting. He noted the role of marketable alternatives reduces the overall fund risk, diversifies the sources of return and risk in the portfolio, and protects assets in down strategy possibility and recommended addressing this investment alternative at the September committee meeting. In response to Mr. Wilcox's inquiry, Mr. Tyler confirmed Cambridge does not receive any fees from money managers. Chairman Deutsch noted the Committee will review marketable alternatives at the September meeting.

IV. Action Item: Approval of the Operating Budget for 2004-05

Vice President Curtin reviewed highlights of the 2003-04 Operating Budget. The recommended budget is projected at \$37 million. This represents an 11% increase over fiscal year 2003-04--a result of 1) budgeting additional gifts, 2) accumulated cash from annual giving, and 3) increased restricted endowment income. Low interest rates continue to depress earnings available from short-term investments. Some important initiatives funded in previous Foundation budgets will, therefore, go unfunded or receive funding from other university monies.

Chairman Deutsch stated that all board members received this material prior to the meeting which allowed them an opportunity to review it in detail. He confirmed there are three components to the budget: Unrestricted Funds (discretionary funds) which the Board of Directors must approve or change; Restricted Endowment Funds, which represents funds donated with the stipulation that the gift's principal must be held inviolate and invested for the purpose of producing income; and Gifts, which represents accounts established from unrestricted donations. Mr. Green made a motion, which Mr. Davis seconded to approve the

President's recommendation that the Finance Committee approve the proposed operating budget for the fiscal year 2004-2005 for the University of Louisville Foundation, Inc. as specified in the budget document and supporting schedules (copy available upon request); and

That the President be authorized to make adjustments for discretionary programmatic expenditures from budgeted reserves up to the balance available in the reserve. All such adjustments shall be reported to the Board quarterly.

The motion passed unanimously.

V. Action Item: Policy Proposal Recommendations from State Auditor's Review (3/24/04)

Vice President Curtin reported that the Foundation has completed, or put into process, all recommendations from the state auditor's office. At the April Committee meeting, Mr. Curtin shared the analysis and sought input from the Committee. Mr. Curtin confirmed that the President, legal counsel and university administration, including the director of audit services, have reviewed the analysis. Chairman Deutsch supported the recommendation which was consistent with previous discussions, and formulation of, the specific policy recommendations. Mr. Davis made a motion, which Mr. Green seconded, to approve the

The President's recommendation to the Board of Directors that the University of Louisville Foundation, Inc. adopt the following policies to respond to the recent audit of State Auditor Crit Luallen.

- **Insert in section A.1 of the ULF Travel and Expense Reimbursement Policy "such travel expenses incurred by Board members relating to travel by their spouses or minor (<18 yrs) children when accompanying the Board member shall be reimbursed only when authorized by the Executive Committee of the Board of Directors.**
- **The University of Louisville Foundation adopts the following as policy: ULF owned equipment and furnishings valued at \$1,000 or greater will be inventoried and reported to the Foundation Property Committee annually. Additionally, any capital expenditure for Amelia Place of \$5,000 or more will be reported to the Property and Executive Committees on the President's Quarterly Reports.**
- **The University of Louisville Foundation adopts the following as policy: Any single gift equal to or exceeding \$5,000 in value requires the approval of the Executive Committee of the Board of Directors. Any gifts in value of \$5,000 or more approved by the Executive Committee or received by the President will be reported on the President's Quarterly Reports under a separate category titled "Gifts."**

The motion passed unanimously.

VI. Discussion of Cash Flow Requirement

Mr. Gahlinger reported that since projecting the \$8 million needed to meet the 2003-04 operating budget, the Foundation has received \$1 million in Bucks for Brains matching funds. With the above \$5 million liquidation from Rogers Raw Materials, the Foundation will, therefore, need to liquidate approximately \$2 million. Chairman Deutsch noted this request as procedurally routine to balance to targets. Vice President Curtin remarked that the final balance funded will be adjusted down by any new endowment received in June 2004. Thus, \$2 million is the maximum amount anticipated for liquidation. Mr. Davis made a motion, which Mr. Green seconded, to approve the

President's recommendation to liquidate up to \$2 million in assets.

The motion passed unanimously.

The Committee took a brief break and resumed the meeting at 1:35 p.m.

VII. Presentation of Money Managers

The Committee heard a presentation from Dan Isaacs, Vice President, Relationship Management, and Nilesh Undavia, Senior Vice President of Wellington Asset Management.

The Committee heard a presentation from Carl O'Connell, Client Service/Business Development, and Carolyn Kedersha, Portfolio Management of The Boston Company.

The Committee heard a presentation by Dr. Mark Rogers of Aptamera.

IX. Review and Discussion of Money Manager Presentations

The Committee discussed the presentations by the money managers.

X. Adjournment

The meeting adjourned at 3:30 p.m.

BOARD ACTION:

Passed _____ X _____
Did not pass _____
Other _____

Asst. Secretary *Katalin M. Smith*