

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

In Open Session

The Finance Committee of the University of Louisville Foundation, Inc. met on Tuesday, September 7, 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
Mr. William Wilcox

Other Directors

Present: Mr. Malcolm, B. Chancey, Jr.
Mr. Frank Weisberg

From the
University:

Dr. James R. Ramsey, President
Dr. Shirley Willihnganz, Executive Vice President and Provost
Mr. Joe Beyel, Vice President for University Advancement
Mr. Mike Curtin, Vice President for Finance
Mr. Larry Owsley, Vice President for Business Affairs
Mrs. Susan Magness, Controller's Office
Mr. Joe Gahlinger, CPA, Controller's Office
Mrs. Kathleen Smith, Assistant Secretary
Mrs. Debbie Dougherty, Board Liaison

Others

Present: Mr. Kent Myers, Cambridge Associates
Mr. John Tyler, Cambridge Associates

I. Call to Order

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

Approval of Minutes, June 7, 2004

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

II. Information Updates

Report on Investment Performance

Mr. Tyler briefed the Committee on investment performance, noting the Foundation accounts returned 0.4% for the quarter and was up 20.1% for the trailing 12 months. After a brief discussion concerning NAM, Mr. Tyler recommended the Finance Committee meet with NAM's managers.

Endowment Performance

Mr. Gahlinger reviewed the performance report, which exhibited very strong results for the Foundation's portfolio. As of June 30, the portfolio value has increased \$117 million over the index. Chair Deutsch commented that the Relative Performance Ratings FY to date as of June 2004 and Trailing 12 Months as of June 2004 should be the 5th percentile.

EII Update

Mr. Tyler reported that Cambridge Associates recently met with EII Core REIT managers. The consensus was the fund manager has appropriate skills and performance record. Based upon its assessment, Cambridge recommended retaining EII and inviting EII to the next Finance Committee meeting.

Update on Kentucky Life Sciences Venture Capital Initiative

President Ramsey gave a status report on this initiative. He acknowledged a serious need for access to seed funding. There are venture funds available in the community and the state but none that focus on "seed" support in the biotechnology areas. At the President's direction, Vice President Owsley has been working with a partnership of investors to evaluate the venture funds with a Kentucky presence that could pursue seed funding. The University issued Requests for Proposal to identify fund managers with expertise and a Kentucky presence. Original plans included the University of Kentucky and the Commonwealth of Kentucky as potential investors; however, they did not commit to the initiative. Triathlon Medical Ventures met the criteria and demonstrated management expertise. Subsequently, the University of Louisville Foundation authorized \$2.5 million as a redirection of Minerva Ventures funds. Investors are the Norton Foundation (\$1million), JHHS (\$500,000), and others for a total of \$5 million. Triathlon expects to attract other investors to reach its projected fund balance of \$50 to \$100 million. The University also hoped to leverage a \$3 million seed fund, but this initiative has proven more difficult. Dr. Ramsey asked Vice President Owsley to brief the Board further. Mr. Owsley reported the Small Business Administration (SBA) completed a thorough review last week and approved a 2 for 1 match. Mr. Owsley acknowledged one more hurdle exists with

the SBA. He explained the 2 for 1 match of the University's \$2.5 million leverages it to \$5 million. Mr. Owsley reported Stites & Harbison has evaluated the proposal. The University has worked with the Mayor's Office, the Gheens Foundation, and the J. Graham Brown Foundation. Mr. Owsley recognized the Carpenters Union's initial interest but reported their subsequent withdrawal. Chair Deutsch praised the community effort behind this venture and the University's leadership in bringing the initiative forward. He thanked President Ramsey and Vice President Owsley for their contributions.

Fundraising

Chair Deutsch shared his discussion with Messrs. Curtin and Gahlinger about a chart that monitors fundraising performance. He recommended Joe Gahlinger and Joe Beyel design an analysis that easily reports the data for the Finance Committee to discuss at future meetings.

The Committee took a short break at 1:00 p.m.

III. Presentations of Money Managers

The Committee heard presentations from State Street Global Advisors and Marketable Alternative Assets.

IV. Review and Discussion

Cambridge Associates (CA) discussed overall asset allocation with the Committee members. CA proposed a restructuring of target asset allocations to increase holdings in Marketable Alternatives and to reduce target allocations in other equity asset classes (primarily U.S. Equities). Based on this discussion, the Finance Committee will recommend to the Board of Directors an increase in the target allocation to Marketable Alternatives (MALT) from 2.0% to 10.0%, with offsetting reductions in other equity asset classes to be determined through coordination between the Foundation's Financial Consultant (Cambridge Associates, LLC) and Foundation Staff; the Foundation will enter into an Investment Advisory Agreement with Cambridge Associates, LLC to provide comprehensive investment advisory and monitoring services for MALT Investment Assets; and the Foundation will adopt the Modified Target Step 1 strategy as its new investment policy target allocation.

Chair Deutsch noted at the Board of Directors meeting on June 17, 2004, the Board approved a 2% allocation to the commodities market sector (approximately \$10 million based on the May 31, 2004 Commingled Endowment Market Value). The Finance Committee interviewed three potential managers of commodities index funds. Based on these interviews and the recommendation of Cambridge Associates, LLC, the Finance Committee will recommend to the Board of Directors an investment of \$10 million with State Street Global Advisors

contingent upon a favorable review of the investment agreement by the Foundation's legal counsel, and authorization of the Foundation Staff, in consultation with Cambridge Associates, LLC, to determine which existing investments to liquidate to generate the required funding.

V. Adjournment

The meeting adjourned at 4:15 p.m.

BOARD ACTION:

Passed X

Did not pass

Other

Asst. Secretary *Katalin M. Smith*