

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

In Open Session

Members of the Finance Committee of the University of Louisville Foundation Board of Directors met at 12 Noon, May 31, 2005, in the Jefferson Room, Grawemeyer Hall, Belknap Campus, with members present and absent as follows:

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

Absent: Mr. Nathaniel Green

Other Directors

Present: Mr. Frank Hower

From the

University: Dr. Shirley Willihnganz, Executive Vice President and Provost
Mr. Mike Curtin, Vice President for Finance
Mr. Larry Owsley, Vice President for Business Affairs
Mr. Joe Beyel, VP Univ Advancement
Ms. Susan Ingram, Director of Budget
Ms. Susan Magness, Assistant Controller
Mr. Rex Davidson, CPA, Controller's Office
Mr. Joe Gahlinger, Controller's Office
Mr. Jeff Spoelker, VPF office
Mr. Jason Tomlinson, VPF office
Mrs. Debbie Dougherty, Board Liaison

Others

Present: Mr. John Tyler, Cambridge Associates
Ms. Jennifer Dilts, Cambridge Associates
Mr. George Emont, Kentucky Seed Capital Fund, Triathlon Venture Partners
Mr. Steve Gailar, Kentucky Seed Capital Fund, Triathlon Venture Partners

I. Convene Meeting

Having determined a quorum present, Chairman Deutsch called the meeting to order at 12:05 pm.

Approval of Minutes

Mr. Davis made a motion, which Mr. Rounsavall seconded, to approve the minutes of March 3, 2005. The motion passed unanimously.

II. Information Updates

Investment Performance Report

Mr. Gahlinger reviewed the Investment Performance Summary and Quarterly Investment Performance Report. Mr. Gahlinger noted the market value as of March 31, 2005 was \$553 million. Chair Deutsch reported the endowment return for this fiscal year has been 16.2%, which represented a significantly greater return than benchmark. Chairman Deutsch suggested aligning the reports with fiscal year information. Chair Deutsch recommended meeting with staff before the next committee meeting to discuss reporting logistics.

Interim Financial Statements through March 31, 2005

Mr. Davidson reported the financial position of the Foundation as of March 31, 2005 reflects a very stable position. During the first nine months, the Foundation has increased its net assets over June 30, 2004 by \$48.8 million bringing the total to over \$656.0 million for an 8% increase.

The market value of Foundation custody investments increased approximately \$45.5 million over March 31, 2004 for an 8.5% increase, which reflects investment policy and performance as well as new gifts.

The market value of the Foundation's endowment fund rose to \$590.4 million as of March 31, 2005. This represents a 6.4% increase over the June 30, 2004.

Total revenues of the Foundation were approximately \$94.8 million for the period ending March 31, 2005. Gain on investments account for 45% (\$42.7 million) of total revenues, while new gifts to the Foundation account for 40% (\$38.2 million).

Total expenditures of the Foundation increased 10% for the same period, due primarily to the reclassification of an \$8.6 million asset to a liability. This reclassification accurately reflects a contractual obligation (December 2004) with Jewish Hospital Healthcare Services' to hold funds in trust, while the Foundation retains the benefit of spending earnings consistent with the Foundation's spending policy. In response to Mr. Davis' inquiry, Mr. Davidson concurred this was the first time the Foundation's assets exceeded \$750 million.

III. Action Item: Approval of Investment in the Kentucky Seed Capital Fund

Provost Willihnganz introduced Mr. George Emont. Mr. Emont is a venture fund manager with over 10 years of venture capital experience and was formerly the CEO of an early stage, venture-backed biotech company. He most recently managed Humana Ventures, with a \$75 million portfolio, and currently heads the Louisville office of Triathlon Medical Ventures, LLC, a \$96 million, midwest-based venture capital fund focused exclusively on life science investments. In addition, Mr. Emont is the Managing Partner of Kentucky Seed Capital, a venture capital fund that invests in seed stage health care opportunities. Mr. Emont possesses over 20 years of experience in the healthcare industry, a successful start-up of a biotechnology company and extensive venture capital experience in medical device, biotechnology, health care service and health care IT companies. Mr. Emont serves on the boards of ApoImmune, an early stage

immunotherapy company, and Elderserve, a non-profit agency providing services to over 8000 elderly people in any around Louisville. Mr. Emont has a BA from Oberlin College and an MBA from the University of Chicago.

In his presentation, Mr. Emont noted the Bucks for Brains program that began in 1998 has had a significant impact on the level of funded research at Kentucky's universities, which has created new opportunities for Kentucky. Kentucky universities' investment in health science research has been extraordinary compared to universities nationally. He stated 70% of research grants to UK and UofL were for health sciences, compared to the average of 55% for public and private universities nationally. Aptamera represented an example of a successful life sciences investment. It started with \$9 million in research funding from various grant sources. Commercialization was funded initially by angel investors with \$1 million for pre-clinical work, followed by an additional \$2 million for the Phase I clinical trials. After a successful Phase I trial, Antisoma, a publicly traded British company, purchased Aptamera.

Mr. Emont remarked that since Dr. Donald Miller joined the Brown Cancer in 1997 under the "Bucks for Brains" program the changes in research output at the cancer center have been dramatic. The Brown Cancer Center is just one tangible result of the UofL research emphasis. Other programs at the University are also seeing dramatic increases in research engine, which create opportunities for new companies to emerge from these programs as well.

Mr. Emont acknowledged the huge gap in health science research funding in Kentucky. A goal of the Kentucky Seed Capital Fund is to help to close that gap. Mr. Emont speculated the seed fund was the last major piece needed to create a high growth health science engine in the community. In order to create new companies from research, he noted a need to add business management expertise and seed capital. The MetaCyte Business Lab was created to help companies develop the human capital needed, as well as to provide business expertise and access to experts and other networks important to these new companies.

Mr. Emont introduced Mr. Steve Gailar, co-manager of Kentucky Seed Capital Fund. Mr. Gailar has 32 years of related experience and became CEO of MetaCyte Business Lab in 2004. Mr. Gailar recognized that Mr. Emont's vast experience and current role as a Venture Partner for Triathlon Medical Ventures gave the developing companies access to a \$96 million venture capital fund. Triathlon is one of several regional venture capital funds and the largest to invest exclusively in biotechnology and medical device deals. The Kentucky Seed Fund has a broader scope than Triathlon because it focuses on as many interesting opportunities as possible, and also because the principals of the fund have investment experience in all of these areas. He estimated that commitments to the fund will be drawn down over about six years with about 15-20% invested each year. Mr. Gailar concluded that Kentucky Seed Capital Fund anticipates significant growth to enable the creation of a promising portfolio of companies. He thanked the committee members for their time and consideration.

Provost Willihnganz stated approximately \$70 million comes from NIH funding. She said the University requested the Finance Committee approve the \$1 million investment over a six year period. She praised Vice President Owsley's efforts on this project. Vice President Owsley said the Fund has received commitments from Baptist Foundation, J.

Graham Brown Foundation, the Commonwealth Seed Fund, and the Jewish Foundation. He further noted it was a key part in the LMCDC plan to get the seed fund up and running.

Chairman Deutsch added that the presentation focused on the investment and prospect of return. He believed it should be viewed as local venture capital and as programmatic, with the return to the community in mind. This investment represented a tremendous community investment. In response to Mr. Hower's inquiry about the structure, Vice President Owsley stated it would be a limited partnership in the Fund and Mr. Emont will provide a copy of the private placement. Mr. Owsley noted the Gheens Foundation was considering investing in this capital fund, also. Mr. Wilcox made a motion, which Mr. Rounsavall seconded, to approve

Committing \$1 million to The Kentucky Seed Capital Fund to support creation of companies resulting from research at the University of Louisville. This commitment will be incrementally drawn over the next six years.

The motion passed unanimously. Chairman Deutsch requested regular updates.

IV. Action Item: Approval of the Operating Budget for 2005-06

Vice President Curtin reviewed highlights of the 2005-06 Operating Budget. The recommended budget was projected at \$62 million. This represents an \$18 million increase, which was a direct result of a procedural change allowing units to budget projected accumulated fund balances for endowments. Beyond this technical change, the Foundation budget increased an additional 21% over 2004-05. This increase was a result of increased philanthropic support of the University.

Chairman Deutsch stated that all board members received this material prior to the meeting which allowed them the opportunity to review it in detail. He confirmed there are three components to the budget: Unrestricted 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. Davis made a motion, which Mr. Wilcox seconded, to approve the

President's recommendation that the Finance Committee approve the proposed operating budget for the fiscal year 2005-2006 for the University of Louisville Foundation, Inc. as specified in the attached budget document and supporting schedules; 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. The Committee took a break at 1:00 p.m.

V. Cambridge Portfolio Review

Chairman Deutsch reconvened the meeting at 1:15 p.m. Mr. Tyler reviewed the portfolio. Target allocation was consistent with stated financial objectives. Asset allocation was aligned to meet the Foundation's stated mission and return objectives. Mr. Gahlinger will provide an updated comparison of the approximately 700 institutions in an annual report and will provide an update at the September meeting,

In response to Mr. Davis' inquiry concerning the Foundation's 6.1% expenses, Mr. Tyler said other Foundations spent between 4 and 4.5 %.

Mr. Tyler recommended as part of the annual agenda the Committee set aside some time to strategically review the portfolio. The Committee agreed.

Ms. Dilts provided an overview of the targeted allocations.

Chairman Deutsch reported that a colleague had approached Mr. Larry Hayes about Parthenon. Mr. Hayes explained the Foundation's investment strategy and philosophy and referred this colleague to Mr. Tyler. Chair Deutsch asked Mr. Tyler review this opportunity.

VI. Other Business

There was no other business.

VII. Adjournment

The meeting adjourned at 4:15 p.m.

BOARD ACTION:

Passed X

Did not pass

Other

Asst. Secretary *Katalin M. Smith*