

Minutes of the Regular Meeting of the University of Louisville Foundation Finance Committee

In Open Session

Members of the Finance Committee of the University of Louisville Foundation, Inc., met on Tuesday, November 17, 2009, at 12 Noon in the Alumni Board Room of the Chancey Center, Belknap Campus, with members present and absent as follows:

Present: Mr. Burt Deutsch, Chair
Mr. Robert W. Rounsavall, III
Mr. Frank Weisberg

Absent: Ms. Joyce Hagen
Mr. Harry Jones
Mr. William Wilcox

Guests: Mr. John Tyler, Cambridge Associates
Ms. Letitia Johnson, Cambridge Associates
Ms. Mary McKinley, BKD
Ms. Jennifer Williams, BKD
Mr. Matt Willinger, Peritus

Via Conference

Call: Mr. Kyle Blackburn
Mr. George Hasiotis

From the

University: Mr. Keith Inman, Vice President for University Advancement
Mr. Mike Curtin, Vice President for Finance
Mr. Joe Gahlinger, Director of Treasury Management
Ms. Anne Rademaker, Director of Financial Reporting & University Accounts
Mrs. Kathleen M. Smith, Assistant Secretary
Mrs. Debbie Dougherty, Board Liaison

I. Call to Order

Having determined no quorum present, Chair Deutsch said the Committee members would informally discuss the agenda items and propose them to the full board at its meeting on December 1, 2009.

II. Action Item: Approval of FY 2009 Audited Financial Statements

Chair Deutsch noted the external auditors conducted a separate meeting with the committee for a review of the audited financial statements and there were no concerns. Chair Deutsch asked Vice President Curtin and Ms. McKinley to update the Committee regarding the audited financial statements. Vice President Curtin reported the financial condition of the Foundation remained strong. He reviewed the financial statements and introduced Ms. Mary McKinley,

partner with BKD, LLP, Auditors. Ms. McKinley thanked Mr. Curtin for the overview, and concurred with his report. She noted a clean and unqualified audit and complimented the accounting staff for their assistance throughout the audit process. Mr. Rounsavall made a motion, which Mr. Weisberg seconded to informally adopt

The President's recommendation that the Finance Committee approve the attached financial statements for the period ending June 30, 2009 and Independent Auditor's Report as presented by BKD.

III. Action Item: Approve PNCCM Custody Account Resolution

Mr. Gahlinger reported due to the merger of National City Bank and PNC Bank, the Foundation's existing short term investments custodial and safekeeping accounts at National City Bank are being transferred to PNC Capital Markets (PNCCM). To effect this transfer, new account documents must be executed and a new Corporate Resolution authorizing individuals to open accounts at PNCCM and execute transactions in those accounts must be approved by the Board. The Foundation currently purchases a variety of short term securities (including, but not limited to, US Treasury Notes, US Government Agencies Bonds & Notes, Variable Rate Demand Notes, Municipal Bonds, Certificates of Deposit, etc.) to earn additional income on its operating cash. These securities are currently traded through National City Investments, Inc and held in a safekeeping account by them. Mr. Weisberg made a motion, which Mr. Rounsavall seconded, to informally adopt the PNCCM custody account resolution.

IV. Information Item: ULH, Inc. Bond Re-Financing Resolutions

Mr. Gahlinger explained ULH, Inc., issued variable rate demand student housing industrial building revenue bonds to finance the building of Bettie Johnson Hall (\$24,195,000) and Herman & Heddy Kurz Hall (\$14,460,000) in 2001 and 2002 respectively. The University of Louisville Foundation, Inc., guaranteed both bonds. Allen & O'Hare Educational Services, LLC manages both facilities, collects rents, pays expenses and makes debt service payments. Both facilities have operated at 98% or better occupancy since being put into operation and have been financially sound honoring all bond covenants and indentures.

While ULH, Inc., has enjoyed the benefits of a variable rate bond, especially over the last eighteen months with historically low interest rates (current interest rate on Series 2001 is 0.95% and Series 2002 is 1.90%--both include Line of Credit fees) the banking crisis that started in the Fall of 2008 introduced unprecedented high levels of re-marketing failures. ULH experienced three such failures: Series 2001 (\$9,355,000 Sep – Dec 08), Series 2002 (\$9,035,000 Oct – Nov 08), and Series 2002 (\$10,785,000 Jun – Jul 09). The failures put ULH and the Foundation as guarantor, in a very vulnerable position of having to amortize these failures over 5 years at high interest rates if not re-marketed within 90 days of the initial tender. Morgan Keegan was able to re-market all of the failures within the 90 days, but not without considerable anxiety and uncertainty.

In light of these experiences, the President refinanced these variable rate bonds into fixed rate issues to remove the risk and uncertainty of re-marketing failures. Morgan Keegan produced analyses of current market rates and discussed those findings with the staff. The current historically low interest rate environment provides a good opportunity to refinance at attractive fixed interest rates. Furthermore, one of the features of the Stimulus package is to increase Bank Qualified (BQ) Bonds limits from \$10 million to \$30 million per year. BQ Bonds offer advantages of competitive interest rates and simplified issue and sell procedures.

Mr. Gahlinger reported staff is working with Morgan Keegan (Bond Advisor and Underwriter) and Stites & Harbison (Bond Counsel) to refund the existing bond balances (\$21,760,000 for Series 2001 and \$13,635,000 for Series 2002) and issue two new fixed rate BQ bonds. The Series 2002 bonds will be refunded and re-issued in December 2009 and the Series 2001 bonds will be refunded/re-issued in January 2010.

ULH, Inc. will issue the bonds and the Foundation will be the guarantor. Certain Board Resolutions from both ULH and the Foundation will be required. Bond Counsel is drafting these resolutions and will present at the December 1, 2009 Board meetings of ULH, Inc., and the University of Louisville Foundation, Inc.

V. Information Updates:

Investment Performance

Mr. Gahlinger reviewed the quarterly investment performance report. Since 1995, the Foundation's portfolio has added \$147.1 million more wealth compared to the Cambridge Associates' College and University Median and \$159.4 million compared to the Asset Allocation Benchmark. Mr. Gahlinger reviewed endowment performance by composite, market alternative performance, non-marketable performance, and summarized endowment investment performance by managers. Chair Deutsch thanked Mr. Gahlinger for the update.

Endowment Performance

Ms. Johnson and Mr. Tyler updated the Committee on capital markets and manager performance.

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

IV. Manager Updates – Loomis Sayles, Brandywine

Mr. Tyler updated the Committee on Loomis Sayles and Brandywine investments. Mr. Weisberg made a motion, which Mr. Rounsavall seconded, to informally adopt

A recommendation to the Board of Directors to 1) approve a 50% redemption of the Loomis Sayles Credit Asset Fund as of December 31, 2009, and 2) authorize the Foundation Investment Staff to redeem the remaining holdings from the Fund as recommended by Cambridge Associates without further approval from the Board or Finance Committee. Any redemptions will be reported at the next following Board and Finance Committee meetings.

V. Market Update

Mr. Tyler updated the committee on the market.

VI. NMAA Update

Via conference call, Mr. Blackburn updated the Committee on NMAA investments.

VII. Asset Allocation Review

Mr. Tyler and Ms. Johnson discussed asset allocation recommendations with the committee. The Finance Committee conducted a comprehensive review of the strategic asset allocation plan for the investment portfolio and after careful consultation with Cambridge Associates, LLC recommend that several significant changes be made to the plan. In light of the market and economic turmoil of the last year, shifts in global growth opportunities, broad shifts in valuations of asset classes, the changing opportunity set and the need to effectively manage the portfolio's risk profile the Committee believes the proposed target allocations will enhance long-term compound returns. Mr. Rounsavall made a motion, which Mr. Weisberg seconded, to informally adopt the table as discussed.

VIII. MALT Update

Via conference call, Mrs. Johnson and Mr. Hasiotis updated the Committee on MALT investments.

IX. Questions/discussion

The Committee completed discussions regarding information from the presentations.

X. Adjournment

The meeting adjourned at 2:30 p.m.

BOARD ACTION:

Passed X

Did not pass

Other

Asst. Secretary *Katalin M. Smith*