

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 Monday, February 28, 2011, in the Alumni Board Room of the University Club/Chancey Center, Belknap Campus, with members present and absent as follows:

Present: Mr. Burt Deutsch, Chair
Ms. Joyce Hagen
Mr. Sam Rechter
Dr. William Selvidge
Mr. Frank Weisberg

Participating by
Phone: Mr. Harry Jones

Absent: Mr. William Wilcox

Guests: Mr. John Tyler, Cambridge Associates
Ms. Letitia Johnson, Cambridge Associates
Mr. George Hasiotis, Cambridge Associates
Mr. Bob Gunell, Peritus Public Relations

From the
University: Mr. Keith Inman, Vice President for University Advancement
Mr. Mike Curtin, Vice President for Finance
Mr. Joe Gahlinger, Dir Investments & Fin Mgmt
Ms. Anne Rademaker, CPA, Dir. Financial Reporting & Univ. Accounting
Mr. Michael Kramer, Accountant
Mr. Mark Hebert, Director of Media Relations
Ms. Debbie Dougherty, Board Liaison

I. Call to Order

Having determined a quorum present, Chair Deutsch called the meeting to order at 12:10 p.m.

Approval of Minutes

Ms. Hagen made a motion, which Mr. Weisberg seconded, to approve the minutes of September 10, 2010. The motion passed.

II. Information Updates:

Interim Financial Statements

Ms. Rademaker reviewed the interim financial statements for period ending December 3, 2010. Highlights of her discussion included:

- The Foundation's statement of financial position as of December 31, 2010, which reflects the stable position of the Foundation. The Foundation has \$957 Million in total assets, with liabilities of \$170 Million.
- During the first six months of the fiscal year, the Foundation's net assets increased \$75 Million to a total of \$787 Million. This represents an 11% increase compared to total net assets at June 30, 2010, and a 10% increase compared to total net assets at December 31, 2009.
- Cash and cash equivalents decreased \$26 Million due mainly to the payment on amounts due to the University of Louisville, which decreased \$25 Million.
- The market value of Foundation custody investments are \$748 Million, an increase of approximately \$78 Million, or 12%, compared to December 31, 2009.
- The market value of the Foundation's endowment fund is \$762 Million at December 31, 2010. This represents a 14% increase compared to the June 30, 2010 market value of \$669 Million.
- Net realized and unrealized gains increased by \$7 Million to a total gain of \$98 Million for the first six months of the fiscal year.
- Expenses on behalf of the University of Louisville have remained steady as compared to the prior year, with an increase of \$550 thousand.

Chair Deutsch thanked Ms. Rademaker for the excellent summary and noted it was for information purposes.

Endowment Performance

Mr. Gahlinger reviewed the quarterly investment performance report, including recent endowment changes and total return analysis. Since 1995, the Foundation's portfolio has added \$211.4 million in wealth as compared to the Cambridge Associates College and Universe Median, and \$212.3 million compared to the Asset Allocation universe. Chair Deutsch thanked Mr. Gahlinger for an excellent report.

Asset Allocation

Ms. Johnson reviewed highlights of the quarterly investment performance report. Ms. Johnson went over endowment performance by composite, market alternative performance, non-marketable performance, and summarized endowment investment performance by managers.

Policy Change Recommendations

Vice President Curtin discussed the need for a one-time change to the standing policy calculation methodology for Fiscal Year 2012 (FY12). Specifically, the standing three-year rolling average of endowment market values will be replaced by dropping the year with the lowest market value between 2008 and 2010 and averaging over the remaining two years. The Finance Committee approved making the following one-time modification recommendation to the Board of Directors applicable to the FY12 budget year only.

The standing spending policy calculation for endowments is based on appropriating 5.5% of the three-year moving average of endowment market value as of December 31st of the three most recent calendar years. For FY12 spending calculations, the years 2008, 2009 and 2010 would be used. The unprecedented market decline in 2008 resulted in a 29.4% decline in the year over year market value as of December

31, 2008. Since then, the endowment has enjoyed a robust recovery and is nearing a return to its pre-2008 high. Given the recovery of the endowment market value, the Finance Committee believes it prudent to authorize spending more in line with historic levels. This can be achieved by eliminating 2008 from the FY12 calculations and averaging over the remaining two years (2009 and 2010.) This will result in \$2.7 million more being made available to departments for spending as compared to using the standard 3-year average.

The motion passed.

Vice President Curtin noted the Commonwealth of Kentucky has enacted a version of UPMIFA (the Uniform Prudent Management of Institutional Funds Act). Under UMIFA, spending below the historic-dollar-value of an endowment was not permitted. Mr. Curtin fielded questions from the Committee. Mr. Rechter made a motion, which Mr. Weisberg seconded, to adopt the following recommendation

That the Board of Directors approve the following resolution disclosing the Board's definition of Permanently Restricted Funds in accordance with FASB ASC 958-205.

Whereas, ASC 958-205 requires the annual financial statements for non-profit organizations issued for years ending after December 15, 2008, to include a description of the governing board's interpretation of the law underlying the organization's net asset classification of donor-restricted endowment funds;

Whereas, UPMIFA was adopted by the Commonwealth of Kentucky and became effective July 15, 2010;

Whereas, the language of a specific endowment agreement is the primary determinant of the application of spending policy to a donor-restricted endowment;

Whereas, the standard endowment agreement between donors and the foundation agrees to follow the board approved spending policy, and the policy permits temporary use of historic-dollar-value and takes a long term view towards protecting the principal;

Whereas, historic-dollar-value is defined as the fair value of the original gift and subsequent gifts as of the gift date, and accumulations to the permanent endowment made in accordance with the direction of the applicable donor instrument;

Whereas, this resolution is consistent with the recommended guidance provided by the FASB for ASC 958-205;

Resolved, that the University of Louisville Foundation, Inc., has interpreted KRS 273, 1-10 as requiring the preservation of the fair value of the original

gift as of the gift date of the donor restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the University of Louisville Foundation, Inc., classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified as permanently restricted net assets, is classified as temporarily restricted net assets.

The motion passed.

In addition to the above resolution, Vice President Curtin advised the board should adopt the following recommendation. Ms. Hagen made a motion, which Mr. Rechter seconded, to recommend the

that the Board of Directors approve the following addition to the University of Louisville Endowment Fund Statement of Investment Objectives and Guidelines (dated June 15, 2006, amended December 1, 2009.)

added: Section III. B. 2. (a) In the event that an endowment's market value as of December 31st of the annual spending rate calculation year falls below its permanently restricted net asset value (as defined by separate Board Resolution), and in the absence of any donor restriction or direction to the contrary, the endowment will be deemed to be 'Underwater' and the following spending rate calculation will be used:

- 1. The Underwater Percentage will be determined by dividing the endowment's December 31st market value by its established permanently restricted net asset value.**
- 2. No spending will be authorized for any endowment with an Underwater Percentage equal to or less than 80%.**
- 3. For endowments with an Underwater Percentage between 80% and 99% , the authorized spending amount will be pro-rated based on the following table:**

Underwater Percentage	Pro-rated Percentage	Underwater Percentage	Pro-rated Percentage
99	95	89	45
98	90	88	40
97	85	87	35
96	80	86	30
95	75	85	25
94	70	84	20
93	65	83	15
92	60	82	10
91	55	81	5
90	50	80	0

The motion passed.

The Committee took a break at 1:30 p.m.

III. Information Items

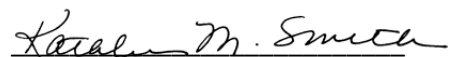
Cambridge Associates presented its annual hedge fund review.

Cambridge Associates reviewed the Foundation's fixed income portfolio and provided a review of the emerging markets bond manager.

IV. Adjournment

There being no further business to discuss, the meeting adjourned at 2:40 p.m.

Approved by:



Asst. Secretary