

MSUF Foundation, Inc.
Board of Trustees Meeting Minutes
12:30 Riggle Room
Friday, October 23, 2015

Present: Wayne Andrews, Bob Albert, Nathan Bishop, Dennis Dorton, Ron Griffith, Bill Hesch (via conference call), Steve Hicks (via conference call), Buckner Hinkle, Susan Martin, Jack Matthews, Beth Patrick, Cherie Rebar (via conference call), Dava Rice, James Shaw, Ed Strosnider, Paul Stokes, Steve Thieme, Brett Traver, and Willi Walker

Absent: Kenneth Alexander, Perry Allen, Gerald DeMoss, Bob Neff, and Stephen Pack

Call to Order

Buck Hinkle called the Foundation Board meeting to order and asked Sandi Ruth to call roll. Buck declared a quorum and the minutes from June 24, 2015, meeting were presented.

Review of Minutes

Buck made a motion to accept the minutes as presented – *motion passed*.

Comments from the President – Dr. Wayne Andrews

Dr. Andrews briefly reviewed the following with the board:

- Enrollment
- Two buildings with 50 new beds being built at the MSU Farm are under construction. The two units will be named after two employees who were dedicated employees at the University Farm; Eddie Lundergan, and Mike Padula.
- MSU to see better housing, parking and technology.
- Construction will begin in August for the new parking garage and food services building.

- ADUC will be off line this fall for upgrades. Construction starts in late May 2016.
- MSU will establish new admission index criteria, realign scholarships and increase focus on out of state recruiting.
- Dr. Andrews thanked the board members for their support of Morehead State University.

Finance Committee Report – Dr. Bob Albert

Dr. Albert briefed the Board on the Finance committee meeting as follows:

- Financial markets suffered during the third quarter, with equities and real assets experiencing meaningful declines. High-quality fixed income served its tradition nicely
- The committee had asked Oxford to review tactical recommendations since the beginning of 2014. While the committee noted that the recommendation to reduce equity exposure earlier this year was well timed, they expressed some concern regarding the emerging market and natural resources recommendations. Oxford recapped all of the recommendations for the full group.
- The MSU Foundation bottom-line endowment value of just over \$40.2 million was at a market low point during the recent selloff. Due to the market rally thus far in October, the bottom-line value has improved significantly.
- The portfolio has averaged 5.4% per year over the last five years. This return has covered The Foundation's spending rate, but has weakened over the past year as the market and portfolio have dropped.
- Oxford reviewed how Foundation equities have performed against an equity-only global benchmark as well as fixed income and alternative investments as a separate group. Oxford also reviewed the portfolio's watch list. Based on performance of the current investments, Oxford had no recommendations for terminations and replacement at this time.

Finance Report – Sharon Fraley

Sharon reviewed the financials for the year ending June 30, 2015.

Total Assets were just over \$51M, which included \$2.2M in cash, \$582,000 in property and \$5.1M in receivables. This also included \$43M in investments with Oxford.

Revenue received during the year totaled just over \$5M. This included \$2.8M in contributions and pledges, \$806,000 in non-contribution income, \$325,000 in the form of in-kind gifts, and \$932,000 in income from investment activities.

The Foundation had \$6M in expenditures during the year. Sharon reported that some of the largest expenditures went out to the new Craft Academy and 21st Century Manufacturing Center (\$1M combined). In addition, \$500,000 in scholarships were awarded, \$240,000 was provided for the Innovation Launchpad, \$100,000 for new athletic equipment, and \$1M for the volleyball court renovation.

Further, the Foundation expended \$567,000 of its \$677,000 annual operating budget. Sharon explained that the main expenses from the operating budget were software maintenance, development and alumni relations activity support and personnel support. The \$108,788 that was unexpended was added to the Foundation Operating Reserve account for future needs.

Audit Report – Dennis Dorton

Dennis reviewed the audit handouts prepared by Dean Dorton Allen Ford, PLLC for Morehead State University and reviewed the materials with the board. Buckner made a motion to accept the audit and the *motion passed*.

Nominating Committee Report – Perry Allen

In Perry's absence Jim spoke to the board about growing the board and sending nominations for new members. He asked anyone interested in serving on any of the committees to contact him. There was a motion to have Brett Traver appointed Chair of the nominating committee. Perry Allen would continue as the Vice Chair of the MSU Foundation Board of Trustees. The *motion passed*.

Campaign Update – Mindy Highley

Mindy reviewed updated the board on the Campaign as wells as new funds established in 2014-2015:

Endowed Scholarships:

- Brian and Kenneth Cooke Memorial Scholarship Endowment
- Josephine K. Davis Memorial Education Endowment
- David Cutts Scholarship Endowment
- Thelma Moore Memorial Scholarship Endowment
- Dr. Robert E. Hansen and Nancy M. Hansen Endowment

Annual Scholarships:

- Zoe G. Wells Scholarship Fund
- Sommai Purintun LeBron-Cooke and Vincent John Cooke Scholarship Fund
- Neuroscience Scholarship and/or Undergraduate Research Award
- Shirley Hamilton Scholarship
- Mazak AET Scholarship
- Justice Cheer Scholarship

Alumni and Welcome Center – Jim Shaw/Mindy Highley

Jim and Mindy reviewed the fundraising plan for the Alumni & Welcome Center Strategy 1 - 10 and reviewed renderings of purposed building.

Strategy 1 - Naming Opportunities \$2,950,000

Strategy 2 - Engraved Pavers \$100,000

Strategy 3 - Greek Support and Recognition \$250,000

Strategy 4 - Board Member Support \$250,000

Strategy 5 - Local Business Support \$50,000

Strategy 6 - State Farm Support \$200,000

Strategy 7 - Privately Hosted Fundraising Events \$100,000

Strategy 8 - Annual Fund Support \$300,000

Strategy 9 – Gift-in-kind Support \$100,000

Strategy 10 – MSU Foundation Support \$1,000,000

Totaling - \$5,300,000

The board was asked to commit \$1,000,000 over 5 years to support this project.

The board asked for CEO input. Jim Shaw said he would like to look at end of year investment results before he provides a final recommendation, but was optimistic about the ability to do this.

CEO Update– Jim Shaw

Jim thanked members for their time and dedication on the board and reviewed the upcoming board dates.

New Business

Steve Hicks asked at the end of the Finance committee meeting that we look at changing non-endowment scholarship accounts with carry over value to interest bearing accounts. This would require a modification to the FMIP (Financial Management Investment Policy). The staff will provide information to the Finance Committee for their recommendation.

Nate Bishop asked that the staff look at alternative board dates that allowed participation in sporting events in conjunction with the meeting. The staff will explore options to do this.

Meeting dates as follows:

February 26, 2016

June 3, 2016

October 28, 2016

The meeting adjourned at 3:40

Created by Sandi Ruth

Reviewed by Sharon Fraley

Approved by Jim Shaw

MSUF Foundation, Inc.
Finance Committee Minutes
ADUC –302 at 10:00 AM
Friday, October 23, 2015

Present: Bob Albert, Steve Hicks (Via Conference Call), Nate Bishop,
Buck Hinkle, Jim Shaw, Steve Thieme and Sharon Fraley.
Oxford Advisors Rob Twitchell, and Michael Veith

Absent: Bill Hesch, Perry Allen, and Beth Patrick

Call to Order

Committee Chair, Bob Albert, called the Finance Committee meeting to order at 10:00 am and turned the meeting over to Oxford advisors Rob Twitchell, and Michael Veith.

Investment Report/Portfolio Summary – Rob Twichell and Michael Veith

The Finance Committee reviewed recent market activity and the global financial landscape.

- Financial markets suffered during the third quarter, with equities and real assets experiencing meaningful declines. High-quality fixed income served its traditional safe-harbor role during the selloff. So far in October, markets have recovered nicely.
- Slowing Chinese economic growth was a key catalyst for the global equity correction. Other countries around the world, including the US, have also shown modest signs of softening.
- The impact of a slowing China has been particularly painful for emerging markets and real asset/commodities sectors, detracting from the performance of diversified portfolios.

- Despite the market correction, equity valuations generally remain above historic norms. Oxford recommends targeting a slight tactical underweight to global equities.

- Emerging markets fundamentals have deteriorated. As a further risk-reduction measure, Oxford recommends reducing exposure to emerging markets equities and Asian debt.

- The Fed will move slowly, if at all. Bonds continue to represent a source of safety. Following a multi-year period of substantial underperformance, natural resource equities offer attractive relative value for patient investors.

- The committee had asked Oxford to review tactical recommendations since the beginning of 2014. While the committee noted that the recommendation to reduce equity exposure earlier this year was well timed, they expressed some concern regarding the emerging market and natural resources recommendations. Oxford recapped all of the recommendations for the full group.

- Adding to natural resources earlier this year – as well as employing fundamental indexing rather than expanding the use of traditional market cap indexing in the first quarter of 2014 – are the two tactical recommendations that have had a negative impact on the performance attribution. The other tactical trades have worked out positively, or are roughly equal to, the prior positioning as far as performance attribution.

- Oxford spent a substantial amount of time discussing the natural resource sector and the rationale behind Oxford's continued recommendations in this category. They have suggested an overweight position, and proposed a slight addition to rebalance again since natural resources have dropped during the second and third quarters.

- Oxford also reviewed their thinking on emerging market equity; the recommendation being to reduce overall exposure while increasing developed market equity in its place.

- Oxford discussed the idea of a liquidity pool and a long-term pool separating the foundation assets from one combined account with multiple underlying brokerage accounts.

- In place of the current structure, Oxford would have separate investment allocation summaries, asset allocation targets, and performance reporting for the long-term pool and the liquidity pool. This would expand the way they have segregated assets in the past. The change would allow them to consider the performance of the liquidity pool independently of the long-term pool, and have different asset allocation targets for each.

- Oxford shared an investment allocation summary as of September 23, 2015, which included the rebalancing recommendations above.

- Oxford noted that the market has rallied since the end of the third quarter.

- The MSU Foundation bottom-line value of just over \$40.2 million was at a market low point during the recent selloff. Due to the market rally thus far in October, your bottom-line value has improved significantly.

- Oxford suggested eliminating your position in the Acadian Emerging Markets Fund and adding those assets to the Causeway International fund. Given Oxford's continued concerns regarding the emerging markets, they believe the recent rally in October creates a positive opportunity for rebalancing.

- After some discussion, the committee voted to implement Oxford recommendations as illustrated. Oxford also included a future change column, proposing to reduce the Foundation hedge fund of fund exposure by \$1 million, and holding those proceeds in core fixed income. Their rationale was to create more liquidity in the portfolio as the committee contemplates segregating a liquidity pool from the long-term investment strategy we have deployed for many years.

- Based on the discussions, Oxford agreed to provide the committee with a more specific liquidity pool proposal, and conduct a teleconference in November to review our thinking on how to position that pool.

- The Finance committee would like to make the risk and return balance of both the liquidity pool and long-term endowment pool a primary topic of discussion in our next in-person meeting in February. At that time Oxford will present some further asset allocation modeling to help support this decision.

- Oxford agreed to table the year-end redemption from the Maverick Stable Fund-of-Funds for now as they think through the future pool structure. We can request

this distribution at the end of the first quarter, rather than the end of December. At that time Oxford will have more clarity on the decision regarding the liquidity pool segregation.

- Oxford discussed private equity investment in some detail.
- Oxford introduced the Savile Row Warburg Pincus opportunity, which is in a capital-raising phase until December. Oxford also recommended the committee consider an allocation of at least \$600,000 to this fund. The committee asked if a larger subscription would be appropriate (both to get closer to the private equity target of 5% of the portfolio more quickly, and to address the six-year call schedule where capital is put to work slowly). Oxford agreed to make the question of how much to commit to this fund a primary topic for our November teleconference as well.
- In general, the committee was in favor of the Warburg Pincus opportunity and expanding their private equity exposure.
- The committee asked whether Oxford's advice regarding the size of the private equity target might be higher than 5% of the portfolio if the committee decide to take more risk in the long-term pool once the liquidity pool is funded.
- Oxford agreed to come back to the committee in the November conference call with three scenarios regarding a private equity position's size.
- The first scenario would consist of a \$600,000 commitment, which would be similar to the last private equity position size.
- The second scenario would consist of a \$900,000 commitment, intentionally oversubscribing by 1.5 times the targeted investment. The goal would be to have more money "on average" put to work with the fund due to the six-year call down of capital schedule.
- The final scenario would be hypothetical, should the committee decide to take more risk in the long-term pool once the liquidity pool has been separated. Under this scenario, the committee might target between 5% and 10% of the overall long-term pool to private equity over time. Assuming Oxford may use three to four partnership vehicles, funded in different "vintage years," they might consider an

even larger allocation – perhaps as much as \$1 million to \$1.5 million – to the current fund with Warburg Pincus.

- Oxford reviewed the fee schedule for private equity, which is higher than many asset classes. In addition, they reviewed expected returns based on former Warburg Pincus fund results. These returns have been very strong, offering a strong positive spread above the public equity market. Taking into consideration the liquidity restrictions, long lockup periods and considerable fees required with private equity investing, Oxford noted that this return premium is necessary.

- The committee asked that Oxford prepare paperwork which would allow the foundation to invest in the current fund. However, they will keep the subscription amount soft until after the conference call to confirm the allocation level the committee is comfortable with for this position.

- Oxford reviewed performance for the overall foundation portfolio.

- The portfolio has averaged 5.4% per year over the last five years. This return has covered The Foundation's spending rate, but has weakened over the past year as the market and portfolio have dropped.

- The committee expressed some concerns relating to recent performance. Negative attribution in the return was caused almost entirely by natural resources and emerging market equity exposure.

- The portfolio was underweight in the positioning in stocks, insulating the portfolio somewhat. The hedging strategies provided protection as a complement to the bonds portfolio; however, the use of alternative investments hurt the performance over the intermediate term. Oxford noted that inflation hedging and absolute return strategies can still create value to the foundation, even if short-term results have been mediocre for hedging and weak for real assets.

- While alternatives have provided more return than fixed income overall, they have lagged equities over the last three and five-year periods. On a risk-adjusted basis, your long-term net returns are roughly in line with those from your benchmark.

•Oxford reviewed how Foundation equities have performed against an equity-only global benchmark as well as fixed income and alternative investments as a separate group. Oxford also reviewed the portfolio's watch list. Based on performance of the current investments, Oxford had no recommendations for terminations and replacement at this time.

Meeting adjourned at 12:00 Noon

Created by Sandi Ruth
Reviewed by Bob Albert
Approved by Jim Shaw