

MSUF Foundation, Inc.
Board of Trustees Meeting
Minutes

12:30 PM Kentucky Center for Traditional Music
June 20, 2014

Present: Bob Albert, Perry Allen, Wayne Andrews, Bill Hesch (conference call), Steve Hicks, Jim Shaw, Buck Hinkle, Gerald DeMoss, Dava Rice, Steve Thieme, Brett Traver, Willi Walker, Perry Allen, Steve Pack, Paul Stokes, Beth Patrick, Mindy Highely, Sandi Ruth and Jenna Sprangel. Special guest Eric Howard and Clyde James.

Absent: Dennis Dorton, Cherie Rebar, Bob Neff, Jim Pruitt, Craig Preece.

Call to Order

Steve Hicks called the Foundation Board meeting to order and asked Sandi Ruth to call roll. Steve declared a quorum and the minutes from the February 28, 2014 meeting were accepted by the Board.

Comments from the President – Dr. Wayne Andrews

Dr. Andrews briefed the Board on the current status of campus renovation projects and future planned projects in regard to the MSU Campus Master Plan. Dr. Andrews went on to discuss the current budget shortfall and the voluntary buyout program (VBO). The goal was to net \$4 million after identifying the number of rehires the VBO would yield. 68 employees applied for the VBO as well as 69 planned or existing vacancies. Of those 137 total vacancies, 102 positions will need to be rehired. So the total vacancy savings created by the VBO was \$2.2 million leaving a shortfall of \$1.8 million to be identified. The University is taking a hard look at academic affairs for further cuts via programs that can be eliminated or combined. The CPE approved \$49 million for phase II of the Adron Doran University Center (ADUC) to add 30-50,000 square feet on the existing east lawn, additional food service area, upgrade the heating and ventilation systems and create one stop shopping for students thru housing financial aid, registrar and other essential student services under one roof. Dr. Andrew's went on to mention the numerous projects and programs underway on the campus such as the new Alumni/Welcome Center, the MSU Choir bringing home first prize in International competition in Ireland, MSU's reputation as one of the safest campuses, 370 governor's scholars on campus for governor's scholar program and the new Craft Academy to promote and develop excellence in science and math in Grote-Thompson Hall.

Investment Report/Portfolio Summary – Dr. Bob Albert

Dr. Albert briefed the Board on the Finance committee's meeting with Rob Twitchell and Jim Mahoney from Oxford. Dr. Albert said that the committee has pressed Oxford for more frequent reports and more conference calls as deemed necessary. Dr. Albert explained that it has been an unbelievable market for equities. Year-to-date equity markets keep increasing. The S&P is up 5% and the Russell 2000 index is off by 2%. Fixed Income did not go as predicted. The Committee and Oxford expected to see a rise in interest rates. There is still a concern with upside opportunity with regard to interest rates.

Dr. Albert turned the Board's attention to Tab 2 in the Board packets to review the Investment Allocation Summary. He explained that the middle column represented the Foundation's current allocation in amounts and percentages. The Foundation currently has 42% of the portfolio invested in Equities. The Foundation's strategic policy is 40%, but equities have been like a runaway train in terms of gains, thereby elevating our asset allocation % in the equity category. The Committee does not expect equities to continue to surge forever, so considerations are in progress for a strategic move out of equities when the time is right. Fixed Income allocation is at 22%. Strategic policy is 30%, but tactical target is 20% because of the upside being captured in equities. Alternatives are at 36%. The Committee has been strategically moving funds out of Fixed Income and into the Alternative sector as opportunities arise. The Foundation's portfolio invested with Oxford has a current value of \$42.5 million.

Oxford shared with the Committee some very interesting data to help compare the Foundation's asset allocation percentages and values with the NACUBO (National Association of College & Universities Business Officers) reports concerning university endowments as of June 30, 2013. This date was the most recent data published by NACUBO at the time of this meeting. As of June 30, 2013, the MSU Foundation experienced annual performance results of 9.4% and a three year annualized performance of 9.5%. The NACUBO University Endowments of \$25M to \$50M experienced 11.4% & 10.1% respectively. This being said, at 6.30.13 the MSU Foundation's asset allocation was 39% equity, 25% fixed income & 36% alternatives whereas the NACUBO data asset allocation was 53% equity, 27% fixed income and 20% alternatives. The MSU Foundation utilized alternatives as a way to mitigate risk exposure and even with this aggressive strategy for less risk, the Foundation was only off 60 basis points of the three year annualized performance yet experienced less downside risk exposure in our portfolio.

Dr. Albert explained to the Board that Oxford did not have any changes to recommend to our portfolio at this time. He also informed the Board that the Finance Committee would be scheduling a conference call in August to discuss the underperformance of fixed income fund manager PIMCO Total Return. Oxford is recommending that we hold course with PIMCO, but they are going to bring the Committee fund manager options for consideration as a replacement for PIMCO.

Finance Report - Jenna Sprangel

March 31, 2014 Financial Statement Overview:

- The Finance Committee reviewed the due diligence process Oxford performs pertaining to the Foundation's fund manager performance. Jim Mahoney confirmed that Oxford continues to go through these processes as it pertains to the fund managers and that all of the fund managers in the Foundation's portfolio continue to meet standards that Oxford deems necessary. The Finance Committee also discussed the fund managers on the Foundation's watch list. The only fund manager that the Committee was currently concerned with on this list is PIMCO Total Return. Due to time constraints, a conference call will be scheduled in August to discuss this fund manager in further detail.
- Total Assets \$ 46,240,604 increase of \$4 M vs. 6.30.13 Total Assets
- Oxford \$41,853,357 makes up 90% of total assets increase of \$3.7 M since 6.30.13
- 9.46% Absolute Investment return through 3.31.14 – 9.82% at 3.31.13 – 11.50% at 5.31.14
- Operating Revenues are \$4,640,040 at 3.31.14
- Support Expenses are \$3,025,356 at 3.31.14 – an increase of \$959K vs. 3.31.13 due to the Soccer practice/intramural field and MSUF support to MSU for fundraising personnel
- Operating budget for FY14 = \$600,405 - 6.30.14 projected operating budget results are \$500,398 leaving an estimated \$100K surplus at year-end – proposed moving any surplus at fiscal year-end to the Foundation Operating Reserve – Board agreed on this course of action.

Foundation Funding Model & Operating Budget Approval– Jim Shaw

Jim Shaw gave an overview of the Foundation Funding Model concept and then reviewed the major components of the proposed FY15 Funding Model figures.

- 3 year rolling average = \$35M (calculated as of December 31st each year)
- 3 year rolling average return = 8.59% (calculated as of December 31st each year)
- Approved 2.28.14 endowment payout via earnings release = 3.25% = \$1,141,354
- Proposed FY15 Foundation Operating Budget = 1.88% = \$660,000 + \$16,700 (other revenue from General Unrestricted investment income)
- Proposed FY15 Foundation Operating Reserve = 0.73% = \$257,000
- Proposed FY15 Foundation Opportunity/Liability = 0.98% = \$343,757
- Proposed FY15 Preservation of Principal (inflation) = 1.50% = \$526,779

Jim highlighted that the College of Science & Technology received a matching grant from the James Graham Brown Foundation of \$498K. The Foundation needs to match this gift by December 1, 2014. Jim stated that the Development team is working towards this goal, but he would like the Board to approve the use of the Foundation Operating Reserve and/or the Opportunity/Liability Fund to meet this match amount for any shortfall as the December deadline approaches.

Jenna Sprangel highlighted the changes in the operating budget from the approved \$600,405 in FY14 to the proposed \$676,700 in FY15.

- Add a professional development/training budget line of \$15K in FY15
- Increase the software budget from \$47K to \$80K in FY15 (takeover costs pd via MSU)
- Increase the president's discretionary fund from \$35K to \$45K (President's Lecture series)
- Increase special events fund from \$35K from \$65K (increase campaign events in FY15)
- Increase personnel support to MSU from \$150K to \$208K (take over more of the fundraising expenses from MSU)

Jim Shaw motioned to accept the FY15 proposed operating budget, Foundation funding model and use of the Operating Reserve and/or the Opportunity/Liability fund towards meeting the James Graham Brown Foundation matching grant as presented. Buck Hinkle 2nd the motion - motion passed.

Comprehensive Campaign Update – Mindy Highley

Mindy Highley walked through the most recent status of the Comprehensive Campaign. The Campaign began as \$25M. We have raised \$30M and we need a total of \$35M to meet the Campaign goals as outlined and \$40M for additional projects identified. Mindy turned the Board's attention to Alumni Participation as a percentage since this is a key indicator for the U.S. News and World Report statistics when ranking colleges and universities nationally. Alumni participation in 2009-10 was 5.88%. In 2010-11 it grew to 7.26%. 2011-12 it increased to 8.00%. In 2012-13 is dropped slightly to 7.95%. Currently, alumni participation is at 6.96% and the Development team has turned all their efforts to increasing this percentage. The national average is currently 9%. At this time, we need 432 more alumni who have not made a gift in this fiscal year to make their gift to reach 8%. We need 848 to reach 9%.

Update by Foundation CEO – Jim Shaw

Jim Shaw discussed the Remote Area Medical (RAM) event coming up on October 25th and 26th of 2014. RAM anticipates 1700 patients will be served in eastern Kentucky. The University through the Center for Regional Engagement, St. Claire Regional, Local Fire, Police and Emergency Medical and the local school system are all involved.

Jim reminded the Board of the work that has been accomplished over the last 5 years. The growth of the endowment from \$21M to \$41M, re-writing the Foundation By-Laws, an FMIP with well outlined and healthy guidelines, a much more involved and active finance committee and Board of Trustees and a new investment consulting team.

Nominating Committee – Perry Allen

Perry Allen announced the nomination of three alumni to the MSU Foundation Board of Trustees for consideration. Perry asked that members review the bios that were handed out for their

review and discussion, if necessary. Perry nominated Susan Martin of Lexington, KY; Ed Strosnider of Mason, OH; and, Ron Griffith of Bardstown, KY. Willi Walker motioned to approve the nominations. Steve Theime 2nd the motion – motion passed.

Perry commented on the need to schedule an orientation for new Board members. Steve Hicks then nominated Perry Allen to be Vice Chair of the Board. Bob Albert 2nd the motion – motion passed. Willi Walker motioned to approve Sandi Ruth as MSU Foundation Board Secretary. Steve Pack 2nd the motion – motion passed. Steve Thieme motioned Craig Preece to serve as Chair of the Audit Committee. Buck Hinkle 2nd the motion – motion passed.

Audit Update – Jenna Sprangel

Jenna Sprangel outlined the most recent audit activities.

- The IRS 990 was completed and submitted on May 15, 2014
- Audit Committee has engaged Dean Dorton Allen Ford, PLLC for the FY2014 Annual Audit
- Preliminary field work was completed without exception on May 20, 2014
- Final field work will commence on August 15, 2014

New Business – Jim Shaw

Jim Shaw noted that we need Board members to chair and sit on committees to perform the following functions:

- Strategic Planning committee
- By-Laws review and implementation committee
- FMIP review and consideration of amendments committee

Brett Traver said he would sit on a strategic planning committee but he could not chair the committee at this time. Jim stated that the Board could consider engaging an outside consultant to help in some of these areas.

Jim outlined future meeting dates for the Board of Trustees; November 7, 2014 and February 20th of 2015. Jim said that we can discuss changing those dates as well as the structure of the meetings. Perry Allen motioned to keep these dates and Willi Walker 2nd the motion – motion passed.

Steve Thieme motioned to adjourn. Brett Traver 2nd the motion. The meeting adjourned at 3:00 p.m.

Created by Sandi Ruth

Reviewed by Jenna Sprangel