

**USF Board of Trustees  
Finance Committee  
NOTES  
Thursday, November 17, 2016  
Tampa Campus - Marshall Student Center Room# 3707**

**I. Call to Order and Comments**

The meeting of the Finance Committee was called to order by Trustee John Ramil at 1:17 pm.

President Judy Genshaft called roll with the following committee members present:

Brian Lamb (phone)  
Mike Carrere (phone)  
Scott Hopes  
Stan Levy  
John Ramil

A quorum was established. The following liaisons were present: Dipayan Biswas, Alan Bomstein and Ninon Sutton. Trustee James Garey was also present.

**II. Public Comments Subject to USF Procedure**

No requests for public comments were received.

**III. New Business – Action Items**

**a. Approval of October 27, 2016 Meeting Notes**

Upon request and receiving no changes to the draft meeting notes, Chair Lamb requested a motion for approval, it was seconded and the October 27<sup>th</sup> meeting notes were unanimously approved as submitted by all committee members present.

**IV. New Business – Information Items**

**a. Annual Foundation Investment Report**

Chip Newton, Chair of the USF Foundation Investment Committee, and Mark Brubaker, Managing Director, Wilshire Associates, presented the Annual Foundation Investment Report.

The USF Foundation recently closed fiscal year 2016 with about \$505M in total assets under management, of which \$395M are restricted endowment assets. The Foundation's investment objective is to preserve the intergenerational equity of endowed gifts while providing a consistent source of funding to University programs, faculty, and students.

The Endowment Pool posted a return of -1.3% for the fiscal year, which was under its policy benchmark of +0.1%. Weak performance from domestic and international equities was partially offset by positive returns from fixed income and alternatives. The fiscal year return is expected to rank near the median among peers, but the USF endowment performance remains near the top in long-term returns.

Contributors include the endowment abstaining from investing in hedge funds (a detractor for many peers) and the private equity program produced strong returns in FY 2016 (fixed income provided downside protection in a down year for equities). Detractors include two US large cap managers underperformed by a significant margin and international equity was -9.7% (the worst performing asset class in the portfolio; and significant losses from the Brexit vote just before fiscal year end).

Results for first quarter of fiscal year 2017 show the endowment up 4.9% as global equity markets stabilized and active managers in US and international equity have rebounded.

NACUBO is the primary benchmarking tool. Investment returns place USF Foundation at the top quartile in all time periods. Our returns have been good relative to peers. USF Ranked #18 out of 258 in the \$100-500M peer group in 10-year return and we are expecting FY 2016 return of -1.3% to rank near the median, based on preliminary results. USF has the third largest endowment among institutions established in the 1950's and 1960's. Over the last 10 years, approximately \$90M in outright cash gifts were added to the endowment. Approximately \$25M is due from state match and \$17M due from donor pledges.

Endowment spending policy is set by the investment committee and approved by the board. Distributions to the University reached nearly \$16.6M in FY 2016; over \$152M in last 10 years. FY 2017 spending rates set for a 4% dividend and 2% administrative fee, unchanged since FY 2010. Expecting a modest increase in distributions for FY 2017, as a function of an increased 5-year average.

There are many challenges in a low return environment. Asset allocation is set for long-term growth through multiple market cycles. Expected returns from most asset classes have been reduced over last several years. Wilshire does not advise making asset allocation changes based on short-term market conditions. Lower inflation expectation mitigates lower expected returns, therefore protecting intergenerational equity.

Investment committee initiatives for 2017 include considering alternative asset classes that provide income, but with low correlation to equities; and asset allocation will be reviewed in February when risk/return assumptions are updated to reflect current market conditions and revised alpha expectations.

Chair Lamb noted that past performance of international equity does not support the projections on slide 5 (10-year expected return of 6.5%) and asked if the target allocation of 25% is the highest and best use of funds. Mr. Brubaker stated that going forward, non-US stocks should closely mirror US stocks. The 1990s and the previous decade (ending 2009) is the only time US stocks have outperformed international stocks. The market is becoming more global and we need to be part of it. Mr. Bomstein provided additional information on international activity. The Brexit vote dragged down returns during the period ending 06/30/16, but they have rebounded for the period ended 09/30/16. He further added that we trust our long-term trend expectations and try not to be too reactionary to political changes. We assume an infinite horizon.

USF Foundation continuously looks at asset allocation.

**b. USF St. Petersburg Housing Update**

USF St. Petersburg has been developing an Invitation to Negotiate (ITN) to solicit responses from interested parties to enter into a public-private partnership (P3) agreement with the University to develop a new 550 bed residence hall with a new dining facility and a conference center. The University is seeking a private entity to design-build-finance the new facilities consistent with the University's objectives. The project has a target date of completion of August 2019.

Mr. Trubacz reviewed the ITN schedule and the ITN committee. In addition to our ITN process, the BOG wanted to review the ITN as well, which caused a slight delay, but still on schedule. Phase I responses are due today, and 3-5 finalists will be selected and posted on December 6. Phase II of the ITN process has begun; still looking at August 2019 as the opening date.

Mr. Trubacz also noted that the USFSP ITN committee closely mirrors the Tampa committee.

Chair Lamb noted that the Finance Committee is involved in this process now because it is part of the System's P3 strategy. He also wants to see the Strategic Initiatives Committee be involved in this process. Mr. Trubacz would be happy to present to and update the Strategic Initiatives Committee and have the trustees sit in on interviews. Chair Lamb recommended Mr. Trubacz get with Trustee Mullis to see how the Strategic Initiatives Committee can best get involved in this process. He would like for our BOG stakeholders to be involved as well.

Trustee Ramil asked Mr. Long and Mr. Trivunovich to guide USFSP thru the process and with other stakeholders.

**c. Construction Update**

Trustee Lamb introduced the item by stating that we have a large amount of construction going on, probably the most in the last 20-30 years. This may become a standing item as it will allow the Trustees to see progress of approved projects.

Mr. Williams provided an overview of the USF System physical plant construction, maintenance, and repair programs. Mr. Williams reviewed the data analysis provided by Sightlines (a company specializing in education facility solutions, recommended by the BOG to all SUS institutions) on deferred maintenance. Based on our facilities replacement value of \$2.1B, our annual investment target should be \$65.9M (for core and shell), and the minimum annual investment required is \$33.3M. Mr. Williams presented a graph which shows that our total capital investment falls well short of our funding target thereby increasing our deferred maintenance backlog.

Trustee Levy stated that we are clearly not investing enough in deferred maintenance and asked if there are any other areas that are going to have issues similar to housing where we have to implement large fee/rent increases. Mr. Long responded that we are looking at parking now.

Mr. Long explained that the Sightline data is the BOG/SUS attempt to get consistent data that can be presented to the legislature identifying a need for additional maintenance funds.

For next time, Chair Lamb would like to have an update on individual projects to include commitments and approvals, and tracking to time and commitments. He would like this for existing projects that have been approved and for upcoming approved projects.

Mr. Long showed a few photos of the current progress of the construction of the Tampa housing village.

**V. Adjournment**

Having no further business, Chair Lamb adjourned the Finance Committee meeting at 2:28 pm.