

Wake Forest University Senate 2004-2005
Minutes of the 1st Meeting
October 06, 2004

The University Senate held its first meeting of the 2004-2005 year in DeTamble Auditorium of Tribble Hall. The following were present:

Administration: John Anderson, Bill Gordon, Bill Leonard, Lou Morrell, Bob Walsh

College: Debbie Best, Robert Browne, Eric Carlson, Bob Evans, Hank Kennedy, Dilip Kondepudi, Jill McMillan, Gloria Muday, Harry Titus, David Weinstein

Graduate School: Dale Dagenbach, Suzy Torti

School of Medicine: Nancy Jones, Joseph Tobin

School of Law: Alan Palmiter, Tom Roberts, Simone Rose

Calloway School of Business and Accountancy: Sheri Bridges, Yvonne Hinson, Dale Martin

Babcock School of Management: Michelle Roehm, Scott Schafer, Jeff Smith

Divinity School: Neal Walls

Athletics: Ron Wellman

Library: Lynn Sutton

Staff: Tim Bell, Julie Groves, Dana Hutchens, Gloria Stickney,

Visitors: Pat Bird, Kevin Cox, Chris McLaughlin, Cameron Meador, Linda Mecum, Perry Patterson

Gloria Muday called the meeting to order at 4:00 PM.

The minutes of the meeting of 04/14/04 and 4/30/04 were approved, with the correction of removing Jeff Smith from the attendance roster of the 4/30/04 meeting.

Gloria Muday stated that the Senate's goal for the year was to help make complex issues more transparent to the campus community and that the Senate would look at the role facilitating communication to help everyone better understand the nature of the decision making processes that govern the university. To this end she noted that the Senate had no one on the Capital Planning Committee and that Harry Titus has been appointed to that committee. She also indicated that the Senate would help better define the role of the faculty representatives to the board of trustees. We need to take advantage of the mechanisms already in place and use them to facilitate conversations between the faculty, administration, and board of trustees.

President Hearn will give his "State of the University" address on November 9th at 5 P.M. in Brendle Recital Hall. This will include his address, followed by questions and a wine and cheese reception. The next meeting of the Senate will follow on November 17th in 1117 Worrell.

Gloria further noted the motions that were passed at the called meeting on April 30, 2004. One motion supported the development of a salary-dependent premium plan and an update on that motion will be made in the Health Affairs committee report. The second motion was to include faculty on the Presidential Search Committee. As requested in this motion, there are two faculty members appointed to the committee

and a separate faculty advisory committee also was formed. All of these positions were appointed, rather than elected as requested by the Senate.

The undergraduate faculties approved a motion in May 2004 requesting that the Senators elected from the college collect financial questions from the faculty to be addressed by appropriate administrators, boards and committees making financial decisions. These questions are in the process of being answered by the administration and as requested by the College faculty, the Collegiate Senators will report the findings at the November faculty meeting. Gloria Muday asked that the Senators that are not in the college contact her and let her know whether they would like to have a report on the resulting information brought to the Senate.

Committee Reports

Senior University Appointments: Jeff Smith reported that the committee sent an email regarding Honorary Degrees to everyone, requesting nominations back to them by October 15th. He also reported that there are two committees with faculty involvement in the Presidential Search – the Senior University Appointments and the Faculty Advisory Committee. He noted that Murray Greason has asked for SUA involvement in the process. He indicated that the Faculty advisory committee requested that if one group interacts with these candidates it should be the SUA, since they are elected Senate individuals. However, Jeff reported that he is not sure if the SUA will actually interview the candidates due to concerns regarding confidentiality for the candidates.

University Oversight Committee: Hank Kennedy reported that his committee has met once and has decided to go beyond last year's report on the endowment. This year they will look into questions within the Athletic Department. They have decided to look into the Equity in Athletic Disclosure and a report by Rice University. The Rice University report is a comprehensive report evaluating the costs and impacts of athletics. Since WFU similar to Rice in size and scale of athletics, a similar self evaluation may also be useful at WFU. He stated that it would be useful to look at the Rice report to see the issues they identify that may also relate to WFU.

Fringe Benefits Committee: Dana Hutchens reported that this committee will continue to look into the fringe benefits package. The consensus on the informational forum held last year is that they were informative and educational. This committee will continue the forums and will contact Ralph Pedersen regarding setting up both a Fall and Spring forum. They will work in conjunction with Health Affairs.

Health Affairs: Dale Dagenbach reported that the committee met once over the summer to discuss the self-insurance surplus that arose last year. The premiums are on a 60/40 split with faculty paying in the 40%. The university has decided to roll the 40% surplus from last year over in to this year, forgoing any increase in premiums by employees in the current year. Dale noted that in the last meeting of the Senate in the Spring a motion was approved to ask the university to look into salary dependent health care premiums. A new Ad Hoc committee on Benefit Planning has been set up to explore several aspects of benefits planning including the idea of a salary dependent premium plan and this committee has representation from members of the Senate's Health Affairs and Fringe Benefits Committee. The benefits planning committee met with Ralph over the summer and participating in choosing a new consulting firm to work with HR in this process. Dale noted that most of these consultants already had salary dependent plans in place in their own organizations. Ralph Pedersen has agreed to include this issue as a part of long-range planning.

Staff Issues: Gloria Stickney noted that the committee has met every month since May. She noted that the committee would like to encourage a sense of community within WFU. They will be hosting an Artisans Fair on November, 18th. She encouraged support for the Fair.

VP Lou Morrell addressed the Senate on “Assessing the University Endowment”.

The presentation contained the following topics: Oversight Responsibilities, Purpose of the Endowment, Investment Strategy, Performance, and the Salary Opportunity Fund.

VP Morrell started by stating the investment office is “full disclosure” and will be happy to meet with anyone with a question as the endowment has an impact on all of WFU. He stated that they have responded to every question in the document sent forward by the College Senators.

VP Morrell set forth that there is a gap between internal and external attitudes regarding the endowment. He noted that the endowment is questioned when there are no raises and it has a poor reputation. He contrasted this opinion with his statement that the WFU endowment is cherished and highly sought after externally and even won two separate awards in 1993 and 1997 and is the only institution to earn both awards. The endowment is featured in a case study book. VP Morrell stated that this gulf between internal and external groups is due to:

1. Lack of good communication.
2. You create an image and live with your image.
3. Articles published, in general, have failed to contact Morrell to ask for his input.

The formula for the endowment is as follows:

$$\text{Beginning Market Value} + \text{Gifts} - \text{Withdrawals} \pm \text{Performance} = \text{Ending Market Value}$$

The permanent portion of the endowment can never be used, only income from this portion is available for use; however, the quasi portion is spent at the discretion of the Board.

It was noted that fiduciary responsibility of the endowment rests with the Trustee Investment Policy Committee whose responsibilities are described as follows:

The committee is delegated the authority to provide for the collection, management, disbursement and investment of funds of the university held for long or short term investment. It may employ investment managers and delegate to them power to deal with the investment of university funds.

The committee will make full and regular reports of its activities to the Board of Trustees. Notwithstanding the delegation of authority in this section, specific action or direction of the Board of Trustees with regard to particular matters is controlling.

The Treasurer indicated that his responsibilities include:

Implements Policies
Manages Process
Provides Alternatives, with Rationale
Acts as a Consultant

The purpose of the endowment was described as follows:

to provide a sustainable and increasing level of endowment income distribution to support the University’s activities through the annual operating budget while preserving the real (inflation adjusted) purchasing power of the endowment exclusive of gift additions. At minimum, the level of endowment income distribution is expected to grow over time at a rate equal to the rate of increase in the University’s operating budget.

VP Morrell reported that, in the fiscal year ended June 30, 2003, the Endowment provided 5% of the resources applied to meet expenditures.

The investment strategy of the endowment was presented as one based on global diversification, intended to produce returns greater than the capital markets through manager selection and tactical shifts in asset classes over extended economic cycles. He noted that they committee is looking at the massive trade and US budget deficits. With US dollars going to China he expects a large hit on the US\$ around May of next year. This has caused a shift to globalization and looking outside the US. It was noted that this is a fairly recent shift away from a heavy weight on US stocks towards other categories such as real estate, energy, hedge funds, multi-sector bonds and emerging markets. He also stated that they do not buy currencies due to their complicated and risky nature. They merely look at the value of the US\$ in relation to others and make decisions accordingly. In reference to the timberland he stated that we have little actual land, but instead joined a Partnership, which buys the land.

When discussing performance, he reminded the Senate that risk was related to return and neither should be considered in isolation. He also stressed the need to consider performance over reasonable time periods.

Although Mr. Morrell presented the outcome of the endowment against several performance benchmarks, certain members of the Senate focused on return compared to a small selected group of peer institutions in the NACUBO Endowment Study. He acknowledged the relatively poor Wake Forest showing in the bear market which began in 2000. He also emphasized that a comparison of WFU with this group of institutions over the ten year period ending in 2003, indicates that WFU is performing in the middle of this group of institutions and that the return of 17% for the fiscal year ended June 30, 2004 is quite promising. Several Senators felt it would be more meaningful if we had break-out info for other peer institutions. There was concern that WFU has not measured up in both value of endowment and investment returns. Therefore, some disagreement continues between the two parties as to the relative performance of the portfolio.

Mr. Morrell reviewed a Market Value and Performance Report that showed results for the period from FY 1994 through FY 2004. He noted the cumulative total return of \$757 million during that period as well as the cumulative withdrawals of \$519 million. He stated that without withdrawals our fund would be at around \$1.2 billion. He noted the out-performance of the endowment of 55%, during the same period, in comparison to a benchmark of an indexed portfolio consisting of 50% in the Russell 3000 (U.S. equities), 25% in the MSCI-EAFE (Non-U.S. equities), 20% in the Lehman Aggregate (U.S. bonds) and 5% in U.S. Treasury Bonds.

The discussion then turned to the Salary Opportunity Fund. It was noted that the fund had fallen from a starting value of \$35 million, on April 1, 2000, to a June 30, 2004 value of \$21.72 million. The change relates to \$13.99 million in withdrawals offset by a gain of \$710 thousand from investment performance during the period from April 1, 2000 to June 30, 2004. During fiscal year 2004 the Fund gained 28.02% compared to its benchmark of 18.92%. VP Morrell noted that the SOF has outperformed the endowment since inception.

Questions were raised by Senators regarding the role of the VP and the committee. Key points of clarification/concern brought up included:

- The committee sets the allocation and selects managers.
- Some members of the committee have limited/no investment background.
- VP Morrell has limited decision making responsibility with respect to the strategy.
- Endowment has never lost money until recent years (except maybe in the late 1920s).
- Committee has fiduciary responsibility.
- VP Morrell can not take credit during good years/blame during bad years if he does not have the responsibility.
- Salaries remain low even though the endowment is shown to be doing well (VP Morrell reminded that the endowment is only responsible for 5% of the budget).

VP Morrell thanked the Senate for allowing him to present and reminded the members of the full disclosure policy in the investment office.

Gloria Muday noted that this presentation provided us with information that significantly helps our understanding of issues relating to the endowment. She suggested that we as Senators need to share this information so that judgments about the endowment are made based on this understanding of the complex nature of evaluation of endowment performance.

The meeting was adjourned at 5:30 PM.