



Florida School for the Deaf & the Blind

Do More. Be More. Achieve More.

AGENDA
ENDOWMENT INVESTMENT COMMITTEE
April 14, 2017 at 8:00 a.m.
Moore Hall – Room 215, FSDB Campus
St. Augustine, Florida

Call to Order

Roll Call: Mr. Terry Hadley, Ms. Christine Chapman, Dr. Tom Zavelson

Approval of Minutes: January 20, 2017

Public Comment – Limited to 3 Minutes

New Business:

- Updated Language: Endowment Investment and Expenditure Procedures Policy – Julia Mintzer
- Endowment Funded Special Projects – Tanya Rhodes
- UBS Update – Dave Hanvey
- Next Meeting – To be determined when the 2017-2018 BOT meeting dates are established.

Old Business:

- Investment Consultant/Managers – Terry Hadley

Action Items for Consideration:

1. Approval is requested to continue the UBS Client Services Agreement for the 2017-2018 fiscal year.
2. Approval is requested to continue the BB&T Banking Services Agreement for the 2017-2018 fiscal year.
3. Approval is requested for the proposed Endowment Project Budget for 2017-2018. All projects are within the budgetary guidelines established by the Board of Trustees.
4. Approval is requested to accept recommended changes to the existing Endowment Investment and Expenditure Procedures Policy, as noted.

Adjournment



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Meeting Minutes

ENDOWMENT INVESTMENT COMMITTEE

April 14, 2017 at 8:00 a.m.

Moore Hall—Room 215, FSDB Campus

St. Augustine, Florida

Call to Order

Mr. Hadley called the official meeting of the Endowment Investment Committee to order at 8:00 a.m.

Attendance

Present: Mr. Terry Hadley (Chairman), Ms. Christine Chapman (Vice Chair), Dr. Tom Zavelson

Board of Trustees: Linda DiGonzalez, Owen McCaul, Chris Wagner

UBS International: David Hanvey, Lacey Conner

FSDB: Dr. Jeanne Prickett

Julia Mintzer

Theral Mackey

Tanya Rhodes and Amy Moring (Advancement)

Rena Hurley and Danielle Alexander (Interpreters)

Denise Fernandez (Recording Secretary)

Approval of Meeting Minutes

Mr. Hadley asked for a motion to approve the Endowment Investment Committee Meeting Minutes from January 20, 2017. Ms. Chapman moved to accept the minutes as presented. The motion was seconded by Dr. Zavelson, and carried unanimously.

Public Comment

None

New Business

Updated Language of the Endowment Investment and Expenditure Procedures Policy by

Julia Mintzer: Mrs. Mintzer informed the Committee that the changes were not substantive. The words, "Florida Statute" replaced "s." in places where statutes were listed. They appeared twice on pages 1 and 5. Mr. Hadley reminded everyone that the section entitled *Investment Policy* was initially markedly restrictive and through the Committee's efforts, condensed to a simple paragraph allowing the Committee more flexibility to exercise sound discretion and good judgement over the funds while maintaining compliance.

Endowment Funded Special Projects by Tanya Rhodes: Mrs. Rhodes requested the Committee's approval to fund 50 projects from the Endowment fund at \$489,768 since they are not funded under Florida's General Revenue. These projects are within the allowable expenditure limit and five of the 50 are new. The total project funding, which includes restricted donations, is \$1,312,690. This amount represents 105 projects of which 19 are new. (A comprehensive list of new projects is available in the Office of Advancement.) Dr. Prickett cited one of the new projects—CEASD—as a non-recurring event which will be hosted by FSDB in St. Augustine in 2017-2018. She took the opportunity to extend an invitation to all members of the Board. Mrs. DiGonzalez expressed a concern over the possible exclusion of the Big Red Train event. Mrs. Rhodes explained that the program will return in spite of rate increases, but will be re-evaluated in subsequent years. Ms. Chapman asked whether any projects had been rejected. Mrs. Rhodes stated that several met the criteria under general revenue funding, but only two were turned down. One was too expensive and benefitted only 2-3 students; the other was a summer conference for which Mrs. Rhodes will seek alternative funding.

UBS Update by David Hanvey and Lacey Conner: Mr. Hanvey thanked the Committee for the opportunity to present today. He also thanked the Board for spending time to speak with UBS over the past few months. In each individual meeting, Mr. Hanvey achieved clarity from each member's personal expectations concerning the Endowment.

Mr. Hanvey reflected that he has worked with FSDB for over a decade through varying market conditions, three U.S. Presidents, three FSDB Presidents, 15 Board members, and numerous faculty and staff. UBS has performed consistently because it acknowledges that FSDB students are the number one priority. Mr. Hanvey and his team's focus and commitment have never wavered from that recognition.

Mr. Hanvey proceeded to summarize the Endowment's performance:

- **Overview:** Through March 2017, the Endowment's rate of return was up 3.6 basis points compared to the benchmark at one basis point and the S&P500 that was up 12 basis points. For the YTD, our portfolio beat the benchmark at 3.3% vs. 2.59%. For 2016, our portfolio slightly underperformed at 5.97% vs. 6.01% due to the implementation of an aggressive benchmark. A more current analysis through April 2017 illustrated a strengthening of our portfolio vs. the benchmark: S&P was down 67 basis points, the benchmark was down 21 basis points while the Endowment was down eight basis points.

Mr. Hanvey reiterated that despite how the Endowment performs in a given month or year, the important thing to remember is that UBS has utilized the same process. Our mutual fiduciary duties remain upheld and the portfolio is in consistent alignment with the Investment Policy.

He turned over the presentation to Lacey Conner.

- **Financial Goals Analysis:** Ms. Conner shared with the Committee UBS's planning strategy for the Endowment by employing the Monte Carlo analysis (*a technique used to understand the impact of risk and uncertainty in financial, project management, cost, and other forecasting*

models). She illustrated the probability of reaching the \$20 million goal using four scenarios: 1. Current scenario that reflects the Endowment's average investment assets of \$500K; 2. \$1.0M deposit; 3. \$1.25M deposit; 4. \$1.5M deposit. In all these scenarios, fundraising efforts were still a constant alongside keeping up with the 5% distribution allocation to cover the needs of the students. Also factored was the cost of inflation in the year-to-date distribution to reflect the probability of rising costs. The schedule would appear as follows if the respective scenario amount was deposited monthly, on an annual basis:

Scenario	Goal Year	Estimated Ending Portfolio Value
\$500K	2028	\$20,110,023
\$1.0M	2022	\$20,513,062
\$1.25M	2021	\$20,674,934
\$1.5M	2020	\$20,235,248

- **Investment Philosophy:** Mr. Hanvey summarized UBS's philosophy in three components:
 - Capital Preservation—*Don't lose money*. The Endowment portfolio caps at 70% of the market's downside risk if the market goes down.
 - Cash Flow—Maintain a cash supply. Most of the Endowment funded programs can be paid with the current cash flow (\$376K) without minimal appreciation.
 - Compound Growth—*Einstein's Eighth Wonder of the World*. Keep up consistent deposits as illustrated by Ms. Conner.
- **Asset Class Performance and Asset Allocation:** The goal is not to lose money; maintain a smooth bell curve that remains consistent with UBS's philosophy in money management. To punctuate his remarks, Mr. Hanvey brought to the Committee's attention a frequently cited study by Brinson, Singer and Beebower that describes the importance of asset allocation policy over security selection and market timing.

Summary: Mr. Hanvey confided that his separation from Merrill Lynch was due largely to Merrill Lynch's unprofessional behavior with FSDB. Mr. Hanvey also did not appreciate the demands that the company was imposing on its staff. Mr. Hanvey decided to research alternative employer options:

1. *Independents and registered advisors* have flexibility and ownership, but have a local limited global presence, limited resources and are not highly regulated as other industries.
2. *Regional banks* have a great local presence and an excellent banking system. However, they have a small footprint without a global presence.
3. *Large banking and wealth management divisions* have resources. However, they have made poor decisions since 2009 that cost approximately \$150 billion in the industry.

Mr. Hanvey wanted to work for a firm that had the combined benefits of the types of industries above, without having to justify which clients to represent. UBS was the perfect fit for the following reasons:

1. UBS has higher percentages of resources in total revenues.
2. UBS has a presence in 50 different countries with analysts residing in each country that is being covered.
3. UBS has been in business 150 years.
4. UBS has been recognized for its philanthropic services.

Mr. Hadley thanked Mr. Hanvey and Ms. Conner for their “first class” presentation.

Action Items for Consideration

1. Approval is requested to accept recommended changes to the existing Endowment Investment and Expenditure Procedures Policy. (Discussion is noted under New Business.) *Ms. Chapman moved to approve; Dr. Zavelson seconded the motion.*
2. Approval is requested for the proposed Endowment Project Budget for 2017-2018. All projects were within the budgetary guidelines established by the Board of Trustees. (Discussion is noted under New Business.) *Dr. Zavelson moved to approve; Ms. Chapman seconded the motion.*
3. Approval is requested to continue the UBS Client Services Agreement for the 2017-2018 fiscal year. *Ms. Chapman moved to approve; Dr. Zavelson seconded the motion.*
4. Approval is requested to continue the BB&T Banking Services Agreement for the 2017-2018 fiscal year. Discussion: Mr. Mackey has been experiencing ongoing communication problems with BB&T. Presently, the Student Bank is undergoing major staffing changes and switching to another bank is not feasible. *Mr. Hadley asked for a motion to approve the request with the caveat that Mr. Mackey be given authority to actively explore other services to present to the Committee for review at the first meeting in September. Dr. Zavelson moved to approve; Ms. Chapman seconded the motion.*

Old Business

Investment Consultant/Managers by Terry Hadley: Mr. Hadley reminded the Committee that action would be taken at today’s meeting concerning the concept of splitting the Endowment. *He opened the floor to discussion.*

Dr. Zavelson was moved by the examples of commitment toward the “family of FSDB” that Mr. Hanvey and Ms. Conner have demonstrated. Over the years, he has witnessed their participation in school meetings and presence at meetings. He feels that there is a solid mutual working relationship. Unless he perceives a problem similar to the BB&T issue whereby there is no responsiveness, he finds no need to seek out another money management firm.

Ms. Chapman agreed wholeheartedly with Dr. Zavelson. Mr. Hanvey's and Ms. Conner's commitment surpasses her expectations. She is convinced that they are vested in the school and thanked them for their ongoing dedication.

Mr. Wagner has been on the Board for 11+ years and has observed many changes. He felt it important to recognize Mr. Hanvey's contributions to the school. He agreed that competition is healthy, but added "if it's not broken, why fix it?" He reminded the Committee that the accountability of the Board is to ensure that everyone is committed to the students first. He affirmed that is the case in the current process. He has visited many types of schools in the past 21+ years and has never seen a strong relationship as UBS has with the students and the community. Mr. Wagner opined that competition may break that mold. Therefore, he wants to preserve the relationship and partnership that exists between UBS and FSDB. He shared his profound appreciation to Mr. Hadley for all his drive and passion concerning the Endowment.

Mrs. DiGonzalez was concerned that there would be dysfunction among the ranks if another firm were hired to manage a portion of the portfolio. Pursuing another partnership for the sake of hastening funds growth may compromise a stable and trustworthy relationship that continues to flourish.

Mr. McCaul commended Mr. Hadley for his concern towards the welfare of the school, his stance on aggressively growing the Endowment, and his courage to step forward with his proposal to split it. He agreed that if there was a time to "experiment," it would be now. Mr. McCaul also recognized that there have been problems with UBS, historically. However, as long as Mr. Hanvey and Ms. Conner were the faces of UBS, he was not worried and therefore, not interested in pursuing the concept.

Mr. Hadley acknowledged the remarks from the group and credited Mr. Hanvey and Ms. Conner for their compelling presentation. He was impressed with its thoroughness and noted that it was partly in response to his "prodding" as well as UBS's concern coming into the meeting. However, he was convinced that they understood the heart and soul of FSDB and truly had the best interests of the students. Mr. Hadley saw no reason to go forward with this concept.

Adjournment

The meeting adjourned at 8:51 a.m.