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 The Board of Trustees of Oregon State University
 

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Meeting of the Finance &amp; Administration Committee

December 1, 2016

Teleconference and President's Conference Room

 Kerr Administration Building, OSU  
 Corvallis, Oregon

## MINUTES

**Committee Members Present:** Mark Baldwin, Patty Bedient, Julia Brim-Edwards, Darry Callahan, Mike Green (*ex officio*), Brett Morgan, Laura Naumes, Kirk Schueler (*chair*), and Mike Thorne (*vice chair*)

**Other Trustees Present:** Mike Bailey, Michele Longo Eder, and Ed Ray

**University Staff Present:** Sherm Bloomer, Penny Burgess, Debbie Colbert, Becca Gose, Jan Lewis, Patti Snopkowski, and Marcia Stuart

**Guests:** Steve Schauble (*chief financial officer, OSU Foundation*), Monique Spyke (*director, PFM*), and Trey Thompson (*partner, Perella Weinberg Partners*)

### 1. Call to Order/Roll /Declaration of a Quorum

Committee Chair Kirk Schueler called the meeting to order at 1:02 p.m., asked Board Secretary Debbie Colbert to call the roll. A quorum was not present so the Chair moved to the first education item until additional trustees had joined the call.

### 2. Education/Discussion Item

#### a. OSU Foundation Endowment Investment Changes

Chair Schueler called upon Interim Vice President for Finance and Administration Mike Green to introduce the item. Green advised that the Oregon State University Foundation (OSUF) selected a new investment advisor in May 2016—Perella Weinberg Partners (PWP), specifically the 'Agility' outsourced investment team. PWP is the first advisor managing the endowment pool assets under an outsourced chief investment officer (CIO) model. Green then introduced Steve Schauble, OSUF vice president and chief financial officer, and Mr. Trey Thompson, PWP asset management partner. Thompson then provided an overview of PWP Agility, highlighting its customized outsourced CIO services. OSUF hired PWP in June 2016 and, during the first six months, the transition work focused on editing the investment policy statement, which the OSUF Board approved in July; developing a process to minimize the "cash drag" effect; and providing monthly performance reports and a quarterly report to the OSUF.

With the transition update, asset allocation targets were reset from the previous long-term targets to the July 2016 approved long-term targets. Thompson noted the real assets, real return, and cash targets were reset to 5% real assets (public) and 5% real assets (private), and cash targets were eliminated. With the target to illiquid investments set at 30%, Trustee Bedient asked how the team will

deal with significant illiquidity (i.e., no cash in the PWP plan). Schauble explained that, currently, cash contributions are greater than distributions on a quarterly basis, thereby creating a “cash” balance unaffected by the illiquidity. With regard to a question on fossil fuel divestment, it was noted that the new portfolio will include fossil fuel free and new green energy options.

Following the presentation and a brief discussion, Chair Schueler thanked Schauble and Thompson for the presentation.

**3. Consent Item**

**a. Minutes of the October 20, 2016 Meeting**

With additional trustees having joined the call, Board Secretary Colbert noted a quorum. A motion was made and seconded to approve the October 20, 2016, Finance & Administration Committee meeting minutes as presented. The motion carried.

**4. Action Items**

**a. FY2017 Q1 Investment Reports**

Green called upon Penny Burgess, director of treasury management services for the University Shared Services Enterprise, to report on the Public University Fund (PUF) returns. Burgess advised that her report would cover three sections: 1) market background, providing a general discussion of the investment markets and related performance information; 2) first quarter performance for the PUF; and 3) first quarter performance of the university’s investments. In accordance with the investment policy, the entirety of the monies held in the PUF were invested with the State Treasurer and consist of an allocation to each of the following investment pools: the Oregon Short-Term Fund, the Oregon Intermediate-Term Pool, and the PUF Long-Term Pool.

The PUF investment returns as of September 30 were a positive 0.4% for the quarter, reported Burgess, driven by strong performance from the corporate bond segment of the portfolios. The Short-Term Fund outperformed its benchmark by 10 basis points (bps) and outperformed the 3-year benchmark return by 50 bps. The Intermediate-Term Pool outperformed the benchmark by 10 bps while lagging the 3-year benchmark return by 10 bps. The returns of the Long-Term Pool outperformed the benchmark by 20 bps while lagging the 3-year benchmark return by 30 bps. The university investment report indicates that the university’s operating assets are invested in the PUF, which returned 0.4% for the quarter.

Green advised that OSU’s endowment assets consist of assets managed by OSUF in their Endowment Pool, separately invested land holdings and, in the specific case of the Land Grant and ALS endowments, in the PUF. Green asked Schauble to provide the OSUF investment report. Schauble noted the first three-month report provided by PWP showed an overall 3.3% return, which was 50 bps over the benchmark. He also advised that the updated portfolio benchmark (80/20) for asset allocation is an aggressive benchmark.

Following discussion of the report, a motion was made and seconded to accept the FY2017 Q1 Investment Reports. The motion carried.

**b. FY2017 Q1 Operating Management Report**

Schueler asked Green to provide the first quarter operating management report for FY2017. Green advised that there were no significant variances outside the tolerance ranges for the Education & General fund group, noting that enrollments were meeting projections, with no significant variations that would drive material changes to those projections. For the self-support funds, he advised that there was a change in the projection for Sales and Services due to an increase of \$4M in housing and dining revenues from more first-year students living on campus. This increase was in part due to a \$0.9M decrease in student health insurance revenues, caused by a new option offered by Aetna that allows domestic students to enroll and pay premiums directly through their website rather than through the university. Another change in projections to transfers-out was caused by additional increases in plant fund transfers (\$1M for housing and dining, \$1.1M for student centers and \$300,000 for athletics). For Restricted Funds, there were no significant variances outside the tolerance ranges.

Following the report, a motion was made and seconded that the committee accept the FY2017 Q1 Operating Management Report. The motion carried.

**5. Education/Discussion Item**

**a. Development of a Framework to Guide Evaluation of Investment Policy Requests**

Schueler called upon Green to introduce the agenda item. Green reminded the committee that at its October 2016 meeting, after much discussion, the committee moved a request to change the PUF investment policy to divest from fossil fuel to the full Board without a recommendation. During the subsequent Board discussion, the Board postponed action on the divestment request until its January 2017 meeting and asked the Finance & Administration Committee to develop a framework for the Board to use when considering requests for changes to the investment policy. The draft framework contains two sections focusing on how the Board will consider these types of requests and on how requests should be submitted to the Board. Green drew the attention of the committee to those particular sections in the framework, and Schueler led the discussion.

The discussion began with identifying the steps for universities participating in the PUF to follow in determining whether or not they would divest. Trustee Callahan asked what level of input would be needed from a university to divest and whether full consensus was needed from all university boards in order to approve a change in the PUF investment policy. Interim Associate Vice President for Finance and Administration and Controller Jan Lewis advised that there is a broad spectrum of possible scenarios, from the OSU Board making an independent decision as the fiduciary of the fund to full consensus by all participating boards being needed. Green noted the other issue is whether to have multiple pools of funds. Burgess noted that in order to realize the higher income from the fund, there is greater efficiency in the current pooling of the six universities' funds; however, a compromise could be two pools (one portfolio remaining with the current allocation and another pool divesting from fossil fuels). With two pools, Burgess cautioned, the administrative fees would increase, thereby further reducing the returns.

Trustee Longo Eder asked whether there were other policies within the State that require consensus approval by the universities. President Ray noted one example related to the State of Oregon contract with the Service Employees International Union. Schueler

added that other social investing requests could further fracture the pool and reduce returns. Trustee Bedient noted her preference that the pooled fund remain intact instead of separating into multiple sub-funds as that would defeat the purpose of 'pooled' funds. She noted, if a university felt strongly about an issue, it would have the option to withdraw from the pool. Green agreed, advising that the pooled funds are important to the TRUs (technical and regional universities) as it keeps costs down and improves investment returns. Trustee Callahan asked what determines a majority, and Green advised that it would be four out of six universities and is not based on the amount of money held by each university. Trustee Morgan said that the four TRUs could outvote the two larger institutions even though the amount of money pooled by the TRUs is less than the larger universities.

Callahan noted that the proposal focused on the strategic plan and university values, but inadequately addressed possible negative effects on the university. Trustee Baldwin cautioned that these decisions cannot be made in a financial abstract but should be made with the real impact to human lives kept in mind.

With regard to the Finance & Administration Committee review of a request for a change in investment policy, Trustee Brim-Edwards made the suggestion to include an option for the committee to "or to take no action" based on their review. Schueler recommended that, in Section III, the sentence "the request should demonstrate" should be changed to "the request should address" to make it more clear. He also noted that it would be helpful to make it more clear that the mission and values would be considered when reviewing a request. Trustee Bedient recommended adding "or other potential financial or economic effect on Oregon State" to #2 in the six considerations under the guiding principles. Schueler recommended keeping the language broad enough to allow room to address future issues. Ray recommended a placeholder be added: "impact of the proposed investment policy change on performance returns and income generated for beneficiaries and stakeholder relationships."

In review, Colbert asked about a majority of participating boards in the PUF. After some discussion, trustees indicated they were comfortable with a majority, rather than requiring consensus or a super majority. Trustees asked about what entities can submit a request. Colbert clarified that requests can be submitted by OSU stakeholders or by a university board participating in the PUF and advised that this language could be clarified.

Schueler thanked the trustees for their input and asked staff to prepare the next draft for the January committee meeting. Colbert advised that Trustee Thorne was listening to the call but, due to technical difficulties, was unable to audibly participate; Schueler asked that Thorne provide his comments and thoughts to the board secretary.

## **6. Adjournment**

With no additional business proposed, Schueler adjourned the meeting at 2:45 p.m.

Respectfully submitted,

Debbie L. Colbert  
Board Secretary