

Minutes
Board of Trustees Meeting
Chairs of Excellence Trust
October 11, 2017

The Board of Trustees for the Chairs of Excellence Trust convened in the Executive Conference Room at the Tennessee Capitol on October 11, 2017. With a quorum present, Treasurer David H. Lillard, Jr., called the meeting to order at 10:00 a.m.

Board members in attendance: **Treasurer** – *David H. Lillard, Jr.*; **Comptroller of the Treasury** – *Shiri Anderson, designee for Justin Wilson*; **Secretary of State** – Keith Boring, designee for *Tre’ Hargett*; **University of Tennessee** – Ron Maples, designee for *President Joe DiPietro*; **Austin Peay State University** – *President Alisa White* and **Commissioner of Finance and Administration** – *Greg Turner, designee for Larry Martin*.

Also in attendance: *Ashley Nabors, Jaye Chavis, Mitch Robinson, Earle Pierce, Brian Derrick, Michael Brakebill, Jennifer Selliers, Cassandra Esaka, Emily Davis, Alison Cleaves, Heather Iverson, and Lou Hammond.*

Approval of Minutes

Treasurer David Lillard requested approval of the previously distributed Minutes of the meeting on October 5, 2016. There were no corrections to the Minutes. On motion by Ron Maples, second by Shiri Anderson, the Board approved the Minutes.

Review of Fiscal Year 2016-2017 Activity

Jaye Chavis provided an overview of the Fiscal Year 2016-2017 Activity. Mr. Chavis presented the information in Exhibit A, Summary of Activities, noting that the market value at June 30, 2017 was \$150.9 million for chairs at the University of Tennessee and \$169.7 million for chairs at the Locally Governed Institutions. In Exhibit B, which contained the expenditure reports, Mr. Chavis reported that the University of Tennessee had \$4.9 million in withdrawals. The Locally Governed Institutions had \$4.2 million in withdrawals for the same period. The University of Tennessee had no unexpended balance while the Locally Governed Institutions had an unexpended balance of \$26,036 at June 30, 2017. He also noted information from Exhibits C and D of the report, with Exhibit C representing the sources of funds and Exhibit D representing the total chair values. Mr. Chavis noted that there were no chairs underwater. Mr. Chavis also stated that there were two chairs at Austin Peay State University that had not been fully funded by an amount of \$421,344 as of June 30, 2017. It was noted that Certification Statements were provided from The University of Tennessee and the Locally Governed Institutions attesting that all funds used were expended for the chair for which the income was intended.

Consideration of Proposed Spending Plans

Mr. Chavis presented information regarding the proposed spending plans. Exhibit E reflected the calculation of the authorized spending limit, which is four percent of the 3-year average market value reported at December 31 of each year. The authorized spending limit based on the calculation for the University of Tennessee and the Locally Governed Institutions was \$5.5 million and \$5.9 million, respectively. Exhibit F reflected the University of Tennessee and Locally Governed Institutions requested \$4.9 million and \$6.3 million, respectively. This being an action item, on motion by Treasurer David Lillard, second by Dr. Alisa White, the motion carried approving the spending plans.

Unaudited Financial Statements

Brian Derrick presented FY 2017 unaudited financial statements. He advised the Board that the Chairs of Excellence Trust is a permanent fund. As such, only earnings may be spent. He also advised that the statements were prepared on a modified accrual basis. The fund balance at June 30, 2017 was \$321.4 million.

Audit Committee

Earle Pierce, Director of Internal Audit, provided the report of the Audit Committee. He advised that the combined Audit Committee for BEST and COE convened, and he reported that there were no reports of fraud or abuse. The committee discussed the revisions to the Audit Committee Charter, the scope of the annual audit and review of internal controls, risk assessments, management's responsibility, the financial integrity act, fraud hotline and reporting mechanism.

On motion by Greg Turner, second by Ron Maples, the revisions to the Audit Committee Charter were approved.

Investment Report

Michael Brakebill presented the investment report for the month ending June 30, 2017. He covered the fund asset allocation: 37.8% in fixed income assets, 47.6% in domestic equities and 14.7% in international equity. The total fund returned 10.04% for the year. He commented that fixed income is managed passively; it makes the portfolio stable; and indexes tracked perfectly. Overall, the fund performed well in comparison to benchmarks.

Transactions Occurring Since the Last Meeting

Mr. Chavis stated that by the rules of the Board, revisions to the spending plans may be requested by the chairs. When a request is made, the Chairman notifies the Trustees of the request. If no objection is received within 15 days, the revision is approved. If there is an objection, the revision is to be considered at the next meeting of the Board. Requests for spending plan revisions were received for the following chairs during the course of the year.

Semmes-Murphey COE in Neurology (UTK) – Purchase of Odyssey Imaging System
HH Arnold COE in Computational Mechanics (Space Institute) – Purchase of Lab Equipment

With no objections raised within the 15 day period, adjustments were implemented in accordance with the policies of the Trustees of the Chairs of Excellence Trust.

Legislation

Treasurer Lillard advised that there has been no legislation to report to the Board.

Annual Review of Investment Policy and Trust Agreement

Jennifer Selliers covered the Revised and Restated Chairs of Excellence Trust Investment Policy, Additional Policies and Endowment Trust Agreement that were contained in tab 8 of the meeting material for the Board's review. She remarked that the proposed Trust Agreement was drafted to align with 2017 statutory changes related to the enactment of Public Chapter 400. The Additional Policies were also revised to align with statutory changes and to address some minor housekeeping items, such as eliminate the transition language from 2005. The proposed Investment Policy addresses industry changes and investment practices. It outlines the distinct investment-related roles and responsibilities of the Board and Treasury Staff. It also sets forth and establishes the investment objective, criteria and performance benchmarks for the Trust.

On motion by Treasurer Lillard, second by Shiri Anderson, the motion carried approving the revisions to the Investment Policy.

On motion by Treasurer Lillard, second by Shiri Anderson, the motion carried approving the revisions to the Additional Policies.

On motion by Dr. Alisa White, second by Shiri Anderson, the motion carried approving the revisions to the Trust Agreement.

Other Business

No other business was brought before the Board.

Adjournment

With no further business to discuss, Treasurer Lillard adjourned the meeting.

Respectfully Submitted,

/s/ David H. Lillard, Jr.

Treasurer David H. Lillard, Jr.
Chairman of the Board