

Salem State University
RFP 2018-2 Investment Management Services for Salem State University Foundation
Addendum III
Conference Minutes
Date: January 8, 2018

1. Overview

Thank you very much for joining us, both in person and on the phone. As indicated, the Salem State Foundation is a separate 501C3 and its investments are also separate from those of the University and from the Assistance Corporation. Our investments now total approximately \$29.4 million. That is an endowment that has doubled in the past six years. We have just finished a major comprehensive campaign, which was the most significant fundraising initiative that Salem State has had. It was a \$25 million campaign and we exceeded that goal by raising \$26.5 million, and that was December of 2016.

The Foundation Investment Committee is legally authorized to invest only in securities that are permitted by the prudent man rule and identified in the Foundation Investment Policy Statement (IPS). Our current investment advisors are Eastern Bank Wealth Management and Vanguard Index Fund. The Foundation's spending policy is found within the IPS. The reason for the RFP is based on a recent revision to the Foundation's IPS.

2. Timetable

All RFP proposals are due on Monday, February 5, 2018 by 3:00pm. Any proposal received after 3:00 pm will not be accepted.

3. Questions

Q: Thank you for having us here, I think you have a great contingency of competition, and I believe whoever wins, you are going to be well served. I would just like to know, given the fact that you just successfully completed your campaign, is it likely that further additions to the foundation will be received over the next several years? I ask that question because it is helpful in terms of structuring portfolios, understanding what additional moneys would come in. Thank you.

A: Through the course of the campaign, we did have individuals who committed to a pledge in the campaign, in which we are anticipating over the course of a couple of years a minimum of \$3 million to be added to our endowment. Then we have ongoing annual funds, both restricted and unrestricted. We have at least two or three special projects every year. One thing that may be noted is that we had 94% of our full-time employees give to the campaign, which is extraordinary, particularly for a public institution. Our like institutions, our peers nationally, the estimate is roughly in the high 20% for employees to give to the institution that they are employed by. So we do have a group of employees on campus, particularly those in leadership positions and chairs of

academic departments, who are seeing that as our budgets are being more and more constrained because of other needs of the Commonwealth, one way that they can help to relieve their own budget pressure is to work with Advancement to raise funds. Our new president, who has been on board for about three months, has announced that there will be another campaign, in which there would have to be a feasibility study, a determination of what the goal of the campaign will be, what would we be raising money for, etc. The one that we just completed was a comprehensive campaign, which was very valuable in terms of getting the campus community involved and increasing our donors. We have to determine those things before we actually announce the campaign, but I would say that we should know what we are going to do within the next two years.

Q: Are there any constraints around fees, active versus passive, proprietary investments, the vehicle types that can show funds, individual securities, ETFs, or LPs?

A: No, there are no restrictions around those asset classes that you mentioned. We are using virtually everything you just talked about in our existing portfolios today, so there would be no additional restrictions to that. One comment about our history is that we have never used private investments, so non-liquid investments have not been utilized. That would likely be some kind of change if we were to do that.

Q: Whether you can share this or not, Vanguard and Eastern Bank are currently managing your portfolio. Any elaboration on how that is broken out? Is part of the portfolio from Vanguard, and the other through Eastern Bank, or is it more interwoven than that?

A: I'm glad you asked that question, I really have to clarify the relationship we have with Vanguard. We do not have a fiduciary management contract with Vanguard to manage those assets. As a brief history, we decided four or five years ago that we should supplement what we were doing with an indexing strategy and we set up a program and opened up an account with Vanguard for the purpose of trading the securities that we decided to set on. So we have 10 ETFs, an ETN, and a mutual fund in Vanguard. How I would describe the relationship with them is that they are acting as our broker, and nothing more than that. They do not have a fiduciary management responsibility over those assets. We are essentially managing them ourselves, which is not acceptable and that is part of the process of what we are doing here today. There is a little over \$7 million in that Vanguard account. The balances with Eastern Wealth Management, with most of it in the Total Return strategy.

Q: In your Investment Policy Statement, it mentions an investment objective of 6% real return. I am curious how you have managed keeping up with that objective and how you anticipate keeping up with that objective?

A: Like any objective, it is a target, not a hard number that we believe we are going to meet every single year. In recent years, we have not had any trouble meeting it, and we could be at a stage where the market may turn a little bit against us and does not provide us with the same opportunities that we have had in recent years, but we feel that with the allocation targets we

have, a risk adjusted return that is close to that number is appropriate. The hard number is not going to be 6% every year, but on a risk adjusted basis, we think we have ourselves covered.

Q: Is there a certain percentage of the annual income that factors into the University's budget for distribution purposes? Is it a fixed dollar amount or percentage that is maybe coming out?

A: Our policy is that there is a 5% draw annually, and 4% of that essentially goes over to the University. Not all areas are requesting the draw down, but the majority of them are. There are some that decide to roll it over.

Q: Can you elaborate on the other 1%, is that a management fee?

A: Yes, an administrative management fee that is part of the Foundation's annual budget.

Q: How much is the committee willing to grant the new advisor in terms of when you consider the spectrum of advisory from nondiscretionary where the advisor relies on the investment committee to approve every decision versus discretionary, where the advisor basically is fully delegated authority to recommend and invest. Where on that spectrum will be accepted?

A: We have historically given our advisers a wide level of discretion in terms of asset allocation within the parameters of the Investment Policy Statement. Our theory has always been that we are paying you a fee to manage our assets, and we certainly do not want to interfere with that. We expect performance within the benchmark targets, and we expect you to deliver that, but we do not want to get in the way in terms of your approach or strategy to deliver what we ask for as long as those strategies stay within the confines of the parameter of the Investment Policy Statement. We would also want our advisor to advise us on our Investment Policy Statement, so that if you feel it should change, we would be willing to hear that. We also maintain regular communication with our advisors at Eastern. Our committee meets on a quarterly basis, where advisors come and communicate and update us on where our assets are. They also provide customer service on a regular basis for questions and issues that we may have, as fundraisers and staff, and our donors.

Q: Do you have any special reporting requirements?

A: Typically, reporting requirements are quarterly. We prefer that it be in person, but we can accommodate electronic reviews on a quarterly basis if need be. We do require at least an annual in-person review. We would also require monthly standard reports, along with information on assets held and transactions for the reporting period.

Q: Can you talk about the current arrangement with Eastern Bank, and if there are aspects you are pleased or displeased with?

A: Our arrangement with Eastern is between us and Eastern, whether it is investment performance or other factors of the relationship.

Q: The Vanguard side of the portfolio, it sounds as though the Investment Committee has more discretion on what happens in that part of the portfolio, correct?

A: Yes, we have too much discretion.

Q: On Eastern's side of the portfolio, on a discretion scale, do they have full discretion?

A: Yes.

Q: Any parts of the portfolio you would retain going into a new advisory relationship, legacy investments, that we should be mindful of?

A: We have a captive loan to the Salem State Assistance Corporation, which we advanced to them three to four years ago for a real estate transaction. That is the only item that would be considered legacy, that would have to stay, and we would be looking for custody services for that as well.

Q: In terms of investments, the Investment Policy Statement states that the committee can consider ethical and socially responsible investments. Are there any in the portfolio today and are you having discussions around certain areas on the committee level for future consideration?

A: There are some in the portfolio today. We are not having active discussions at the moment as far as expanding on that. We have added in the current Investment Policy Statement some language to the effect that the investment portfolio can be managed, to the extent that the committee considers prudent, some inclusion of ESG factors in it in making the decision. We are leaving ourselves an option, and that is partly because, like many other university endowments, there are pressures and questions being raised as to how the investments are being done and whether they are in areas of business that would be generally approved of. We are trying to go beyond the matter of simply excluding the areas of business, for example, there has been a movement at the university to divest from all fossil fuel investments, and rather than simply having an exclusionary policy, we are looking for ways to make judgements that reflect positive factors, in other words, ESG.

Q: Do you have a goal for the finalist meetings?

Not a hard goal. The first thing we are going to have to determine in our evaluation is how many managers are going to fit our needs. There's likely to be more than one. If it is one, then we are probably looking at a finalist group of 3-5. If more, then we may end up in the 5-10 range. We will

not know for sure until we see and evaluate the proposals and see how the feedback we are getting fits into what we want to accomplish and what our strategy is.

Q: In your Investment Policy Statement, VI Operational Procedures, B. Investment Manager(s) Selection, “The recommendation will have resulted from a Request for Proposal (RFP) process in conformity with the Commonwealth’s procurement laws and regulations.” Can you provide more detail in the sense that is your advisor expected to run a formal RFP process to select a manager in a given asset class, or does that responsibility reside with the manager?

A: That is regarding this RFP process. Once it is awarded, you manage, but not underlying managers.

Q: Your Investment Policy Statement shows a range of permissible areas for each asset class, and then you have a rebalancing section. To what degree is your committee willing to consider the employment of tactical tilt, where you overweight or underweight certain asset classes to take advantage of market inefficiencies and opportunities the markets provide?

A: Yes, that is a process that we would be open to. As I said earlier these ranges are not hard numbers. We understand that from time to time and based on previous considerations that you may be out of range to some degree and that is fine if it is for a tactical reason. If there is more of a long-term interest in being out of range or expanding the percentage, then that is something worth discussing.

Q: Looking at the financial statement, we noticed that the investment fees dropped in 2016 – 2017 despite an increase in your market value. Could you provide an explanation for that?

A: The investments include endowment, but also our money market funds as well. It is possible it was distributions of spendable funds. It could be explained due to a shift to the Vanguard account.

Q: Regarding the submission of the proposals, how do you want the format to be set up?

A: It should follow the RFP so that the answers are placed after their corresponding question so that they may be easily be transferred into a spreadsheet.

4. Additional Questions Post Monday’s Pre-Bid Conference

Question from Nikko Asset Managements Americas. Inc. - Andrew Thaler

Q. Will Salem State University Foundation consider external investment management firms or only experienced investment consulting firms.

A: We are considering external investment management firms, not consultants

Question from Boston Private - Carolyn Macedo

Q: Would the following two pieces of information preclude our proposal from being considered:

- a) We do not currently manage any public funds - only private and non-profit
- b) It is against our policy for us to solicit former clients for references. We will provide 3 current references.

A: Yes on both, please refer to Section 2 of the RFP General Information and Section 7b Firm References.

Question from Carthage Financial Group - Ralph Mitchell

Q: Who was your previous vendor in regards to Investment Management Services for the University Foundation? How long have you used their services?

A: Please refer to the second paragraph of these minutes under overview regarding investment advisors. We have been using their services for approximately 8 years.

Q: Is it possible for me to take a look at your previous winning bid for this contract? If so, how can I do so?

A: We will not provide this information.

Q: What was the grand total of expenses for your previous budget for the previous contact? Was the vendor paid by way for sales commissions, management fees or annual retainer? And at what dollar volume? Were transaction fees (i.e. ticket charges) absorbed by the vendor or paid by Salem State?

A: We pay a management fee based on a percentage of assets under management.

Q: Where there any Proprietary Funds used by your previous vendor? Would you have a problem if your next vendor wanted to use Proprietary Funds?

A: No proprietary funds were used. We don't have a problem with the use of proprietary funds.

Q: Did your previous vendor ever submit an ADP (Affirmative Development Program) that demonstrated their commitment to diversity and willingness to extend business opportunities to smaller and disadvantaged firms owned by Veterans, Women and Minorities?

A: Not the best of our knowledge.

Q: How many times did your previous vendor meet with your committee or responsible staff in regard to your investments?

A: We expect a performance/strategy outlook report quarterly.

