THE UNIVERSITY OF TENNESSEE BOARD OF TRUSTEES

MINUTES OF THE FINANCE AND ADMINISTRATION COMMITTEE

February 26, 2014 Martin, Tennessee

The Finance and Administration Committee of The University of Tennessee Board of Trustees met at 3:30 p.m. CST on Wednesday, February 26, 2014, in the University Center Ballroom on the campus of The University of Tennessee Martin.

I. CALL TO ORDER

Charles C. Anderson, Chair, called the meeting to order.

II. ROLL CALL

Charles M. Peccolo, Treasurer and Chief Financial Officer, called the roll, and the following members of the Finance and Administration Committee were present:

> Charles C. Anderson, Chair Joseph A. DiPietro J. Brian Ferguson John N. Foy Raja J. Jubran Sharon J. Miller Pryse Betty Ann Tanner

The Chief Financial Officer announced the presence of a quorum of the Committee. Other Trustees, administrative staff, members of the public, and representatives of the media were also present.

III. CONSENT AGENDA

- A. Minutes of Last Meeting
- B. Real Property Transactions
 - 1. UTK Gas Line Easement for Steam Plant (Exhibit 1)
 - 2. UTHSC Acquisition of 885 Madison Avenue (Exhibit 2)
 - 3. UTHSC Acquisition of 239 D. M.L. King Avenue (Exhibit 3)
 - 4. UTHSC Acquisition of 964 Union Avenue (Exhibit 4)
 - 5. Additional Disclosed Capital Projects for FY 2013-14 (Exhibit 5)

Page 1 Finance and Administration Committee Board of Trustees February 26, 2014 Trustee Tanner moved approval of the Consent Agenda. Trustee Foy seconded the motion, and it carried unanimously.

IV. TENNESSEE UNIFORM ADMINISTRATIVE PROCEDURES ACT RULES

Ms. Catherine Mizell, General Counsel and Secretary, made the following introductory remarks about these items:

On behalf of the administration, the Office of the General Counsel is presenting for the Committee's consideration two policies concerning use of University property. One policy governs the use of University property in general and will establish who is authorized to have access to University property. The other policy specifically governs use of University property by members of the general public for speech and other expressive activities. These policies must be promulgated as rules under the formal rulemaking procedures of the Tennessee Uniform Administrative Procedures These rules will replace two Board-approved Act (TUAPA). policies that have been in effect for at least 40 years—an access policy and a speaker policy. Considered together, the intent of the two policies was to require members of the general public who wanted to engage in expressive activities on University property to be sponsored by a University student, employee, or student organization. The sponsorship requirement went unchallenged at law until 2011 when a member of the general public filed a lawsuit claiming the sponsorship requirement violated his free speech and The University obtained dismissal of the due process rights. lawsuit in the United States District Court, but the plaintiff, who was represented by a national advocacy group, appealed the dismissal to the Sixth Circuit Court of Appeals. In August 2013, the Sixth Circuit Court of Appeals issued an opinion reversing the District Court and finding the two policies at issue contradictory in terms of who has authority to grant sponsorship—whether only a student organization could sponsor an external speaker or whether any student or employee could also sponsor an external speaker. Due to the perceived contradiction, the Court held that the plaintiff likely would succeed on the merits of a challenge to the sponsorship requirement on the ground of vagueness. Therefore, the court further held that the Plaintiff was entitled to a preliminary injunction against enforcement of the sponsorship requirement. The case was remanded to the District Court where the parties

agreed to a Consent Order dismissing the case, with the University permanently enjoined from enforcing a sponsorship requirement based on the two particular policies at issue in the litigation. The Consent Order expressly provides that the injunction does not prohibit the University from adopting new policies.

Because of the complexity of the issues presented by regulation of speech and other expressive activities at a public university, the University has consulted with a nationally recognized first amendment expert, Professor Rodney Smolla, concerning the new rules. In our judgment, the new rules are sound and satisfactorily address the Sixth Circuit Court's concerns about vagueness by providing a clear notice to members of the general public as to the circumstances under which they will be permitted to engage in free expression activities on University property. It is important to keep in mind that the United States Supreme Court has recognized that universities differ significantly from public parks, town squares, city streets and sidewalks and other places traditionally open to members of the general public for speech on subjects of their choice. To quote the Supreme Court, "A university's mission is education, and decisions of this Court have never denied a university's authority to impose reasonable regulations compatible with that mission . . . [on] the use of its campuses and facilities."

The General Counsel then asked Assistant General Counsel Matthew Scoggins to summarize the proposed rules for the Committee. Concerning the rule on "Use of University Property," Mr. Scoggins explained that the former rule did not define key terms such as "guests" and "invitees," was not as complete as it should have been in describing what the campus practices were with respect to all potential users of University property, and did not reference the 1969 "Speaker Policy." The rule did not make it clear when external speakers were allowed to speak on University property, which was the issue raised in the lawsuit.

The new rule corrects those issues and also adds a statement on the specialized nature of University property being used for pursuing its missions of teaching, research, and service. The University is not required by law to open its property for just any type of use. The rule contains a more complete description of the types of users of University property and references the new rule concerning use by external speakers. The two new rules "speak to each other" and clarify which rule governs free speech activities.

Trustee Schledwitz asked if there had been faculty or student input solicited in developing these rules. Ms. Mizell responded that Chancellors were asked to distribute drafts to the Faculty Senate Presidents and the SGA Presidents to solicit their input. Comments were received from the Faculty Senate President at the UT Health Science Center and the Faculty Senate President at UT Martin, whose comments incorporated comments from the SGA President at UT Martin.

Trustee Murphy asked for confirmation that the rule only identifies the users and does not address where they can or cannot speak. Mr. Scoggins replied that the campuses will draft campus-specific policies to address specific spaces. Trustee Murphy then asked if the other new rule addresses what space can be used by external speakers. Mr. Scoggins replied that the rule addresses some specific spaces but leaves it to the campuses to enact specific facilities use policies on specific spaces, whether for general use or for free speech activities.

Trustee Jubran asked for clarification that the new rules in no way take away any rights that the students or faculty had previously. Mr. Scoggins responded that they do not.

Trustee Tanner moved approval of the proposed Chapter 1720-1-2 of the Rules of The University of Tennessee, titled "Use of University Property," (Exhibit 6) to supersede the current Chapter 1720-1-2, titled "Access to University Property." Trustee Jubran seconded the motion, and it carried unanimously.

Mr. Scoggins next presented the new rule on "Use of University Property by Non-Affiliated Persons for Free Expression Activities." This rule replaces the "Speaker Policy" adopted by the Board in 1969. That policy affirmed that student organizations could invite speakers to campus and that the University would not enact restrictions to control the viewpoint of speakers invited by student organizations. The new rule does not remove either of those restrictions. The rule only applies to the speech of a non-affiliated person, which is defined as any person or entity that is not a University unit, student, student organization, employee or volunteer—basically, members of the general public who are not members of the University community. The general rule is that University property is not open for free expression of speech activities by non-affiliated persons. Courts have rejected the proposition that the University must make all of its property equally available to students and non-students or that it must grant free access to

members of the general public. The University may preserve its property for its dedicated purpose, which is to pursue the University's missions of teaching, research, and service. The rule goes on to describe exceptions to the general rule and clarifies who may invite non-affiliated persons to participate in free expression activities.

First, a student organization may invite a non-affiliated person to participate as a speaker in its free expression activities. The University does not approve or endorse the speech of the guest speaker, nor does it control the speaker's viewpoint.

Second, a non-affiliated person may be invited by a faculty member to speak at a University campus under the Board's policy governing academic freedom responsibility and tenure. Again, the University itself is not inviting the guest speaker, but rather the faculty member doing so in exercise of academic freedom. Those guest speakers are also subject to University policies.

Third, a non-affiliated person may be invited by a University unit to engage in an official activity of the University unit if the head of the unit decides the guest speaker will advance the mission of the University through his or her speech, such as participating in a panel or symposium.

Fourth, a key exception is that a non-affiliated person may speak on a University or city street or sidewalk adjacent to the street. Thus, a non-affiliated person is not without access to share whatever message he or she may have for students and faculty. The First Amendment restricts the University's authority to prohibit speech on streets, which is why that exception is in the rule.

Fifth, speech allowed by the rule is subject to reasonable time, place and manner restrictions, meaning, for example, that traffic and facility entrances cannot be blocked. University activities disrupted, or students from sleeping in their dorm rooms or study in the library. Non-affiliated persons cannot violate the law or damage University property.

Trustee Pryse asked how the new rule would impact street preachers. Mr. Scoggins replied that they are non-affiliated persons and may use a University or city street or sidewalk.

Trustee Stansberry asked about the exclusion of the Rock on the Knoxville campus from the rule. Mr. Scoggins explained that under the law, the Rock is

arguably, at least, a designated public forum. It is an area that the University has opened for free speech activities and makes no effort to prohibit non-affiliated persons from painting the Rock.

Vice Chair Ferguson commented that it is his understanding that even if someone is ideologically extreme and 99% are offended and even if the speech suggests that the solutions may be violent, the speech cannot be stopped as long as there is no imminent danger to the surrounding public and no violation of law. Mr. Scoggins replied that some speech is not protected by the First Amendment, such as speech directed to inciting or producing imminent lawless action and is likely to incite or produce such action (for example, screaming fire in a crowded theater or making a true threat to someone), and the rule incorporates those exceptions to free speech. Mr. Scoggins reiterated that the University cannot suppress speech based on the viewpoint of a non-affiliated person invited to participate in the free expression activities of a student organization.

Trustee Gallimore expressed concern about weekends and times when the general public is invited to campus and the possibility of a non-affiliated person engaging in speech without being invited by a student organization or a faculty member. Mr. Scoggins responded that the speaker would be asked to identify the student organization, faculty member, or University unit that had invited him or her to speak. If unable to do so, the speaker would be asked to move to a street or sidewalk.

Trustee Lampley asked whether a student organization must stay with the external speaker the entire time. Mr. Scoggins responded that the facilities use policies for each campus would address that issue. Trustee Lampley then asked how an external person would distinguish between streets and sidewalks being owned and controlled by the University or by the city or county. Mr. Scoggins acknowledged that it could be difficult to make that determination and that is the practical reason the rule makes University streets and sidewalks open, with a few limited exceptions (for example, service roads, driveways, ramps, alleys, loading zones). With respect to Trustee Lampley's question about whether a student organization must remain with an external speaker, Ms. Mizell noted that the policy is drafted to make it clear that it is the free expression activity of the student organization and that the non-affiliated person is invited to participate in that expression. She said it is her expectation that representatives of the student organization would be present with the external speaker. She assured the Trustees that when the General Counsel's Office is reviewing the campus policies, she will be looking for that kind of application.

Vice Chair Ferguson asked if the University had the latitude to make these policies or does the State have any say in these policies or rules? Mr. Scoggins responded that under the TUAPA rulemaking procedures, if the Board of Trustees approves the rules they will be submitted to the Attorney General for approval and then filed with the Secretary of State's Office and will be effective. At a later date, the rules will go before the General Assembly's Government Relations Operations Committee for review.

Vice Chair Ferguson commented that the rules seem to have limited application at the Health Science Center. Mr. Scoggins noted that Forest Park, which is managed by UTHSC, is a city park and is considered a traditional public forum.

Trustee Jubran reiterated his point that the new rules do not diminish any of the rights of student organizations, including activities that may cause angst by some. Mr. Scoggins added that there have been questions in the past with respect to whether the University has given the right to an individual student to invite a guest speaker. Based on a review of the history of Board action, it appears the intent of the Board was to allow student organizations but not individual students to invite guest speakers to campus. From time to time over 40 years, an individual student has been able to invite a guest speaker, but that practice will not continue under the new rule.

Trustee Gregg asked if panhandling or fundraising on corners is addressed in this rule or another policy. Mr. Scoggins replied that there is a separate policy on commercial solicitation.

Trustee Murphy asked if the First Amendment expert had reviewed the rule. Mr. Scoggins said that he had reviewed it and was recently asked to review again the streets and sidewalks issue. Professor Smolla expressed his opinion that it was prudent to allow an external speaker on a University sidewalk adjacent to a street. The rule could have been aggressive on that point, but Professor Smolla thought it was prudent to allow non-affiliated persons ample alternative means of communicating with students.

Trustee Tanner moved approval of the proposed Chapter 1720-1-12 of the Rules of The University of Tennessee, titled "Use of University Property by Non-Affiliated Persons for Free Expression Activities," (Exhibit 7) to supersede the "Speaker Policy" adopted by the Board of Trustees on June 19, 1969. Trustee Jubran seconded the motion, and it carried unanimously.

V. FY 2014 REVISED OPERATING BUDGET

Charles Peccolo, Treasurer and CFO, presented slides to summarize the FY 2014 Revised Operating Budget. He reported there was very little change in the revised document with no significant changes in tuition or state appropriations. The recurring expenditures have a change of less than one percent in some cases. The expenditure budgets increased a net of \$84.6M in non-recurring expenditures and are included in the campuses' spending plans. The \$84.6M comes from two main sources. The first is \$48.7M that was carryover not spent from the last fiscal year budget. The second is \$37.9M that came from reserves for non-recurring expenses for campus initiatives, i.e., equipment and lab replacements, faculty start-up grants, bridge financing for research projects, etc. Again, it is spending authorized in the budget but may or may not be spent during the fiscal year resulting in carryovers at year end. He then presented the overall University budget that includes restricted, Total net reduction in the unrestricted, E & G and auxiliary funds. University's fund balance is \$48.3 million with \$43.0 million being provided from prior year budget carryovers. The remaining \$5.3 million represents a reduction in the current fund balance from \$111.0 million to \$105.7 million.

There was a one percent increase in unrestricted revenue because when these budgets were created there was no knowledge of the fall enrollment numbers. At this time, there is a better idea of the tuition and fee amounts. The restricted E & G was a reduction of \$700,000. The auxiliary was down approximately \$1.0M exclusively from UT Knoxville. The total revenues in the revised budget are down \$400,000 from the original budget that the Board approved previously. In the original budget, we estimated that the beginning fund balance through the fiscal year would be \$129.6M. The fiscal year ended with a fund balance of \$178.3M or the \$48.3M in unexpended funds that were carried forward and re-budgeted this year.

He then presented a comparison over time that showed the relative relationship of these funding sources over a period of ten years. Until the last four or five years, the relationship stays fairly constant as far as what percentage of total revenues are derived from which source. The state appropriations have contracted and the student fees have offset. The grant and contract piece is now the largest revenue source on a combined basis for the University and has changed quite a bit. Trustee Pryse asked if the Hope Scholarship money was included in tuition and fees and if so what percentage of tuition and fees does the Hope Scholarship represent. Mr. Peccolo said he would determine the percentage and provide that information to the Committee after the meeting. Dr. DiPietro stated that 90%

of the students on average across the System receive a Hope Scholarship as incoming freshman.

Trustee Schledwitz noted that the \$48.3M referred to earlier was the largest carryover he has seen in unspent funds. Mr. Peccolo explained that it varies year by year but is usually in the \$25-\$40M range. These are funds that the campuses had programmed for different initiatives in spending authorizations that didn't get executed during the fiscal year. Stansberry asked if campuses are at liberty to spend the funds on anything or how only for the originally approved purpose. Mr. Peccolo replied that the carry over funds are budgeted to be spent similarly. Trustee Gallimore then asked if the carry over funds stay in the same department. Mr. Peccolo explained that they stay within the entity and then it is a campus decision if they want to continue with the initiative or reflect the funds in a revised budget. Trustee Stansberry asked if the revised document shows what the funds were budgeted for and how they were actually spent, and Mr. Peccolo replied that it does. Ms. Pryse asked for confirmation that if she were a department head and did not use the funds, they would go back to her campus and then her campus administration would determine how the funds are spent. Mr. Peccolo replied that is correct.

Vice Chair Ferguson made an observation that the revenue trend shown matches the cost trend and grows roughly 4.4% percent per year. Tuition has doubled in ten years which would imply a 7% growth rate. He asked if those numbers are indicative of the future. Mr. Peccolo stated that the University's fixed costs, assuming they stay at funding level, are probably higher than the HEPI because the split of expenditures is so heavily into personnel costs and benefits at 75% of total expenditures. Vice Chair Ferguson said the real question is that other sources of revenue are starting to flatten out and the only way to fill the void, with the current business model, is with tuition and fee increases implying a much higher growth rate to fill the gap. He pointed out that it is an implication that takes us back to an earlier conversation about the strategies and objectives of this institution and things to be worked on in the future. President DiPietro acknowledged that the Vice Chair's point is valid and went on to note this year's under appropriation of the Complete College Tennessee Act performance funding for the University. The three UT undergraduate institutions are tops in the State from the standpoint of the index that allocates resources based on performance. The University earned a \$5.91M increase, but if the performance funding formula had been fully funded, the University would have earned three times that number. President DiPietro said another issue is the very modest increases for the nonformula units.

Mr. Peccolo noted that the formula units are only half of the whole budget and lots of other things are driving those costs besides the education piece. The education costs per degree awarded or FTE it actually has been flat. Vice Chair Ferguson said that goes to Trustee Pryse's question about how much is mitigated by the Hope Scholarship. He went on to say the University is getting State money by another mechanism, the Hope Scholarship, opposed as to getting it as a direct appropriation.

President DiPietro mentioned that on average just to keep up with the costs from year-to-year with the formula units' tuition the percentage increase is in the 3-4% range given that most years a base appropriation increase is not very high. Trustee Jubran asked if there specific items other than quality that we can identify as cost savings measures. President DiPietro said that anything that can be done to graduate students more efficiently would provide ideal cost savings. It is important to the students and there are bigger rewards for the University as long as they fund the Complete College Tennessee Act performance outcomes. To fund investments in advising, as discussed at the Board workshop last year, at the formula campuses would be .5% increase of tuition. In the future, the .5% increase would put the University in position to see greater rewards at the Complete College Tennessee Act formula fund, have a great return on investment and graduate students earlier. We know that professional advising influences completion positively so there are lots of ways to look at it.

Trustee Cates added that many small private schools have seen really sharp reductions in applicants and asked if the University had seen any threat of that or any material change in applicants. President DiPietro commented that UT Knoxville has a luxurious position with 13-14,000 applicants with a high academic profile per year with some 4,200 seats. UT Chattanooga has grown with vigor over the last four to five years and does not have a problem with reduction in applicants. They performed fourth in the State with a six-year graduation rate at about 39%, and Chancellor Angle is looking at ways to improve completion and retention. UT Martin is the institution most at risk because of a lot of issues in West Tennessee. UT Martin has done a great job and ranked second in the State for graduation and retention rates. Seventyfive percent of the students that attend UT Martin need financial help and nearly 60 percent of the students are Pell eligible. That means that their family earnings on the average are around \$60,000. The west part of the State is strapped with economic issues around families that send students to UT Martin and are not like other components of our System and as a consequence, we could and have seen enrollment slip a little. harder each year coupled with it the new proposal for the Tennessee Promise.

It is a great and bold program and is the right thing to do to get more students headed towards college. Tennessee ranks about 47th in the nation and feel that it will help us with upper divisional programs. There is another administration proposal to shift the Hope Scholarship and students going to Martin will receive \$3,000 opposed to \$4,000 makes it more challenging. There could be changes at Knoxville and Chattanooga resulting from the demographics of that program where middle class students get pinched the most. They are not Pell eligible and the Hope Scholarship is \$1,000 less than before and they have the option go to a Community College for free puts us in a dilemma. Even though the Tennessee Promise is bold, innovative, and great for Tennessee, the University needs a safety net. If there are consequences of this that hurt the four-year colleges that are performing at high levels compared to others - some sort of adjustment needs to be looked at by the administration in Nashville as well as the legislature in helping us make it better.

Trustee Cates then acknowledged the shift of the funds our way under the formula and asked if the problem at the Tennessee Board of Regents was graduation rate or a decline in admissions. President DiPietro stated that it varies because TBR's system includes community and technical colleges so some of their issues are different. Tennessee Tech had a decrease in master level students in Education and degrees produced there in enrollment so they have a negative number. Trustee Cates asked about the enrollment for East Tennessee State University. President DiPietro said from the CCTA measures, East Tennessee State University has slipped. Middle Tennessee State University has performed better in the TBR system. Trustee Cates went on to say that Memphis State University had a decline of about 1,500 students. Trustee Jubran agreed that Tennessee Promise is a great program and might be a game changer for Tennessee and other areas. The math does not work that well in the University's favor, but for the general population of Tennessee it works and can hopefully be implemented correctly. It is our challenge to find ways to supplement the University's income and reduce costs to get through this period and increase the rate of graduation through the two-year colleges.

Mr. Peccolo then went over the University's expenditure picture and returned to the \$84.6M, which represents one-time non-recurring budgeted changes. He called the Committee's attention to a slide showing the general relationship changes over time, noting that the relative relationship of each of functional category is somewhat the same. He then pointed out that scholarships and fellowships have greatly increased relative to the other categories. We have consciously provided additional scholarship as student

fees have increased to mitigate part of the impact of the increases and provide access to the University.

Mr. Peccolo next presented the unrestricted E & G (Education and General) fund revenue. All of the changes are focused in the unrestricted E & G. Auxiliary and research were minimal on the restricted side. In the planning process, we had estimated a beginning balance of \$114.7M and ended up with \$157.7. The University is still not back to the level of 2008 in State appropriations on a nominal value, let alone a real dollar value. In 2010 and 2011, the University received one-time ARRA or stimulus funding. The 2014 Revised \$469.7 is still below the \$509.4 2008 fiscal year.

Mr. Peccolo concluded his presentation on the FY 2014 Revised Budget by noting that the budget has been developed from information provided by the campuses and institutes, is balanced, and is within available resources. Approximately \$1.6M went to the reserve.

Mr. Peccolo added the higher education was spared any budget cuts in the Governor's FY 2015 Budget, but other agencies did have cuts. The money that President DiPietro referenced to as productivity gains was \$5.7M and was reallocated to the three undergraduate campuses and it came from the Tennessee Board of Regents' allocation. The budget allows for partial funding of a 1% salary increase funding the formula units at about 55% on average. For many years, the thinking in Nashville has been that the State will provide the salary for its piece of the pie and the campuses will come up with their piece from additional assessments of student fees. The University needs approximately \$2.0M more to fully fund the 1% salary increase. The non-formula units got the full 1% appropriation. The University did get \$5.1M offset for the employer's share of the health insurance premiums projected for next year. The Governor continued the second year of a fiveyear commitment to match St. Jude's funding for hiring pediatric physicians. The University will not receive any capital outlay funding even though the Knoxville lab building was the number one recommended project out of the Tennessee Higher Education Commission and Chattanooga's Fine Arts Building renovation was fourth. The University will receive approximately 50% more in capital maintenance than TBR, which will address the first nine requests across all of the campuses. All things considered, given the State's revenues and projected revenues, the University fared well. DiPietro pointed out the \$5.7M formula unit productivity gains and noted that if it had been fully funded it would have been \$14.3 million.

Trustee Gallimore noted that the University is always behind on capital maintenance funds and asked how far behind it is after this budget. Mr. Peccolo stated that there is a five-year projection and we are several \$100M behind.

Trustee Jubran moved that the Resolution on the Revised FY 2014 Operating Budget (Exhibit 8) be adopted. Trustee Pryse seconded the motion, and it carried unanimously.

VI. REPURPOSING UT MARTIN STUDENT PUBLICATION FEE

Mr. Peccolo explained to the Committee that the in 2001-2002 the Board of Trustees approved assessment of a yearbook publication fee of \$7.00/academic term on all full-time undergraduate students at UT Martin. They assessed and collected that fee but there were two years that they decided not to publish the yearbook and consequently accumulated some funds. UT Martin's Student Senate has considered it and has asked to use \$100,000 of that dedicated fee to equip and upgrade the student recreation center. Because the Board approved the fee for the dedicated purpose of the yearbook, the Board now must approve the repurposing of that balance.

Trustee Pryse said she would like to get issues such as this back to the campus level instead of being presented to the Board of Trustees for approval. Mr. Peccolo noted that he would have to consult with General Counsel because if it is a Board approved fee, it seems the University shouldn't have the latitude to change it without the Board's approval. We will certainly review your concern. Chair Anderson commented that it does need to be reviewed to see if there is anything that can be done to improve the process.

Trustee Pryse moved approval of a non-recurring transfer of \$100,000 from the UT Martin student yearbook publication fee reserves to the UT Martin student recreation center for the purpose of repairing and replacing fitness equipment (Exhibit 9). Trustee Jubran seconded the motion, and it carried unanimously.

VII. TREASURER'S REPORT ON ENDOWMENT INVESTMENT PERFORMANCE

Rip Mecherle, Executive Director of Investments, went over the calendar returns for the endowment (Exhibit 10), noting that private capital returns are as of September 30, 2013.

He then summarized 2013 performance, pointing out mostly strong, and in some cases, stunning returns. There were few instances of negative performance, such as the emerging markets, high quality bonds and commodities. Overall, Central Bank priming drove a lot of the market activity. For instance, small caps stocks in the US returned 43%, large cap stocks in the US returned 32%, and international developed stocks, 23%.

The pool returned roughly 12.8% for the year, but this doesn't capture all of the University's private investments, most of which experienced a good final calendar quarter. The broad policy benchmark was 16.5% and inflation plus spend was 6.9%. The Pool trailed the broad policy largely because its equity allocation is more diversified than the benchmark; however, it beat inflation plus spend.

The public equity composite came in at 19.3% versus 23.6% for the index. Again, that was due to UT's emerging markets exposure, as well as its active/passive mix. Public real estate trailed this year but did well in year's past largely due to a lower exposure to European real estate. Fixed income did well over the long haul but trailed this year due to exposure in inflation protected treasuries. Hedge funds did well across the board and produced some of the best returns in years.

Some observers might look at the 43% return in small caps and 32% in large caps and question why UT's return is not closer, and the answer is the University is considerably more diversified. If the performance analysis is rolled forward one month to January, the Pool goes from trailing the broad policy index across most of those periods to beating them in all but one. The simple reason is equity market returns were sharply negative in one month and completely changed the comparison between returns and the broad policy benchmark. That is precisely the sort of volatility that the University's diversification strategy is trying to mute and why the Pool trailed this benchmark. UT is much more broadly diversified than some of the concentrated indices which performed so well over the last twelve months.

Next, Mr. Mecherle showed a performance summary snapshot of the entire private capital category versus those managers recommended by UT's current consultant. The private capital returns generated a similar story as in the past. He noted that venture capital which has done significantly better under the current consultant still trails the public small cap index. The buyout category outperformed its public market comp, as did private credit. Private real estate performance has improved but is still negatively affected by UT's

Commonfund investment. Finally, private natural resources came in at 9.7%, ahead of the public market comp.

Next, the NACUBO survey was reviewed for fiscal year-end June 30, 2013. It compares the University to roughly 800 public and private institutions on an asset allocation and return basis. At approximately \$700M in assets, the University falls in the \$501M - \$1.0B category.

First, Mr. Mecherle compared UT's asset allocation to NACUBO, covering the categories of public equity, fixed income, alternative strategies, real assets, private capital, and cash. He then presented returns. He then compared returns on a one, three, five, and ten-year annualized basis. In the last year, the University generated 12.3%, putting at or just outside the top quartile. He concluded this review with a year-by-year comparison and pointed out that the University has outperformed in seven out of the ten years.

Mr. Mecherle moved on to the final topic, an update on the 2013 initiative put forward by the UT Knoxville Student Senate requesting the University permanently divest from fossil fuels. He pointed out that various officials had met with the students on multiple occasions, and that the Investment Advisory Committee had discussed the initiative more than once, including the last meeting. He also mentioned that the Treasurer's Office had responded to and rejected the proposal and that in the last few weeks certain students had reiterated their desire that UT divest. He concluded by stating the University's position hadn't changed, and it planned to take no further action.

VIII. TRESURER'S FINANCIAL REPORT, 2013

The Treasurer's Financial Report, 2013 (Exhibit 11) was in the meeting materials.

IX. OTHER BUSINESS

There was no other business to come before the Committee.

X. ADJOURNMENT

There being no further business to come before the Committee, the meeting was adjourned.

Respectfully Submitted,

Charles M. Peccolo

Treasurer and Chief Financial Officer