

**RICHMOND SYMPHONY FOUNDATION  
MEETING OF THE BOARD OF TRUSTEES**

Thursday, March 12, 2020

12:30-1:45 PM

At Troutman Sanders and by conference call

**In Attendance:** Maureen Ackerly, David Bradley, David Carter, Bob Chewning, Ellis Dunkum, David Fisk, Carolyn Garner, James Hartough, Marlene Jones, George Mahoney, Tara Matthews, Wallace Millner, Richard Morrill, Joe Murillo, Randall Parks, Ken Perry, Richard Smith, George Wheeler

**Apologies:** Thomas Allen, Al Broaddus, Ann Burks, Wendell Fuller

**Also in Attendance:** Victoria Cottrell, Frances Sterling, Gail Henshaw, Cheryl Yancey

**I. Welcome and Approval of Minutes of last Trustees' meeting**

**Joe Murillo**

Joe Murillo welcomed all, chairing the meeting in his capacity as Vice President, as easier than for Board President David Carter who was participating by phone. *The minutes of the last meeting were approved.*

**II. Committee reports and acceptance of notes:**

**Joe Murillo**

**(i.) Endowment Growth Stewardship Committee**

**Ken Perry**

Ken Perry invited members to review the notes of the last two committee meetings, welcoming the new members who had joined and participated in the second meeting. He looked forward to the committee getting fully up and running once the new Major Gifts Officer had been recruited.

**(ii.) Nominating & Governance Committee: election of new Trustees**

**Joe Murillo**

Joe Murillo said it was his pleasure on behalf of the N&G Committee to introduce the names for election of three new trustees, as part of our expansion plan.

The first is Carolyn Garner, who is a community volunteer, long-time generous supporter of the Richmond Symphony, and reports that she sang in the University Chorus for a few years. She is experienced in non-profit Board leadership, for example as a member of the Foundation Board of VMFA, a former member of the Foundation Board of the Science Museum, a former member of the Executive Committee of the VA Opera. By way of other interesting biographical information, she used to be a commercial pilot.

The second is Maureen Ackerly, who is a lawyer at the Firm of Armstrong Bristow Farley and Schwarzschild, is a graduate of Duke, and of William & Mary, clerked at the District of Maryland, and started a career in the Trust and the States Group at Sullivan and Cromwell. She moved to Richmond in 1998 and practiced Trust and Estates at McGuire Woods for 11 years. It has been our intent while expanding this board to bring on Trust and Estate expertise. Certainly Maureen is very active in the community and will be a great addition to this board. She is currently on the Board of Governors of the Community Foundation, has been on the Advisory Board of the Massey Cancer Center, and is on the Board of the Richmond Sports Backers.

Third is Krissy Gathright, who is the Chief Operating Officer and member of the Board of Apple Hospitality REIT, the largest publicly trading and select service lodging REIT with a portfolio of over 230 hotels throughout the US. Before this, she served in a number of corporate positions including investor relations, asset management, and accounting and auditing with Cornerstone Realty, United Dominion Realty Trust, and Ernst and Young. She has a passion for community service and a long history of active board participation. She helped create Apple Gives, the REITs social responsibility platform and is the treasurer and chair elect of the YMCA Greater Richmond Board. She serves on the St. Christopher's Board of Governors and is a Board Member of the Maymont Foundation, Community Foundation, and Startup Virginia, the Virginia Chamber of Commerce and the Trust Advisory Board. To keep our classes of equal size, Carolyn would join the class of 2022, Maureen class of 2021, and Krissy the class of 2020. *Joe put forward the committee's motion that they be elected. All were in favor.*

**(iii.) Investment & Banking Committee: no meeting to report.**

Joe paused the meeting to welcome Carolyn Garner and Maureen Ackerly by phone at 12:45 pm, during David Fisk's report.

### III. Symphony Report

David Fisk

David introduced new colleagues, Gail Henshaw, new Director of Finance and Administration, and Frances Sterling, new Director of Advancement and Patron Communications. David mentioned that we have also added a new hire to the Menuhin team. The season has been going well and four candidates have been welcomed for Music Director Search. Valentina Peleggi gave a wonderful performance this past weekend and you can tell from the musicians' reactions that there was much excitement about what she brought to the podium. This morning she conducted Discovery Concerts and she will, hopefully, still be conducting Lollipops this coming Sunday (as the threat from the coronavirus becomes apparent).

By the end of February, we had raised more money than in all of last year. This has got us past the \$7M mark, which is encouraging as we try to raise \$8.5M by the end of June. The last 5% is always the hardest to bring in. We had felt until the end of February quite on top of things, but the coronavirus has now thrown us for a loop. The Mayor has issued a recommendation of not having large gatherings. We will follow the guidelines of ASM which runs the Altria Theatre and Dominion Energy Center. They are upping the level of housekeeping in those buildings. We are not wanting to take a lead here, to be out in front, but are watching carefully to see what directions we may need to follow. We are hoping not to lose our April Masterworks, because that is our fifth and final Music Director Candidate's appearance.

David then turned to the Menuhin Competition, and said we were in discussions with VCU, UR, VPM and the City. The President just put out word that there will be no air travel from Europe through mid-April. The Menuhin Trust in London is discussing a contingency plan if they are unable to get here in May. Our chief concern with the Menuhin Competition is that if it doesn't happen in May, it might not happen at all. It will be very hard for us to try and reschedule it; therefore we will leave it until the last possible moment to decide, whilst exploring other options, e.g. to do the competition in some sort of reduced way with fewer competitors; with replacement competitors; or as an international music festival with no competition because the artists are contracted to appear anyway. We could still have a wonderful event as a festival and not a competition. Joe said there is a series of large tactical issues for the Symphony to tackle with their Board. Joe's question as Foundation member is: What is the Symphony's risk management plan for the series of eventualities? The Symphony has made an investment in Menuhin and presumably there is some type of insurance. David said one consideration is the impact on cash flow which may force us to tap into the Rudy Bunzl Fund, which holds about \$600,000. All of this is happening day by day and will of course be the focus of the Symphony's upcoming Financial Health Committee meeting and Board meeting. A question: why is it so difficult to reschedule? David answered: There are many different elements including participants, jury members, staff, and hosts; the issue involves contracts, availability of venues, etc. The project has been three years in the planning, so it's complicated to come up with an alternative plan quickly. Joe made a point from a cash flow perspective: this is a good time to renew your subscription. A few comments were made about ways to livestream Menuhin, and having a competition without an audience, and other ideas circulated. A request was made that when alternative financial plans are made to please share them with the Foundation.

### IV. Treasurer's Report, including:

Tara Matthews

Tara Matthews noted that representatives from Spider Management will be coming in to give their report shortly. A brief update in the meantime - a lot has changed as of December 31<sup>st</sup>! The Endowment total stands at just over \$17.9M. On the operating budget: we are pretty much right on target at about \$2,600 under budget for the year to date, just because of the timing of when expenses are paid. For the full year, we are still expecting to come in about \$2,500 over budget, due to the extra cost from the auditors of the changes in the presentation of the financial statements this year. We are still projected to need a withdrawal from either Spider or Vanguard, likely Vanguard, in order to be able to make the approved payout to the Symphony that will happen in July. The amount of withdrawal projected has gone down from \$200,000 to \$150,000 since the last meeting. We will continue to monitor that. We already approved \$750,000 as the payout in July 2020. David noted this is a better deal for the Foundation than the previous calculation we were working under, of the 5% draw plus higher subsidy of staffing for RSO.

The FY21 budget is up for approval this meeting, with the Treasurer recommending adoption of \$100,750 in expenses, which is fairly consistent with what we have for FY20. David pointed out that the funding for the \$70K Major Gifts Officer would be covered by new (additional) funds to the Foundation, rather than contained within the \$750K payout calculation. Joe queried, then, whether the budget shouldn't have a \$70K revenue line to offset that expense. David and Tara agreed that would be logical: Joe clarified that contributions from Foundation Trustees to pay for the MGO will be a new line item for the Foundation budget, as opposed to being in a revenue line item for the Symphony. **With that amendment to the budget – the addition of a \$70K revenue line, Tara put forth a motion to approve the Foundation's operating budget for 2021. All were in favor.**

**Tara then put forward a motion to renew the Foundation's guarantee of line of credit with SunTrust. All were in favor.**

Question: what is our exposure on Menuhin? If Menuhin doesn't happen, what are all the ways it impacts the Richmond Symphony? David answered it depends on how it doesn't happen. Whether or not and when we call it off, the governor calls it off, or the Trust calls it off could all change the outcome.

### **Spider Management Report:**

Tory Sprehe and Karen Welch of Spider then joined the meeting, introduced themselves, and thanked the Foundation for its partnership. Tory led the following report, and began by directing attention to **page 3 of the Investment Review report**, which shows the market value as of 31<sup>st</sup> December: \$14.9M. An updated statement will be sent next month once evaluations come in on our private portfolio. On **page 4 is a year-end performance summary**. Last year represents a stark difference to where we are right now, **12.07% for the year**, with our public portfolio at above 19%. Over the longer period, it is in line with our absolute return goals at 7-9%. We really focus on capital preservation and downside protection. **Page 5** shows visually how the **asset classes** contributed to this performance. Real assets are where we have more energy, but we've slowed our commitments to real assets over the last year. We have raised our cash position through all of last year which detracted from performance last year. **On page 7**, this shows the **contribution by manager**, which is one level deeper than asset class. 6 out of the top 10 managers are in this top contributors list which really validates the work we've done on concentrating the portfolio recently. Some of these managers have also performed really well protecting the downside in February. If you look at the percent of net asset value for the contributors at 26.6% versus the detractors at 5.6%, you can see that our higher commissioned managers are being more additive to the portfolio. Our contributors consist of China managers and global managers dealing with technology. The detractors are primarily real assets which is energy investments and a little bit from our India managers.

Karen then talked more about asset allocation, and the increase in cash holdings. We felt like having more cash as 'dry powder' and a source of downside retention was more appropriate than a hedge that was financially unable to provide the same benefit in times of stress. So, coming into February and over the course of last year, we have simultaneously increased our equity exposure. We have built up a 9% cash position with the goal of using that as downside protection. We did this by restructuring and reshaping the hedge fund part of the portfolio, and ensured that the hedge funds that we hold were particularly high quality and should provide for downside protection in times of stress.

The public portfolio is down about 3-4% since the turn of the year and we expect that the total portfolio, including private, is going to be down about 2.5%, so not immune from the market stress when the public markets were down over 8%. We feel that all of our managers outperformed their benchmarks and expectations.

**Slide 10 discusses Recent Market Volatility**, due to the corona virus as well as the oil shock that transpired over the weekend. This has obviously lowered interest rates. The 10-year T note is hitting historic lows. We are certainly focused on continued monetary policy, and expect to see some fiscal support at some point. Thinking about positioning in this environment, moving forward to **slide 12, Potential Tactical Options**: as we increased cash, we developed a game plan to think about opportunities to redeploy that cash when the market became more attractive. This slide contains a generalized menu of options that we anticipated would be attractive, depending on the source of that dislocation. Given the environment, we are continuously reviewing, revising and have gotten way more specific in the past weeks, and have a game plan in place. We will gradually take advantages of opportunities through three main channels. The first is through some of our existing managers, to whom we have committed capital, but they have not drawn on that capital that. As we talk to our managers, we feel comfortable with the way they are approaching things. They have remained calm while upping the quality of their portfolios. Things are going to get more challenging before they get better, so we are really taking a gradual approach, recognizing with all humility we don't have a secure feel for how this will all play out. We are keenly focused on the corona virus and the impact this will have across our economy and markets. One bit of good news is that it has stabilized in China. Our China manager is feeling optimistic that through aggressive quarantine policies and stimulus fiscal administrative policies, they have stabilized the situation.

**Slide 14 is a snapshot of Potential Market Drivers**, 10 top things our research providers are monitoring. Something that is not on this list yet, but is critically important, is the government policy response to control the virus, from the healthcare societal perspective, and ultimately to support the economy coming out of this. **The History shown on Slide 16** reminds us all of the **importance of downside protection**. Our core goal of Spider is to preserve capital in periods like this and limit participation in severe market draw downs. We have a history of being able to do just that. We are still in the midst of this and are pleased how the portfolio provided that protection in February. Karen continued to provide reassurance that they have a great team in place to protect the portfolio during this trying time.

Concluding, Karen drew attention on **slide 17 to articulated 2020 priorities** and what we think is relevant. Some of the things we have been focused on have been rewarded in this environment. We have raised cash, have provided downside protection,

and had some of our largest managers in the 2-3% position on the public portfolio. For example, our China managers were down 0.3% and a little over 1% in February.

Question: what is it going to take to make you feel comfortable to reduce that 9% cash position? Answer: we are right at the cusp of that. We have positions that are ready to go and have 1% of our capital in the process of being called. We have identified another percent that we anticipate adding to managers at the end of the month when they take capital.

Question: can you describe how you're allocating assets between the long-only and the long/shorts, and how you have looked at that? Answer: if you think about our long term target, it is to strive to have about 50% in equities across classes, which includes about 20% in private equity. It can shift a little bit across that, but think of it as being about 10% and about 15% in combined real assets and real-estate and about 5% in cash. We will certainly redeploy that cash, so I wouldn't expect to see it staying 9% for the long term.

Question: can you summarize the changes in the partnership agreement that we are all a part of? Answer: we introduced updated terms last October that took effect as of January 1, 2020. The change introduced some additional options for the incentive fee structure and withdrawal options. All the terms and structures that were there initially still exist, it was just some additional options. **Page 25, Incentive Fee Options**, outlines 1) the status quo option. In addition to the 3) five-year commitment, there is an option to go into the 2) three year commitment. Instead of the incentive being calculated on 8% on a calendar year basis, it is rolling over three years. The other option is having a five-year commitment with no incentive fee. Within any of those commitment periods you still have the option you have always had to take 10% of your capital every quarter. There is no deadline to make any of these decisions. In terms of withdrawal on page 26, since you have about 35% of the portfolio in private assets, the structure we have always had is that you can receive 30% of your withdrawal in-kind. We have restructured this to have a second option to receive that all in cash, but over a payment plan of ten years.

The report from Spider concluded and Joe thanked Karen and Tory for their time.

**V. Any other business:**

**Joe Murillo**

Joe drew attention to upcoming meetings listed on the agenda, notably the next Foundation Board meeting on Thursday, June 4<sup>th</sup>. The Annual Meeting of the Symphony to which Trustees are invited is June 16<sup>th</sup>. Joe asked if there was any other business. David Carter mentioned that he felt better about the Spider presentation than prior, and asked how others felt. A comment was made that they had a really strong second half to the year. Another said he thought that the chart on page 13 was a little optimistic. Another comment spoke to the advantage of holding the current 9% cash position.

Joe thanked the Board and adjourned the meeting at 1:45pm.