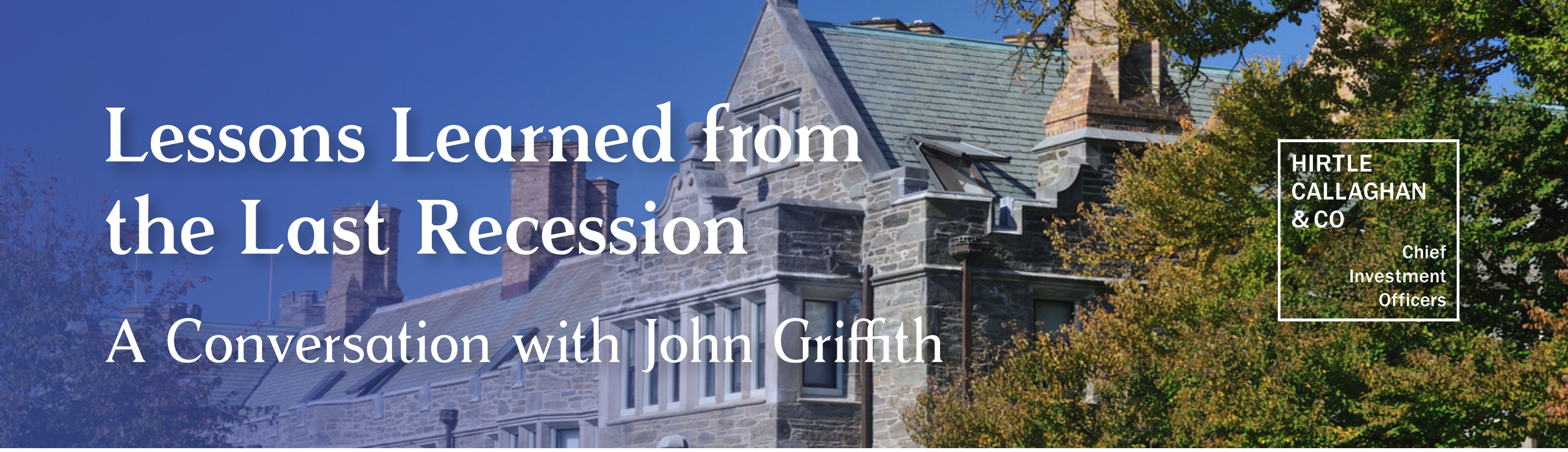

Lessons Learned from the Last Recession

A Conversation with John Griffith

HIRTLE CALLAGHAN & CO
Chief Investment Officers

Many comparisons have been made between the current market environment and the Great Financial Crisis ("GFC"). While the cause of this market drawdown is different, insights gained from the prior period can be helpful in navigating the current environment. Mike Pagliaro, an Investment Officer at Hirtle Callaghan, talked with John Griffith about his experiences as the Chief Financial Officer and Treasurer of Bryn Mawr College during the GFC. John is now a Vice President and Endowment Specialist at Hirtle Callaghan. They discussed what John learned from his endowment experience in 2008 and what endowments and foundations should be doing now to position themselves for long-term success. Highlights from their conversation can be found below.

Mike Pagliaro: *Bryn Mawr was one of only a few colleges whose debt rating was upgraded during the last recession. How did you accomplish this?*

John Griffith: It all seems easy in retrospect, but, just like today, the level of uncertainty and fear within the financial markets was paralyzing. What got us through was the fact that we had engaged in extensive financial planning prior to the recession. I had presented the board with budget models, cash projections, a debt capacity study and contingency plans that detailed what we would do if a crisis occurred. The planning process ensured that everyone was on the same page with respect to operating risk, liquidity levels and asset allocation. All the stakeholders fully understood the financial and operational condition of the college.

Bryn Mawr had an exceptional group of committed and knowledgeable trustees who were deeply involved in this work and deserve credit for our accomplishments during this period. The Chairs of the Investment, Finance and Facilities Committees were instrumental in our success.

When the crisis hit, the board was prepared to be proactive. We realized there was little we could do to impact the stock market and we needed to look for any opportunity we had to preserve our capital base. We immediately stopped taking money out of the endowment. And, as difficult as it was, we rebalanced the portfolio in January and March of 2009. We secured a line of credit to cover endowment spending for two years to allow our endowment to recover. The return realized from the endowment less the interest paid netted the college $19 million in additional earnings.

The market dislocation created multiple financing opportunities and we had the ability to capitalize on some of them. We were able to:

- Refinance our long-term debt into short-term debt (1-, 3-, 5-year debt) to take advantage of low interest rates.
- Invest $20 million of operating cash in auction rate securities that had failed, earning 8-12%.
- Execute naked interest rate swaps, generating a $9 million gain.

Mike Pagliaro: *What about the operating side? Did you have to make cuts, defer maintenance, lay people off? How did you maintain your budget?*

John Griffith: When the crisis hit, we shared with the board that we did not want to make one-time cuts that were short-sighted in nature. We had made a great deal of progress catching up on our deferred maintenance and faculty salaries. Making short-term decisions could set us back another ten years.

So, while most schools froze their construction projects, we accelerated our deferred maintenance plans. Construction and material costs had come down significantly. We were able to save roughly $12 million in construction costs, by bidding out five years of projects over two years.

As I mentioned, we had made great progress on improving faculty salaries. At a time when other organizations froze salaries, we hired faculty and created a plan that tied salary increases to the faculty's ability to downsize their departments. The faculty eliminated nine positions over a couple of years, which resulted in an additional 12% salary increase.

We generated $7 million from our operating budget through a series of cost-cutting and revenue-generating opportunities. For example, we closed a dining hall and small dormitory, terminated a bus route and laid off 23 employees. But we also increased the enrollment for a highly profitable graduate school program.

Mike Pagliaro: *I am amazed that you only had to cut your budget by $7 million. I know many similar schools cut their budgets by more than two times that figure during this time. How were you able to do this?*

John Griffith: It is funny you should mention that, Mike. The president of Bryn Mawr said the same thing to me. She could not understand how we only cut our budget by $7 million when a comparable school cut its budget by $18 million. The other school she was referring to calculated their spending rate using a 3-year moving average which bases spending on the average market value of the endowment over three years. It reduces spending when the markets perform poorly and increases spending when the markets are strong. We, on the other hand, used the constant growth method to calculate our spending. This method is more conservative as it increases spending by inflation. Because our spending rate was not tethered to the market, we did not overspend when the market was up. Their endowment spending had gone up by 15% a year while our spending increased at the rate of inflation.

Spending rate decisions may seem theoretical, but they have very real implications for operating budgets. The constant growth spending methodology allows nonprofits to be financially responsible in good times and save up in anticipation of bad times. The easiest way to build this safety net is to increase spending by a rate less than the market's growth.

Mike Pagliaro: *Any advice for institutions and endowments that need to raise cash now and are evaluating cuts to their operating budget today?*

John Griffith: First and foremost, foundations and endowments need to think about their organization as a perpetual institution. During the GFC, we were in the process of celebrating Bryn Mawr's 125th year anniversary. And we were very focused on building a school for the next 125 years. That meant not making cuts that were short-term in nature and would impair the long-term health of the school.

I do not believe in deferring maintenance or slashing salaries. Rather, institutions in crisis should consider how to reshape their school to make them successful for the long term. Do they need to terminate divisions, programs or majors? Should they shift the emphasis of the school or accept a different cohort of students? For example, some four-year colleges may consider offering two-year associate degrees. It is a great way to introduce paying students to your four-year program. Enrollment in two-year college programs skyrocketed after the last recession.

Adopting the mindset of a perpetual institution also means thinking about smart ways to spend money now. This is the time to capitalize on market dislocations and make strategic investments. It also is a great time to initiate building projects as construction costs are much lower. And it is surprisingly a ripe time to think about hiring talent. No one else is hiring right now.

Mike Pagliaro: *How can an institution contemplate hiring more people when they are engaged in painful budget costs and layoffs? Doesn't that send a mixed message to their community?*

John Griffith: One of the best things that we did during this process was to hire a communications specialist. We needed to make sure that the Bryn Mawr community – the faculty, staff and student body -- understood and believed that what we were doing was in the best long-term interest of the college. Our communications specialist suggested that we let our community help determine what budget cuts we should make. It was an ingenious way to get a better understanding of the community's needs as well as to get them to buy into a collective plan for the college.

We created a series of town hall meetings that included a mix of faculty, staff and students. Each group was given a list of all possible budget cuts and asked to determine the best course of action. Through the process we learned that our students did not care if we shut down a dining hall, but they did not want us to fire any dining staff. That was an easy compromise because there was so much turnover with dining room staff that the situation managed itself through attrition. We also learned that the faculty did not want to increase a higher margin graduate program because they worried about stretching the staff too thin and impacting the quality of the curriculum. By adding some faculty, we were able to alleviate these concerns while significantly enlarging the size of the program.

We found many other compromises along the way. In every situation, each of our constituents got something and gave something up.

Mike Pagliaro: *You were able to accomplish a great deal after the Great Financial Crisis at Bryn Mawr. Is there something you would have changed or done differently with the benefit of hindsight?*

John Griffith: This crisis really highlighted the shortcomings of the investment consultant model to me. At Bryn Mawr, the Investment Committee was outstanding, and we worked with a premier consultant to manage our $800 million endowment. The consultant did a great job guiding us in "normal" times, but in the crisis we were unable to react to market conditions fast enough. At a moment when investment decisions had to be made quickly, we had a process that required committee consensus.

For example, we missed the rally in international bonds. The Committee was unfamiliar with the asset class and required additional education to become comfortable with an allocation. By the time the consultant identified a manager and secured the necessary board approval, the rally in international bonds was over.

During the 2008 crisis, there were other opportunities that lasted only a few days. We could not rebalance in time to take advantage of the dislocation in Treasury Bills because we did not have the necessary approvals. We had peers who were hedging, but neither the college nor the consultant had that capability.

No matter how effective the trustees and the consultant were, the consulting model limited our ability to capitalize on market opportunities as they occurred. My experience in 2008 proved to me the value of the OCIO model and ultimately led to my decision to work at Hirtle Callaghan. Within the first three weeks of this crisis, we have been able to act swiftly and decisively to position our clients for long-term success.

Mike Pagliaro: *John, there is so much to be learned from your experience. Thank you for sharing it with us. Do you have any concluding thoughts that you would like to leave us with?*

John Griffith: Do not underestimate the power of planning. We were able to act quickly at Bryn Mawr because we had already analyzed what we would do if the market had a significant pull back. We had a plan of how we would cut $3 million out of our budget at any given moment. And every stakeholder knew what the college's financial condition was. We had done the analysis, so we were in a position to act.

Trustee leadership and support is critical to this process. I was blessed with a great Board of Trustees who understood the need to make permanent changes to position the college to be successful for the future.

Organizations need to adopt the mindset of a perpetual institution. They cannot make decisions for a 3- or 5-year time horizon but instead they need to permanently reshape their offering to reflect their capabilities and the market's needs. Terminate programs. Close down buildings. Make the hard choices now and focus on where your organization needs to be in the next 100 years. Make decisions and move on!

Founded in 1988, Hirtle Callaghan is America's first Outsourced Chief Investment Officer, servicing institutions and families. In our role as Chief Investment Officer, we build global investment programs that are customized to each of our client's unique needs and engage in rigorous planning to ensure portfolio allocations meet our client's goals. The firm uses its collective purchasing power and aggregate expertise to access best-in-class specialist managers in diverse asset classes and strategies.

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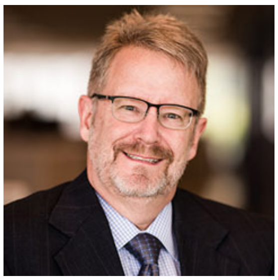

John is a Vice President and Endowment Specialist with Hirtle Callaghan. He has over 28 years of higher education experience. From 2003 until 2014, he was the Chief Financial Officer and Treasurer of Bryn Mawr College before joining Hirtle Callaghan. As the Treasurer at Bryn Mawr, he oversaw an $850 million endowment, managed cash, issued debt, and was responsible for budgeting and strategy planning. At Bryn Mawr, he assisted in modernizing and diversifying the endowment. During the Great Financial Crisis, Bryn Mawr was one of only a few colleges whose debt rating was upgraded. Prior to Bryn Mawr, John spent 15 years in various financial roles at the University of New Hampshire. John started his career at Coopers & Lybrand. He earned a Masters in Finance from Bentley University and a B.A. in Business Administration from the University of New Hampshire.

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Mike is a Director and serves as Head of Consultant Relations.

He is responsible for engaging with the OCIO Search Consultant community. In addition to these responsibilities, he serves as an Investment Officer providing service to several institutions. Mike began his professional career as a member of the Investment Management Unit at SEI and most recently within the REIT team at Cohen & Company. He is a Trustee at the Jefferson Health Foundation of New Jersey and a member of the Professional Advisory Committee at the Community Foundation of South Jersey. Mike earned a B.S. from St. Joseph's University and an M.B.A. from Bentley College. He is a CFA charterholder and a member of the CFA Institute.