

**SAN FRANCISCO STATE UNIVERSITY FOUNDATION
INVESTMENT COMMITTEE MEETING MINUTES
Cambridge Associates Office, San Francisco
Thursday, Feb 13, 2020 at 11:00 AM**

Neda Nobari called the meeting of the Investment Committee to order at 11:06 AM.

Committee Members Present

Neda Nobari, Committee Chair
Taylor Safford, Board Chair
Kimberly Brandon, Board Vice Chair (via phone)
Venesia Thompson-Ramsay, President
Jeff Wilson, Director
Leona Bridges, Director
Sheldon Gen, Director
Don Endo, Director (via phone)
Herb Myers, Director (via phone)

Others Present

Tammie Ridgell, Associate Vice President (AVP), Auxiliary Business Services
Vicky Lee, Director of Finance
Ravi Karra, Cambridge Associates
Will Wise, Cambridge Associates
Ryan Coughlin, Cambridge Associates

- I. **Review of Agenda:** The Committee reviewed the agenda. On motion duly made, seconded and unanimously carried, the following Minute Action was taken:

Minute Action: that the Committee approves the agenda.
Motedioned by: Taylor Safford Seconded by: Sheldon Gen Motion: Passed

- II. **Approval of Meeting Minutes:** The Committee reviewed the minutes from the October 8, 2019 meeting. On motion duly made, seconded and unanimously carried, the following Minute Action was taken:

Minute Action: that the Committee approves the minutes for the October 8, 2019, as prepared.
Motedioned by: Herb Myers Seconded by: Taylor Safford Motion: Passed

III **Discussion Items**

- a. Market Environment: Karra reported that 2019 was a very good year. Global equities surged higher in the 4th quarter and multiple equity market regions reached new all-time highs. Emerging markets outperformed developed stocks after underperforming year-to-date through September. Karra said that Growth Equities bested value equivalents and small caps topped large caps. He reported that the IT sector alone drove one-quarter of ACWI's 2019 total return while the top ten individual stock contributors such as Apple and Facebook were responsible for nearly 20% of last year's global equity performance. However, the performance of Global Bonds was mixed. High-yield and investment-grade corporate bonds gained and credit spreads narrowed, while government bonds declined. With the strong

commodity prices such as crude oil and copper, in particular, real assets generally advanced. Karra anticipated that earnings per share (EPS) growth would be strong in 2020 and surpass the weaknesses in 2019.

- b. Performance Update: Coughlin reported that in the fourth quarter, the Endowment returned 6.4%, outperforming the Policy Benchmark return of 6.1%. On an absolute basis, all asset classes experienced positive performance in the fourth quarter. International Stocks (11.6%) and Emerging Markets (9.9%) were the two strongest amongst them with City of London (14.1%) in International Stocks and Hillhouse Gaoling (12.9%) in Emerging Markets. For the calendar year 2019, Coughlin said that the overall Endowment returned 17.5%, underperforming the Benchmark return of 19.6%. On an absolute basis, all asset classes experienced positive performance in 2019. The top three performing classes are Real Assets (32.4%), Global Stocks (31.6%) and U.S. Stocks (27%). They were led by Van Eck Gold Fund (38.6%), Ownership Capital (34%) and Brown Advisory (35.1%) in each asset class, respectively. Coughlin also mentioned that the high level of cash held in the endowment early in the year when the market moved up strongly partially detracted from performance relative to the benchmark.

The Green Fund returned 19.8% in calendar year 2019, slightly behind the Policy Benchmark return of 20.6%. On an absolute basis, all asset classes experienced positive performance during the year. Global Stocks (34.1%) and Real Assets (26.5%) were the two best absolute performers with Impax (35.6%) and GMO Climate Change (26.5%) contributing to the high returns, respectively, in each class.

- c. Portfolio Update: Karra mentioned that both the Endowment and Green Fund portfolios were currently close to their policy targets. The Green Fund was slightly over-weighted to Global Stocks (1.7%) and corresponding underweighted to Real Assets (-1.4%). Karra said there were currently no recommendations for the portfolio. The Endowment was slightly underweighted to Hedge Funds (-2.5%) and over-weighted to Fixed Income and Cash (1.5%) and Growth Assets (.8%). Karra said the overall portfolio was very liquid (86% liquid) and could be converted to cash within three months. Following the full redemption from Lazard Emerging Income Fund, Karra made some recommendations to rebalance the portfolio. On motion duly made, seconded and unanimously carried, the following Minute Action was taken:

MINUTE ACTION: that the Committee approves the following rebalancing recommendations: increase investment in Renaissance Institutional Equity Fund from \$2 million to \$2.5 million; add \$2 million to Brandywine International, add \$1 million to Loomis Institutional High Income Fund, and add \$1 million to PIMCO Income Fund.
 Motioned by: Taylor Safford Seconded by: Jeff Wilson Motion: Passed

As discussed at the October Investment Committee meeting, the redemption of Stewart Investors Global Emerging Markets Leaders Strategy (GEM) was approved. Karra recommended a replacement of \$2.5 million in Stewart Investors Global Emerging Markets Sustainability Leaders Strategy. (GEM Sustainability) as this Fund was managed by an entirely different team that focused on high-quality companies that were well positioned to benefit from, and contribute to, sustainable development and business practices in emerging markets. On motion duly made, seconded and unanimously carried, the following Minute Action was taken:

MINUTE ACTION: that the Committee approves the recommendation to invest 2.5 million in Stewart Investors Global Emerging Markets Sustainability Leaders Strategy (GEM Sustainability).

Motioned by: Leona Bridges Seconded by: Sheldon Gen Motion: Passed

Nobari asked Karra to provide information on the ESG investing landscape at the next meeting, including investment options available to institutions, and provide a review of ESG approaches pursued by other institutional investors. It was determined that the Board Chair and Foundation President would have the authority to approve portfolio rebalancing transactions among existing managers in between Investment Committee meetings.

Investment Managers Fees: Karra discussed the different fee rates charged by different fund managers. He recommended they be reviewed periodically - at least once a year. Karra indicated that Cambridge Associates had saved the Foundation about \$48,000 in fees in 2019 because they were able to negotiate down the standard fees from a few fund managers. It was also suggested that a comparison of fees against the NACUBO benchmark might be worthwhile. Karra mentioned that differences in the fees charged by investment managers reflected differences in investment strategies, the availability of alternatives and the quality of the investment manager.

d. Private Investments Update: Karra reported there was no current update.

IV Asset Allocation Policy Review: Karra said that asset allocation was generally recognized to be the single most important determinant of long-term investment returns. He mentioned that there were three different approaches typically used to determine an appropriate asset allocation: i) hedging approach; ii) a comparison approach - review of what other institutions with similar objectives are doing and iii) a mathematical model approach.

- i. The hedging approach starts with an equity-oriented portfolio to maximize the likelihood of achieving the desired investment returns which is then augmented by hedges against major catastrophes. Real assets often performed well during periods of unexpected inflation, while high quality bonds provided refuge during recession. Hedge funds are diversifying investments and can reduce portfolio volatility and provide access to specialized strategies.
- ii. A comparison of the Foundation asset allocation to peer institutions indicated that we had a smaller allocation to Private Investments, offset by larger allocations to non-US and Emerging Markets Stocks.
- iii. A mathematical model combines efficient region, shortfall risk analysis and liquidity stress test. The analysis showed that our portfolio had adequate liquidity to survive a severe economic contraction. Although the purchasing power of the pool would diminish greatly, the pool did not run out of liquid sources of capital to support spending and unfunded commitments.

Karra concluded that there was no one approach or methodology that would determine an appropriate asset allocation. Limitations of data and the uncertainty inherent in capital markets dictate that experience and judgment play significant roles in the process.

- V **Socially Responsible Investment Questionnaire:** Nobari passed out a questionnaire to the committee members to get their input on their views of the size of the Green Fund in relation to the total endowment. The responses would be discussed in the next meeting.

- VI **Adjournment:** There being no further business to discuss, the Investment Committee meeting adjourned at 1:32 pm.

Respectfully submitted,

DocuSigned by:

Neda nobari

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Neda Nobari, Chair

Date