DRAFT
SAN FRANCISCO STATE UNIVERSITY FOUNDATION
INVESTMENT COMMITTEE MEETING MINUTES
Via Zoom
Friday, November 4, 2022 at 11:00 AM

I. **Call to Order**: Chair Gen called the meeting of the Investment Committee to order at 11:03 AM.

Committee Members Present
Don Endo, Director
Todd Feldman, Member (non-voting)
Sheldon Gen, Committee Chair
Jeff Jackanicz, Foundation President
Taylor Safford, Director
Jeff Wilson, Director

Committee Members Absent and Excused
Kimberly Brandon, Immediate Past Chair
Leona Bridges, Director
Neda Nobari, Chair
Herb Myers, Director
David Serrano Sewell, Director

Others Present
Vicky Lee, Director of Finance, SF State Foundation
Deron Parcell, Cambridge Associates
Mike Pearce, Cambridge Associates
Shannon Pinzon, Cambridge Associates
Tammie Ridgell, Associate Vice President, Auxiliary Business Services, University Corp
Venesia Thompson-Ramsay, Secretary & Treasurer, SF State Foundation
Wendy Walker, Cambridge Associates

II. **Approval 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, as prepared.
Motioned by: Don Endo Seconded by: Taylor Safford Motion: Passed

III. **Approval of Meeting Minutes:** The Committee reviewed the minutes from the August 26, 2022 meeting. On motion duly made, seconded and unanimously carried, the following Minute Action was taken:

MINUTE ACTION: that the Committee approves the minutes from the August 26, 2022 meeting, as prepared.
Motioned by: Taylor Safford Seconded by: Don Endo Motion: Passed

IV. **Discussion Items**

a) Market Environment: Pearce provided an update on the market for the quarter ending September 30, 2022. He said that nothing really had worked across asset classes. He said equities, traditionally our source of growth in the portfolio, was quite negative (year-to-date it was down -20% to -30%, depending on the market). He said the fixed income sectors that would act as a diversifier did not fare well either for the quarter-to-date or year-to-date. Pearce said that real assets, which would oftentimes provide some protection in inflationary environments had some strength, particularly in energy stocks. However, the only thing that had a positive return was the US dollar from a currency perspective. He said this tend to happen in periods of market stress. Pearce said as there was a flight to quality investments, the US dollar had appreciated and that had an impact on non-US positions (the persistent inflation that we had been seeing). He said, in response, the central banks had been using the tools at their disposal to slow down the economy and bring down inflation. Globally central banks had increased interest rates, which had an impact on all these assets classes. Pearce said that the returns we would have received from a 70/30 portfolio this year were as bad as any point going back to the 1920s (just to describe how unique an environment we were currently in). He said, basically, it was a tough year for portfolios that had no diversification (outside of simple equities and bonds) like the Foundation.

   Pearce said that, coming into the year, there were expectations of a 4-5% growth in GDP, but that inflation had impacted the global economy (as central banks had tightened throughout the year), the impact of the war in Ukraine, and a pullback in some manufacturing had dragged down growth estimates for 2022. He said the good news was that in the US, after a slight contraction in quarters 1, 2 and 3, the GDP was positive. He said we had been hovering in the high 8% range for year-over-year inflation (about 6% when energy and food core inflation were taken out) but he still believed that inflation would moderate, although not as quickly as markets might have hoped back in October 2022. Pearce also said that the current market was actually moving valuations on fixed income to become much more attractive than we had seen in over a decade. He said the Federal Reserve Bank (Fed) was also reducing its balance sheet so in addition to tightening through this main policy tool of raising rates, they were also selling a lot of bonds and taking liquidity out of the market. Pearce said this move by the Fed had also impacted home sales with the number of houses being sold decreasing.

   Pearce mentioned that some of the sectors that had performed the best over this easy money, low interest rate period had been high-growth companies that had very little earnings. This meant that the eventual payoff for these stocks was far off into the future, so they became the ultimate long duration asset and when the discount rate rose on those things that were far off into the future, it made the present value lower. He also mentioned that for a while we saw growth outperforming value when interest rates were low and now the reverse was happening in that value was narrowing the gap (these were sectors that did better when interest rates came off the floor because they did not have these quite as long duration assets). He said that one of the things that had been a relative positive for markets this year was that valuations had come in significantly low again because of that interest rate component pushing valuations down. He said they were now seeing things at least be fairly valued, and in some cases become more attractively valued.

b) Portfolio Update: Walker mentioned that this was the first quarter in which we were reporting on an integrated endowment (there was no longer a separate Green Fund). She mentioned that asset classes across the board had been negative and for the calendar year to date, the endowment returned -21.1%, which was almost 60 basis points (bps) behind our policy benchmark. She said this was due to our absence of traditional energy exposure and, more broadly, just an orientation towards more growth-oriented companies that had these longer duration assets and cash flows. Walker said that many impact-oriented portfolios leaned into these growth factors, and that this had been a tough year for that sort of orientation. Walker said that Fixed Income was the top performing asset class on an absolute and relative basis, returning -9.5% (leading the benchmark by 5.1%), while Global ex US Equity Stocks was the weakest performing asset class, returning -32.1%. Finally, Walker said she was somewhat impressed that for the fiscal year to date, our portfolio was performing in line with our policy benchmark and that we had somewhat overcome the absence of fossil fuel exposure.

c) ESG/DEI Implementation and Measurement: Walker said they would provide quarterly reporting on an increased range of manager diversity and portfolio emission metrics under the new investment policy statement (IPS). She reminded the committee about the new ESG alignment framework - proposed at the last meeting - that was designed to visually map managers along two dimensions:
   1. Manager Diversity - Measuring several manager diversity definitions with distinct impact objectives; and
   2. Manager Strategy Alignment - Implementing a new scoring system to assess the extent to which a strategy is positively or negatively aligned with SFSU Foundation's ESG priorities of (A) environmental sustainability and climate action or (B) social and racial justice.

   Walker said Cambridge had been managing the Foundation's investments for nearly 5 years, which was sufficient time to really evaluate some of these managers and some of these strategies against the new framework. She said the portfolio would be broken down into three areas: 1) diversity; 2) carbon-related metrics linked to our net zero commitment at the portfolio level and 3) an overall alignment framework. She said that based on these three areas, the Foundation's portfolio had grown in diversity by 3% between June and September of 2022. Walker said that by measuring at levels of the organization outside of ownership, we gave ourselves influence over organizations. For example, she said that while Vanguard would never be 100% or majority BIPOC-owned, having metrics that applied to either public companies or very large outside ownership type entities, gave us leverage to engage the manager and push them to make meaningful strides on firm's leadership and investment strategy. In terms of the substance of the investment strategy, Walker said they formulated a scoring system/rubric as part of the revised IPS to which they mapped all of the foundations' marketable managers (all of the private investment managers would be mapped by the next committee meeting) in terms of upsizing or terminating them. Walker then gave the committee a few examples in the portfolio.

   Jackanicz proposed overlaying a third axis showing "performance relative to benchmarks" to make sure we were continually ensuring core fiduciary considerations as we make these other decisions. Walker said while it would not be possible to include this additional layer into the specific framework (without 3-D capabilities), their recommendations did focus on the performance of the funds selected, along with a multitude of considerations such as how a portfolio of combined managers operated together to balance each other out in different market cycles.

With regards to the emissions and net zero component, Parcell said the team had been creating a framework to measure different carbon emissions and fossil fuel factors across the San Francisco long-only, public equity portfolio (i.e. tons of carbon emissions over millions of dollars invested, carbon intensity over time, etc.) through 2030 and 2035 - to reduce both our carbon emissions as well as our carbon intensity. Deron said that the measurement was being benchmarked against the MSCI index.

d) Rebalancing & Manager Recommendations: Walker reviewed the portfolio allocations and recommended an $8 million investment in Ethic US Equity Customized Index. She said Ethic was a tech-driven asset manager that built and managed optimized index-tracking separate accounts. She said the firm offered highly customized investment products that aligned with an investor's stated ESG and sustainability interests and was the most innovative, customized ESG passive manager that they had identified. Additionally, she said the investment process was designed to track any major index in developed markets and that their products were appropriate for investors interested in achieving broad, passive developed equity market exposure. Walker said Ethic also partnered with ISS, a proxy voting service so the foundation could direct how its underlying shares should be invested. Finally, Walker said they were able to negotiate a very attractive fee deal for the foundation.

Pearce said that the investment in Ethic would be funded by the following rebalancing activities:

a) A full redemption from the Mellon Dynamic US Equity strategy.
b) A full redemption of about $2.1 million from Aperio SRI Global.
c) A full redemption of about $1.8 million from Hillhouse Gaoling.

Pearce said the rebalancing would end up with a net outflow from the portfolio of $1.5 million dollars toward the endowment payout for the next fiscal year and about $4.9 million to fund capital calls. On motion duly made, seconded and unanimously carried, the following Minute Action was taken:

MINUTE ACTION: that the Committee approves a full redemption of Mellon Dynamic US Equity Strategy, Aperio SRI Global and Hillhouse Gaoling and invests $8 million in Ethic.
Motioned by: Taylor Safford Seconded by: Jeff Jackanicz Motion: Passed

e) Private Investment Review & Recommendations: Pearce said that, as of June 30, 2022, the Foundation had committed $24.2 million to 24 Private Investment (PI) partnerships. He said the current net asset value stood at $14.7 million (or 10.4% of total assets). He said the total PI portfolio return of 25.4%, since inception, was net of all fees and expenses and represented a significant premium over the 3.5% return that would have been delivered by public market equivalents. Pearce said he wanted to discuss policy targets at the next meeting. He said what he had observed from a lot of asset owners, was that as public equity markets went down, their allocation to privates had gone up. He said the Foundation was at the 10% target it had set for private equity venture but wanted to discuss if those targets were right for the Foundation. He said he thought it was a prudent topic to revisit on a periodic basis.

V. **Student Sustainability Investment Fund:** Feldman provided an update on the student investment fund. He said it was his first time directing a student investment fund so his thought was to go slow and get an idea of the students' attitudes and thoughts about investments. Feldman said the program started with a $250,000 funding with the first trade taking place in April 2022. He said they invested $75,000 slowly between April and November 2022. Feldman said the portfolio returned -18.49% and that most of the funds the students chose were more tech-oriented and volatile. Feldman said there was still about $170,000 yet to be deployed. Jackanicz suggested giving one of the students an opportunity to report to the full board and reflect on their experience in the program.

VI. **Executive Session:** None.

VII. **Adjournment:** There being no further business to discuss, the Investment Committee meeting adjourned at 1:28 pm, without objection.

Respectfully submitted,

DocuSigned by:

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10/24/2023 | 1:37 PM PDT

Sheldon Gen, Chair　　　　Date