

DRAFT
SAN FRANCISCO STATE UNIVERSITY FOUNDATION
INVESTMENT COMMITTEE MEETING MINUTES
Via Zoom
Wednesday, February 15, 2023 at 10:00 AM

I. **Call to Order:** Chair Gen called the meeting of the Investment Committee to order at 10:04 AM.

Committee Members Present

Kimberly Brandon, Immediate Past Chair
Leona Bridges, Director
Don Endo, Director
Todd Feldman, Member (non-voting)
Sheldon Gen, Committee Chair
Jeff Jackanicz, Foundation President
Neda Nobari, Board Chair

Taylor Safford, Director

Jeff Wilson, Director

Committee Members Absent and Excused

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
Kristal Smart, Blue Beyond Consulting
Venesia Thompson-Ramsay, Secretary & Treasurer, SF State Foundation
Wendy Walker, Cambridge Associates

II. **Approval of Agenda:** The Committee reviewed the agenda. The agenda was approved, without objection.

III. **Approval of Meeting Minutes:** The Committee reviewed the minutes from the November 4, 2022. The minutes were approved, without objection.

IV. **Discussion Items**

a) Market Environment: Pearce said that 2022 was a pretty brutal year for capital market returns with only the energy sector doing well. He said that 2023 was off to a good start with all of the things that were kind of beaten down in 2022 have bounced back a little bit. Pearce said in 2022, there were a lot of concerns about inflation being transitory. However, it ended up being stickier. As such, central banks across the globe reacted to that by raising their policy rates and otherwise tightening financial conditions that brought in a lot of concerns that there was going to potentially be a recession. He said we were starting to see inflation come down, which meant that central banks would not have to be as aggressive as they had been in trying to slow a recession. Pearce said the Cambridge house view was that inflation would continue

to moderate throughout the calendar year 2023, although not in a straight line down. He said global equities excelled, gaining similarly across the United States, developed markets ex-US, and emerging markets; however, when converted to a consistent currency, emerging markets and developed markets ex-US outperformed on US dollar weakness. Pearce shared that growth topped value for the first time in six months, and small caps outpaced its large-cap peers. Additionally, the bond markets rallied as inflation continued to soften in many major economies. Furthermore, real asset categories mostly had gains, although commodity prices overall were flat. The US dollar slid for the fourth straight month, while the UK sterling mostly appreciated, and the euro was mixed.

- b) Portfolio Update: Walker mentioned that total assets were estimated to be \$148.9 million as of December 31, 2022. She said the endowment returned a preliminary -15.1%, 100bps behind the Policy Benchmark for Calendar Year (CY) 2022. She said diversifiers was the top performing asset class on an absolute basis, returning -5.2%, trailing its benchmark by 70bps. Walker said Fixed Income was the highest returning asset class on a relative basis, exceeding its benchmark by 480bps. She said that over the trailing five years, the portfolio had returned 4.5% annualized, lagging the 4.8% return for the Policy Benchmark, but outperformed the 65% Equity/35% Bond simple benchmark return of 3.7%. Finally, she said that over the five-year period, total assets had grown by \$75.3 million, of which \$28.4 million was investment performance and \$46.9 million was net flows (i.e., gifts in excess of spending).

Walker provided an update on one of the fund managers (manager of manager strategy based in Memphis). She said the founder and chief investment officer (CIO) passed away unexpectedly in January 2023 without a succession plan in place for the firm. She said the limited partnership agreement, upon founding of the firm, had a key person provision to protect investors in that the fund would wind down if the CIO was unable to serve in his capacity. Walker said the firm had matured a lot since that agreement was put in place and was asking investors to approve an amendment to the limited partnership agreement to not force fund liquidation. Walker said the firm was also giving investors a longer window to submit potential redemptions so as to give investors time to evaluate the new CIO. Walker said that Cambridge would need to do due diligence on the incoming CIO (assuming it was not someone Cambridge was already familiar with from another firm) and make recommendations to its clients to remain in or exit the fund. Walker said that, because this was a manager-of-manager structure, it was not a fast-moving portfolio (there was no day-to-day team or investment decisions that were being made on a rapid basis) where they would be alarmed if someone was not at the helm. Walker said she would be in touch as they learn more.

- c) Asset Allocation Policy Review: Pearce said he and his team had been interested in refining the policy targets as the Foundation worked on revising its investment policy statement over the past year. He said now that a lot of the policy language around justice has been embedded, they wanted to revisit the asset allocation targets. He said the Foundation had an opportunity to increase the allocation to private investments because of its comparatively low dependence on the endowment pool. He said the Foundation could take on more in risk and, as compensation for that increase in illiquidity and risk, it would expect a higher long-term return. Pearce said they were recommending, in addition to the private investments

themselves, the best opportunity set to move the portfolio toward the environmental, social justice and DEI objectives established in the IPS. He said based on the metrics he has seen for the Foundation over the years, it was clear that the Foundation was not heavily reliant on the endowment and as such was not sensitive to year-to-year volatility in the endowment market value. Finally, Pearce said that even with the increase in illiquidity, the portfolio would still be well-positioned to meet all spending/capital call obligations even in the event of a prolonged negative market environment as targeted liquid assets would remain about 77% of assets (over 6.7x annual spending needs).

Pearce then asked for an approval for the policy changes (all the target weights and corresponding change to the policy benchmark), as outlined on slide 49 of the meeting materials. Pearce said the targets would not be changed overnight. For example, the target for venture capital is 20%. However, he said because it was going to take 5 or 7 years to actually get to that 20%, their best practice was to have interim weights that were more reflective of how we were going to be invested and update those interim weights on an annual basis as we build to our long-term targets (the interim weights would be eliminated when the long-term targets were met). Pearce said once the policy benchmarks and policy targets were approved, he and his team would redline the IPS and circulate to the Investment Committee to formally approve that document as well. On motion duly made, seconded and unanimously carried, the following Minute Action was taken:

MINUTE ACTION: that the Committee approves the long-term targets and the proposed interim policy weights, as shown on slide 49 of the meeting materials.
 Motioned by: Taylor Safford Seconded by: Don Endo Motion: Passed

d) Rebalancing Recommendations: Pearce reminded the Investment Committee that they were working with staff to routinely monitor cashflows in and out of the pool to raise the funds for the annual endowment payout. He said they would be transferring about 25% of the payout needed for the upcoming fiscal year on a quarterly basis. Pearce said that all these quarterly transfers could be offset if there were significant inflows into the pool (i.e. donations). Pearce said they made a number of recommendations over the past few quarters to generate a portion of the payout and that the only new recommendations he was making was to put some of that capital to work, as follows:

- \$1.0 million addition to Ethic Custom ESG Domestic Equity Index
- \$1.0 million addition to Metis US Climate-Aligned Index
- \$1.0 million addition to Impax Specialists
- \$1.0 million addition to Breckinridge Sustainable Intermediate Government/Credit.

On motion duly made, seconded and unanimously carried, the following Minute Action was taken:

MINUTE ACTION: that the Committee adopts the recommendations for rebalancing, as outlined above.
 Motioned by: Jeff Wilson Seconded by: Kimberly Brandon Motion: Passed

e) Private Investment Review & Recommendations: Walker said that, as of September 30, 2022, the San Francisco State University Foundation had committed \$24.2 million to 24 Private Investment (PI) partnerships with a current net asset value (NAV) at \$14.4 million (or 10.1% of total assets). She said the total PI portfolio returned 23.7%, since inception (net of all fees and expenses) and represented a significant premium over the -0.4% return that would have been delivered via public market equivalents. Walker said she was recommending a \$1 million re-up commitment to Vistria V (the Foundation invested \$1 million in Fund IV back in 2021). Walker said Vistria was a Chicago-based firm, co-led by two CEOs and co-founders, Kip Kirkpatrick and Marty Nesbitt. Walker said that for Fund V, Vistria would continue to make control-oriented investments in middle-market businesses in North America in the healthcare, education, and financial services sectors. On motion duly made, seconded and unanimously carried, the following Minute Action was taken:

MINUTE ACTION: that the Committee adopts the recommendations for rebalancing, as outlined above.

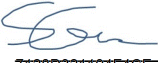
Motioned by: Taylor Safford Seconded by: Jeff Jackanicz Motion: Passed

f) ESG/DEI Update: Walker said the Foundation’s portfolio continued to improve each quarter since the ESG/DEI objectives were established. Parcell said that since our last measurement, the portfolio’s diversity and emissions metrics showed improvement, primarily because of a few changes to the portfolio like terminating Mellon and hiring Ethic in the US Equity allocation. He said several changes made to the portfolio during the second half of 2022 had an immediate impact on the emissions footprint of the public equity portfolio. Walker said the Foundation had doubled its percentage of assets with diverse managers over the last two years from 33% in 2020 to about 65% as of the end of December 2022.

V. **Executive Session**: The Committee moved into executive session for strategic planning discussions.

VI. **Adjournment**: There being no further business to discuss, the Investment Committee meeting adjourned at 12:34 pm, without objection.

Respectfully submitted,

DocuSigned by:


10/24/2023 | 1:37 PM PDT

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Sheldon Gen, Chair

Date