

DRAFT
SAN FRANCISCO STATE UNIVERSITY FOUNDATION
INVESTMENT COMMITTEE MEETING MINUTES
Via Zoom
Friday, February 16, 2024 at 11:00 AM

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

Committee Members Present

Kimberly Brandon, Immediate Past Chair
Don Endo, Committee Chair
Todd Feldman, Member (non-voting)
Sheldon Gen, Director
Jeff Jackanicz, Foundation President
Dan Neumann, Director

Neda Nobari, Board Chair
Jeff Wilson, Director

Committee Members Absent and Excused

Leona Bridges, Director
Karim Salgado, Director

Others Present

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

II. **Approval of Agenda:** The Committee reviewed the agenda and moved the executive session to the beginning of the meeting. On motion duly made, seconded and unanimously carried, the following Minute Action was taken:

MINUTE ACTION: that the Committee approves the revised agenda for the February 16, 2024 meeting.
Motioned by: Dan Neumann Seconded by: Neda Nobari Motion: Passed

III. **Approval of Meeting Minutes:** The Committee reviewed the minutes from the November 2, 2023 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 November 2, 2023 committee meeting, as prepared.
Motioned by: Jeff Wilson Seconded by: Dan Neumann Motion: Passed

IV. **Executive Session:** The Committee moved into closed session to meet with North Pier, an investment advisory search and evaluation firm. North Pier presented a proposal with three different scopes of work (options 1a, 1b and 2). The Committee voted to contract with North

Pier to manage the evaluation and due diligence portions of the RFP process. On motion duly made, seconded and unanimously carried, the following Minute Action was taken:

MINUTE ACTION: that the Committee retains North Pier at option 1b.
Motioned by: Dan Neumann Seconded by: Sheldon Gen Motion: Passed

V. Discussion Items

- a) Market Environment: Walker provided an overview of the market environment. She presented the 2023 full-year results and admitted that the results were surprising to her since, at the beginning of the year, most market prognosticators were anticipating a recession, which still had not come to pass. She said the 4th quarter, in particular, was very strong – the strongest quarter for stocks since the second quarter of 2020 (after markets sold off in March as a result of Covid, but then rebounded in the second quarter of 2020). Walker said even more significantly, fixed-income markets were up 5.5% for the year, masking the fact that they were negative for the first three quarters of the year and had, instead surged, to 6.8% of the Barclays aggregate in the fourth quarter, which was the highest return of the fixed income markets in 40 years. Walker said that in January 2024, equity markets continued to move upward, based on both stronger economic activity as well as a rebound in corporate earnings (solid supportive microeconomics as well as macroeconomics). As a result, global equities were up 0.6%. She said we could see a bifurcation between positive results in developed markets. For example, the US and Japan were particularly strong, while emerging markets had another tough month. Walker said the big story that had been driving these results over recent months - at the end of 2023 and January - was that inflation was continuing to fall and the resulting expectations that the Federal and other central banks around the world would cut interest rates.

Walker said looking ahead, growth estimates appeared to be relatively modest for the US, Eurozone and UK. She said prognosticators were expecting growth rates in the ½ percent to 1½ percent range. She said when these numbers seemed reasonable and manageable, that it signaled a supportive environment for asset prices. Walker said reports had shown that inflation had continued to fall from levels that spiked back in 2021 and 2022. However, she said this did not imply that prices had reverted to the levels they had been prior to the inflationary spike. She said one component that had been propping up the inflation numbers had been housing. Another component was the expectation that interest rates would be cut, but when they were cut, it was by a much smaller amount than expected.

Walker briefly discussed the microeconomics. She said that what had generally been a benign market environment for corporations around the world was digesting higher interest rates and a higher cost of borrowing and doing business earnings. She said the 12-months global outlook on earnings per share, it had risen 2½ percent over the last 3 months. She said US earnings per share has gone up 1.6% but lagged Japan and the Eurozone lagged emerging markets. She said this was helpful as we look ahead at underlying fundamentals that would support valuations in the portfolio. Walker said there had been a lot of press about the Magnificent 7 (Magnificent 7 stocks massively outperformed in 2023). She said the good news was that the S&P (excluding the Magnificent 7) had returned 13% last year. She said their observation was that the outperformance by the Magnificent 7 was based on

fundamentals, which had caused some concern about whether there was a bubble. She noted that earnings for these group cohort of 7 companies grew 36% last year - massive increase in profitability for these companies. Walker said that what had been a huge valuation disparity had been reduced as the Magnificent 7 had started showing improved fundamental results within their corporate earnings - growing into the premium valuation they had in July 2023. Finally, Walker presented the valuation summary. She said most of our assets fell into 75th to 25th percentile – meaning they were considered fairly valued.

- b) Portfolio Update: Westman provided the report. She said for the fiscal year-to-date through December 31, 2023, the Foundation’s portfolio had a return of 4.6%, 100 basis points (bps) below the policy benchmark. For the calendar year 2023, the Foundation’s portfolio had a preliminary return of 13.4%, approximately 340 basis points below the policy benchmark. She said the underperformance in calendar year 2023 was largely due to the private investments and a timing mismatch with the public equity market rebounding in 2023 after a not-so-great 2022 (the -5.1% return for private growth significantly underperformed the public equity rally of 10.1% for the MSCI-All Country World Index (ACWI). Westman said real assets also underperformed, largely due to manager GMO Climate Change. She said the kind of value-oriented nature of the portfolio had lagged equities that had a more growth bias and that the portfolio was very heavily weighted towards clean energy (about 50%), which experienced a tough run in 2023, coming off tailwinds of strong historical performance from the sector. She said there was also some underperformance from the global international and emerging markets.
- c) Private Investment Review & Recommendations: Pearce presented a snapshot of the Private Investments (PI) portfolio, which showed that as of September 30, 2023, the SF State University Foundation had committed \$29.7 million to 29 PI partnerships, with a current net asset value (NAV) of \$16.7 million (or 11.2% of Total Assets). He said the Foundation had very strong returns on an IRR basis (17.8% net of fees and expenses) compared to 2.9% had we invested that amount in the public markets.

Westman then presented a new recommendation to continue building the PI portfolio towards target – a \$1 million commitment to Vision Ridge Sustainable Asset Fund IV. Westman said the Foundation had previously participated in Fund II and III with \$500,000 and \$1 million commitments, respectively. She said the thesis for the re-up recommendation was three-fold: 1) a strong alignment with the foundation's sustainability objectives; 2) the deal structuring afforded the manager or the strategy downside protection with upside optionality; and 3) the strong performance of the manager's past funds. Westman said Vision Ridge provided a biannual impact report and was expected to invest fund IV in asset-based growth opportunities that would increase the efficiency and sustainability of the clean energy, agriculture, water, and transportation sectors.

- d) Marketable Diversifiers Recommendation: For context, Pearce said the diversifiers allocation was to have a part of the portfolio that provided solid returns that were not correlated to risk (equity market). Pearce said historically, this was called “hedge fund allocation”. However, what he has tried to in the portfolio was to minimize that hedge fund exposure because hedge funds could be extremely expensive as well as it was very difficult to rely on past

performance for future success (a lot the times the hedge fund would be quite successful, raising a lot of money, which would, in turn, degrade their future returns). Pearce said, taking into consideration the Foundation's sustainability objectives, the goal was to build a portfolio of strategies that would still provide that 8 to 12% return, but not have that be driven by equity market risk (strategies like Legalist and Preserver were examples).

Pearce said the new diversifier he was recommending was Greenbacker Renewable Energy Company II for a \$3 million commitment. He said Greenbacker was an open-ended LLC energy company investing in renewable energy projects in North America, primarily in the United States. Specifically, Greenbacker target was a 7-10% net annual return from operational and pre-operational renewable projects primarily onshore wind, solar, co-located battery storage and emerging infrastructure opportunities. Pearce said the firm sought to capitalize on broader decarbonization trends with strong market support in GREC II and offered diversified, stable growth and steady yield thanks to low volatility, inflation protection and regular distributions.

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

MINUTE ACTION: that the Committee approves the following investment recommendations:

- \$1 million commitment to Vision Ridge Sustainable Asset Fund IV,
 - \$3 million commitment to Greenbacker Renewable Energy Company
- Motioned by: Sheldon Gen Seconded by: Neda Nobari Motion: Passed

e) Rebalancing Recommendations: Pearce said in order to move the overall portfolio toward the interim targets, he was recommending a partial redemption from Ethic (US equity), the City of London (International Developed Equity) and Breckenridge and Vanguard (Fixed Income) to rebalance the portfolio and raise cash for the annual spending. On motion duly made, seconded and unanimously carried, the following Minute Action was taken:

MINUTE ACTION: that the Committee adopts the following rebalancing recommendations:

- \$1 million redemption from Ethic Custom ESG US Equity Index;
- \$1 million redemption from City of London International Equity;
- \$2 million redemption from BCA Sustainable Government Credit Strategy;
- \$2 million redemption from Vanguard Intermediate Term Treasury Index Fund.

Motioned by: Sheldon Gen Seconded by: Jeff Wilson Motion: Passed

f) ESG/DEI Update: Westman presented a slide that showed the SF State Foundation's ESG/DEI progress to date. She said investments focused on manager diversity increased from 33% in 2020 to 72% as of June 2023. She also added that in early 2020, there were about nine (9) managers that were not diverse and either negatively aligned or neutral to the ESG priorities. As of January 2024, the number had decreased to two such managers.

Westman said the majority of the very highly rated managers across both the ESG, and diversity dimensions were growth managers, in particular private investments. She also added that since 2020, the Foundation had more than doubled its percentage of assets with diverse managers. She said diversity was evaluated on an annual basis, since anything in between that would be market and value movements and not reflective of diversity changes at the firms. Finally, Westman said the diversity percentages would increase to 77% with the earlier recommendations to invest in Vision Ridge and Greenbacker.

Pearce mentioned the addition of a Manager Spotlight section in the materials where the committee could hear from managers about some of the things they were doing. He said the Spotlight featured Urban Innovation Fund and the goal was to provide a similar spotlight from time to time (at least quarterly).

VI. **Adjournment:** There being no further business to discuss, the Investment Committee meeting adjourned at 1:31 pm, without objection.

Respectfully submitted,

DocuSigned by:

Don Endo

05/21/2024 | 12:08 AM EDT

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Don Endo, Chair

Date