

DRAFT
SAN FRANCISCO STATE UNIVERSITY FOUNDATION
INVESTMENT COMMITTEE MEETING MINUTES
Via Zoom
Friday, May 19, 2023 at 11:00 AM

I. **Call to Order:** Chair Gen called the meeting of the Investment Committee to order at 11:06 AM.

Committee Members Present

Leona Bridges, Director
Don Endo, Director
Sheldon Gen, Committee Chair
Jeff Jackanicz, Foundation President
Dan Neumann, Director
Neda Nobari, Board Chair
Taylor Safford, Director

Jeff Wilson, Director

Committee Members Absent and Excused

Kimberly Brandon, Immediate Past Chair
Todd Feldman, Member (non-voting)
David Serrano Sewell, 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
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. The agenda was approved, without objection.

III. **Approval of Meeting Minutes:** The Committee reviewed the minutes from the February 15, 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 February 15, 2023 committee meeting, as prepared.

Motioned by: Don Endo Seconded by: Leona Bridges Motion: Passed

IV. **FY 2023-2024 Meeting Dates:** The committee reviewed the proposed meeting dates for FY 2023-2024 and selected the following dates: August 24, 2023; November 2, 2023; February 16, 2024; and May 14, 2024. On motion duly made, seconded and unanimously carried, the following Minute Action was taken:

MINUTE ACTION: that the Committee approves the meeting schedule for FY 2023-2024.

Motioned by: Jeff Wilson

Seconded by: Dan Neumann

Motion: Passed

V. Discussion Items

a) Market Environment: Walker provided an overview of recent market performance. She said that after a very difficult 2022, the year-to-date numbers were fairly strong in both equity and fixed income markets. She said there was a lot of continued jitters, understandably, given the backdrop of the debt ceiling discussions and the possibility that there might be a technical default as early as June. She said that in anticipation of this potential technical default, they had an important observation, which was that investors were pricing in a larger chance of a default than in prior years (as measured through the cost of credit, default, swap spreads, etc). She said Cambridge Associates was discouraging their clients from trying to position portfolios too aggressively in light of a possible technical default and, instead, was recommending a very careful examination of portfolio liquidity. Walker said she felt very comfortable about the San Francisco State Foundation since they had already been reserving liquidity throughout the year to make the annual endowment distribution to the campus. She said the Foundation also had a good chunk of assets in deflation, hedging allocation and other macroeconomic risk hedges to support spending.

Walker added said there were some pressures in the banking industry in March, as seen with the collapse of the Silicon Valley Bank (SVB). She said SVB was an outlier in that a low percentage of their deposits were insured, their deposits increased 3 or 4 times in the past few years, which they were not able to redeploy into assets that had similar characteristics. Walker said SVB had a lot of bonds that they held for investment so when bond yields rose in recent periods, the value of those bond assets declined significantly. She added that following the three bank failures in March and April, other small regional banks had found more stability so she felt these recent failures were not anything systemic.

b) Portfolio Update: Walker said that 2023 was off to a solid start. For the first quarter, the Foundation's portfolio performance was exactly in line with its policy benchmark, returning 5.5% compared to the policy benchmark's 5.7%. She said the three managers that outperformed their benchmarks to positively impact our total portfolio was Ownership Capital, a growth Oriented ESG fund; Harris, an international manager and BCA, a fixed income manager. Walker said that for the fiscal year-to-date (July 2022 to March 2023), the portfolio returned 6.9% behind the policy benchmark's 7.2%. Walker then looked at the portfolio since the beginning of the Cambridge Associates relationship in 2017 and it showed that manager selection was the strongest element of value add with the portfolio returning 5.4% annualized, outperforming the policy benchmark's 4.7% return.

She then gave an update on Preserver, a diverse manager, based in Memphis that suffered the unexpected death of its founder and chief investment officer (CIO). Walker said she and her team had an opportunity to meet the new CIO, Caroline Lovelace and were comfortable maintaining the investment with the firm, largely because most of the assets were still managed by the same external managers that had been in place before Dr. Tyler's passing.

c) Emerging Markets Equity Recommendation: Pearce provided an overview of the emerging markets equity recommendation that included a change in the emerging markets allocation to include a new manager, Global Delta Capital (GDC). Pearce said the source of funds for this new manager would be Acadian, an emerging market sustainability fund that the Foundation had been invested in for years. He said the group launching GDC were all Acadian alumni and that the founder of Acadian was on the advisory board of GDC. Pearce said GDC was a female-owned and led firm whose mission and objective were to focus entirely on emerging frontier markets and had the ability to go a little bit deeper and be more specific in their strategy, especially with regards to ESG. Pearce said GDC was targeting a funds launch on July 1 specific to the SF State Foundation. Finally, Pearce said Cambridge was able to negotiate preferential fees, so the Foundation would participate in a founder shared class, which had a much lower management fee compared to what they would charge the market. On motion duly made, seconded and unanimously carried, the following Minute Action was taken:

MINUTE ACTION: that the Committee terminates its Acadian EM Sustainable fund and RWC Emerging Markets Equity fund and invest the total \$6 million into Global Delta Capital.

Motioned by: Don Endo Seconded by: Leona Bridges Motion: Passed

d) Rebalancing Recommendations: Pearce continued with additional rebalancing recommendations that included a full redemption from DE Shaw US Equity, reallocating those funds to Metis US Climate-Aligned (\$4 million) and Ethic Custom ESG US Equity (\$4 million). He said this change was part of their effort to consolidate the number of line items in the portfolio to our highest conviction ideas, to the extent that we could get broad market exposure and do it in a lower cost way, and gradually reshuffle the portfolio to better align with the new investment policy statement. Pearce said he also wanted to rescind the previously approved \$1 million addition to Acadian EM.

Pearce said that over the past few weeks since the financial and banking sector issues that resulted in a number of bank failures, clients had become more concerned about their cash. He said that because of a very intentional federal policy increase in interest rates to slow down inflation and push us towards a recessionary environment, they had been making sure clients' portfolios had the most defensive asset class, which was fixed income. As such, Pearce said he was also recommending modestly increasing the duration of the fixed income portfolio to build up the potential for better returns in a recession/deflationary environment. He said the Fixed Income allocation was split between three managers: 1) Vanguard Intermediate-Term Treasury: the most simple/direct, high quality "deflation hedge"; 2) RBC Access Capital: largely mortgage-backed securities focused on low to moderate income communities; and 3) Breckinridge (BCA) Intermediate Sustainable Government/Credit: high quality fixed income including significant Treasury allocation, alongside investment grade credit and taxable municipals; manager integrates ESG throughout process, including engagement with issuers. Pearce said that over the past several years, the Foundation had been modestly underweighted in the fixed income allocation and overweighted in cash, as a way of lowering the overall interest rate duration in the portfolio. He said this came at little cost when yields were closer to zero and protected against losses during the expected interest rate increases. However, Pearce said that as interest rates had risen, Cambridge would prefer

to move back toward “neutral” (versus benchmark) from a duration standpoint. As such, he recommended shifting the Breckinridge (BCA) mandate from the Intermediate Sustainable Government Credit strategy to the longer-duration BCA Sustainable Government Credit strategy (\$1 million), which should provide better protection in the event of a recession and pivot in federal policy. In short, a change in strategy with an existing manager.

Pearce also presented additional transactions to rebalance the portfolio toward policy targets as well as support the year-end distribution to the campus, including a \$1.5 million addition to Stewart GEM Sustainability and a \$1.5 million outflow to the Foundation’s operating account, representing roughly 25% of the year-end distribution to the campus. 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: Leona Bridges Motion: Passed

e) Private Investment Review & Recommendations: Walker said that as of September 30, 2022, the SF State Foundation had committed \$24.2 million to 24 Private Investment (PI) partnerships. She said the net asset value stood at \$14.4 million (or 10.1% of Total Assets) with the total PI portfolio returning 23.7% net of all fees and expenses. She said the PI return represented a significant premium over the -0.4% return that would have been delivered by public market equivalents. As an example, Walker said our venture capital managers had delivered a 43% internal rate of return (IRR) as opposed to a 6.2% IRR had we been invested in small cap equities. Walker then presented a recommendation for a \$1 million investment in a new PI called Impact Engine Fund II. She said this fund was a women-owned and diverse-led manager launching its second impact-focused private equity hybrid fund-of-funds with a target of \$100 million. She said Impact Engine was targeting three themes: Health Equity, Economic Opportunity and Environmental Sustainability and would hold a final close in August 2023. Finally, Walker said the fund life for Impact Engine II was 10 years, with potential for one-year extensions, and that the fees were less than the standard 2 and 20 that most private equity funds typically charged. On motion duly made, seconded and unanimously carried, the following Minute Action was taken:

MINUTE ACTION: that the Committee invests \$1 million in Impact Engine Fund II.

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

f) Investment Policy Targets: Pearce said he wanted to make sure that all the decisions around policy targets were captured in the policy document. He said a lot of work had been done in the investment policy statement about the overall strategy – ESG and DEI components and that subsequent to that, Cambridge made recommendations and received approval for changes to the policy target weights, which also changed our policy benchmarks. Pearce said he included a markup version of the existing policy statement to reflect all of the decisions that had already been approved by the committee at the last meeting. Pearce said the appendix also listed out the asset allocation targets. On motion duly made, seconded and unanimously carried, the following Minute Action was taken:

MINUTE ACTION: that the Committee approves the final policy weights in the Investment Policy Statement.

Motioned by: Taylor Safford Seconded by: Leona Bridges Motion: Passed

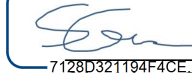
g) ESG/DEI Update: Pearce said that SF State Foundation had more than doubled the percentage of assets with diverse managers since 2020 and that the portfolio continued to improve each quarter since the ESG/DEI objectives were established. He reiterated that, per the 2022 revised IPS, asset manager diversity shall be defined as significant (33%) and majority (50%) thresholds of non-males and BIPOC in firm ownership and/or firm/strategy leadership. He said that 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.

VI. Executive Session: The Committee moved into executive session.

VII. Adjournment: There being no further business to discuss, the Investment Committee meeting adjourned at 1:34 pm, without objection.

Respectfully submitted,

DocuSigned by:



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Sheldon Gen, Chair

10/24/2023 | 1:37 PM PDT

Date