SAN FRANCISCO STATE UNIVERSITY FOUNDATION
INVESTMENT COMMITTEE MEETING MINUTES
Via Zoom
Thursday, August 26, 2021 at 11:00 AM

Sheldon Gen called the meeting of the Investment Committee to order at 11:08 AM.

Committee Members Present
Leona Bridges, Director
Don Endo, Director
Todd Feldman, Non-Voting Member
Sheldon Gen, Committee Chair
Jeff Jackanicz, Foundation President
Neda Nobari, Vice Chair
Taylor Safford, Immediate Past Chair

Committee Members Absent and Excused
Kimberly Brandon, Board Chair
Herb Myers, Director
David Serrano Sewell, Director
Jeff Wilson, Director

Others Present
Casey Heikes, Cambridge Associates
Katie Kuechler, Cambridge Associates
Vicky Lee, Director of Finance, Foundation
Madelyn Mathai, Cambridge Associates
Mike Pearce, Cambridge Associates
Tammie Ridgell, Associate Vice President, Auxiliary Business Services, University Corp
Venesia Thompson-Ramsay, Secretary & Treasurer, Foundation
Wendy Walker, 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.
Motioned by: Taylor Safford Seconded by: Leona Bridges Motion: Passed

II. **Approval of Meeting Minutes:** The Committee reviewed the minutes from the May 13, 2021 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 May 13, 2021 meeting, with correction.
Motioned by: Don Endo Seconded by: Neda Nobari Motion: Passed

III. Discussion Items

a. Market Environment: Walker provided a review of the market status. She said there had been a bit of a low in the 1+ year market rally in July. She said a lot of the negative performance/drag on global equities was as a result of government action in China as well as the delta variant resurgence. Walker said over the past few months, global equities were up 2%. She said that China and Asia, more broadly, had rebounded and there were still very strong calendar year-to-date returns coming off a very strong calendar year 2020. So, despite the blip in July, they were still tracking for above-average returns relative to what we would expect in an average year. Walker said the severe decline and economic activity in the second quarter of 2020 was going to result in a very high year-over-year surge and inflation. She said their best-case analysis corresponds to the Feds guidance that these pressures were transitory (caused more by supply chain disruptions). Nonetheless, Walker said the Foundation's portfolio had a meaningful inflation-sensitive allocation to protect the portfolio, if that inflation were to come to pass and surprise us. Finally, with regards to asset valuation, Walker said that asset classes, in general, were fairly overvalued relative to their own history so they were proceeding cautiously. She said there were very few categories with really compelling opportunities from a valuation perspective, which was expected given the recent strong performance of most asset classes.

b. Portfolio Update: Pearce reported that the Foundation's total asset invested, including the Green Fund, was $172 million as of June 30. He said over the past year the growth was primarily due to market performance with a trailing one year return of 31.3% for the main endowment for the fiscal year compared to 26% for the policy benchmark. Pearce said in terms of dollars, the return was $41 million. He said the Green Fund returned 32.5% outpacing its policy benchmark. Finally, Pearce discussed portfolio liquidity, mentioning that about 85% of the portfolio was available in a quarter or less with seven (7) times coverage in terms of quarterly liquidity. Pearce said for this reason, they have been encouraging and being comfortable taking more illiquidity risk as there was wiggle room to do so. Finally, Pearce provided an update on manager fees. He said the total fees paid to managers was about $1.74 million or 1.38% of our assets. He further shared that there were really two components of fees paid to managers: 1) fixed costs (manager fees calculated at 50 basis points regardless of their performance) and 2) variable costs (incentive or performance fees). Pearce said that the $1.74 million in fees as part of active management resulted in about $4.4 million of value added over passive benchmarks (about 2.5 times of value or performance relative to what we paid in fees).

c. Private Investment Review & Recommendations: Walker reported that as of March 31, 2021, the Foundation had committed $19.2 million to 17 private investment partnerships. She mentioned that they had consistently seen over many market cycles that private investment strategies tend to deliver somewhere between 305 basis points and were 3-5 percentage points above what we could otherwise get in public market equivalence. Walker said that while it would be great to get these kinds of returns at low fees, the most talented managers want to be compensated for delivering these types of returns to their clients. She said the total portfolio over the trailing five years had delivered a 23.5% return and would have been 15.7% had we been invested in the same public markets. She said for this reason they were growing the portfolio towards a higher policy target to private investments. She said there were really strong opportunities for real world impact and mission alignment. Walker recommended a new private investment - Bronze Eastside

II, an early-stage venture capital firm that looked at investing in the eastside of cities where there had been systemic under-investment. On motion duly made, seconded and unanimously carried, the following Minute Action was taken:

MINUTE ACTION: that the Committee approves a $500,000 commitment to Bronze Eastside II.
Motioned by: Taylor Safford Seconded by: Neda Nobari Motion: Passed

Walker said the Committee had encouraged them to review the Foundation's current manager March Capital who was raising another fund locally. Walker said the two legacy positions in our real estate portfolio had done very well. She said her team had calls with March Capital and had introduced them to the head of Cambridge Associates' US Private Real Estate team to get their input. She said the team's reaction was that March Capital seemed like a talented emerging group, but they were very niche in their focus, which was San Francisco Bay Area residential real estate. Walker said that while March Capital's track record suggests they were good at what they do, Cambridge Associates' philosophy about how they build portfolios and how they construct portfolios for durability focused a lot on diversification. She said it had been a long time since San Francisco had a bust real estate cycle but that most geographies had a little bit of a boom-and-bust cycle in real estate, because it took so long to get new projects developed and constructed. Walker said that, as a result, most strategies that they pursue favored managers that have a broader geographic flexibility and skill set so that they can lean into markets that have more favorable market dynamics. Walker said her real estate team also tries to think about themes that have very strong demographic trends such as multi-family and affordable housing. She said that March Capital had done a lot of single family, very high-end homes and was now starting to expand into multifamily. Walker said affordable housing was a theme that their broader real estate research group had focused on quite a bit over the past few years, just because residential real estate had seemed overheated and perhaps at the top of a market and there could potentially be more room for a pullback from current levels (affordable housing had an appealing counter-cyclical return structure as nationwide there was far more demand for affordable housing units than there was supply and if there was some sort of economic downturn, that demand would only go up). Walker also pointed out that the various government tax incentives to build affordable housing units could drive quite strong/appealing risk adjusted returns. Walker said that based on the Foundation's commitment to environmental sustainability and social equity, affordable housing was an opportunity to build greater mission alignment. Finally, Walker said that March Capital was an emerging fund so a broader geographic focus could be beneficial to the Foundation, particularly since San Francisco State University's broader financial circumstances were tied to the local Bay Area market and local Bay Area economy they did not necessarily want the Foundation's investments to also be correlated to those same economic cycles.

d. Rebalancing: Pearce said over the past year, the team's focus was at the enterprise level to really understand the role the portfolio played for the Foundation and the University. He said through that analysis and the Committee's feedback, he and his team concluded that the Foundation's portfolio could tolerate a higher equity orientation, which had led to their recommendation to increase exposure to private investments to get higher returns. As such, the past couple of meetings had been about rebalancing some private investment manager recommendations. Pearce said he was, therefore, recommending a partial redemption from Mellon Dynamic US Equity, which was basically deploying the investment gains in 2021 as the strategy had returned 25.1% since 2019. On motion duly made, seconded and unanimously carried, the following Minute Action was taken:

MINUTE ACTION: that the Committee approves a partial redemption of $1,500,000 from Mellon Dynamic US Equity to rebalance the portfolio.
Motioned by: Jeff Jackanicz Seconded by: Taylor Safford Motion: Passed

e. Sustainable Investments Discussion: Chair Gen led the discussion on sustainable investments. He said he had been wanting to have a broader discussion about moving the entire endowment, not just the Green Fund, towards sustainable investment strategies. Gen said he was a member of the Intentional Endowments Network's Steering Committee, and there was a campaign to support endowments and foundations in making net zero commitments in their portfolio – to have net zero carbon emissions/carbon footprint in their endowments to meet that environmental sustainability goal. Gen said more broadly he would like for the Foundation to adopt a sustainability lens for our entire investment portfolio from all dimensions, including social and racial justice, and environmental sustainability. Pearce said that from Cambridge's standpoint the lines between the main endowment and the Green Fund had become blurred. He said that while he can appreciate the history of how and why these two portfolios were established the way they were, much of what they were doing in the Green Fund could be implemented in the main pool as the distinct strategic approaches had kind of faded away. Pearce then talked about some practicalities about setting a net zero goal for our endowment. He said that most of the conversations in this space was that fossil fuel divestment was an important but maybe blunt tool to get at what was ultimately the objective to get carbon dioxide out of the atmosphere and to slow the impact of climate change. Pearce said the belief now was that divestment alone was not enough and this had led to the net-zero effort being undertaken by governments and corporations and driven by science, which states that we must be a net-zero society by 2050. He said what they had observed was different investors moving that goalpost. For example, one of the Foundation's managers, Ownership Capital, had said they would be carbon emission, net zero by 2030. More realistically, many are setting a goal of a 50% reduction in emissions within 10 years (by 2030). Pearce said equally important was how one defined "net zero" since there were no industrywide standards for measuring emissions. He advised that with any net zero goal or objective the Foundation might make, there had to be some level of practicality and flexibility that we were going to have to adapt to new information and better measurements along the way. Gen said a number of universities like the University of Toronto and Arizona State University had both made 2035 commitment and he would like for the Foundation to make that kind of commitment as well.

IV. **Executive Session:** The Committee moved into executive session and voted to authorize the Investment Policy Statement (IPS) Ad-Hoc Working Group to begin its work. The motion was made and seconded by Nobari and Safford, respectively.

V. **Adjournment:** There being no further business to discuss, the Investment Committee meeting adjourned at 1:31pm; the motion was made and seconded by Endo and Nobari, respectively.

Respectfully submitted,

DocuSigned by:

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Sheldon Gen, Chair Date