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SAN FRANCISCO STATE UNIVERSITY FOUNDATION
INVESTMENT COMMITTEE MEETING MINUTES
Via Zoom
Friday, November 5, 2021 at 11:00 AM

Sheldon Gen called the meeting of the Investment Committee to order at 11:02 AM.

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

Committee Members Absent and Excused
David Serrano Sewell, Director

Others Present
Casey Heikes, Cambridge Associates
Katie Keuchler, Cambridge Associates
Vicky Lee, Director of Finance, Foundation
Devon 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, 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: Don Endo Seconded by: Taylor Safford Motion: Passed

II. **Approval of Meeting Minutes:** The Committee reviewed the minutes from the August 26, 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 August 26, 2021 meeting, with correction.
Motioned by: Taylor Safford Seconded by: Jeff Jackanicz Motion: Passed

Pearce introduced two new members of his team – Devon Parcell and Shannon Pinzon – and had them share a bit about themselves.

III. Discussion Items

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a) Market Environment: Walker provided a review of the market environment. She said September was a rough month, with emerging markets being down quite considerably. She said this was largely driven by concerns about China's regulatory crackdown in the tech sector as well as some concerns about potential financial contagion to the banking system. Walker said those concerns seemed to have moderated in October when emerging markets were up slightly (1%) for the month. She said that global equities were also very strong in October driven by very healthy company earnings and reasonably good economic data – another blockbuster year for global equities. Walker said that October was a pretty tepid environment for fixed income and for bonds but great for public real assets, which had surged even further. So, global rates had a 26% rate of return and global natural resources a 27% return. Walker said they were paying attention to inflation. She said the Feds continued to say the inflation was transitory and not expected to accelerate. Walker said they believed that labor shortages were to blame (finding the right labor or finding the appropriate skilled labor to fill some of these open positions). Walker said that the Federal Open Market Committee was expecting a rate hike in 2022 and three more hikes in 2023, which seemed to be a policy response to some of the inflation pressures. Finally, Walker said that on an asset class basis, most asset classes were fairly valued so there were not a lot of places where valuation seemed to provide many attractive opportunities. As such, she said they would continue to focus on diversification, making sure we had a balanced portfolio that can be durable in a wide range of market environments, while staying close to policy targets.

b) Portfolio Update: Pearce reported that as of September 30, 2021, the main endowment and the Green Fund stood at $172.5 million. He said the trailing one-year rate was 23.7% compared to our policy benchmark of 19.8%. Pearce reviewed a comparative chart for Cambridge Associates' peer group (colleges, universities and foundations) with less than $200 million of assets, which showed that the trailing one-year median return was 23%. So, the Foundation's 23.7% endowment return compared favorably ahead of that median return. Pearce also pointed out that over the three years and nine months that Cambridge Associates had been working with the Foundation, the growth in the endowment was about evenly split between inflows and performance (net inflows into the pool performance had really been the driver over the last year with $30 million of the $34 million coming from investment performance). Pearce said the Foundation's portfolio had a structural underweight to private investments, but we were gradually getting closer and closer to target. He said the portfolio had a lot of liquidity (over 85% of the portfolio was liquid) so he said that was an opportunity for the Foundation to really dial back some of that excessive liquidity in the pursuit of more growth-oriented private investment strategies, but that would be gradual. Endo commented that, per his understanding serving on the Audit Committee, a significant amount of the portfolio's performance was considered unrealized, so we just need to keep our eye on the investments because there were so many of them and evaluations move all over the place and pretty quickly sometimes. Walker said that only 5% of the portfolio was allocated private investments, which meant that 95% of the portfolio were realized funds even though the dollars had not yet been redeemed from them. She said that on an underlying basis, many of those underlying investments had been realized the managers so those valuations were not subject to question as a private investment was.

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c) Rebalancing: Pearce said he was recommending moving $3 million from equity allocation and putting it into fixed income allocation as the portfolio was about 1% over our target for growth. He said that equity markets had been rallying so the goal was to take some of those equity gains off the table and add them to fixed income. In addition, he was recommending taking a little bit off Acadian, one of the emerging markets managers and moving it to Treasuries. He said while Treasuries were not going to get us to that 5.25 % real return that we were seeking, they were the parts of the portfolio that really helped hold up well when equity markets were in decline. He said the recommendation then was to add $2 million, which would take the allocation to our most defensive treasury asset from 2.9% of the portfolio to 4% of the portfolio and then adding the last million to RBC Access Capital (a fixed-income manager that was very high quality, very low volatility) to grind out a little incremental income relative to short duration investment like cash. On motion duly made, seconded and unanimously carried, the following Minute Action was taken:

> MINUTE ACTION: that the Committee approves the rebalancing of $3 million ($1 million each from Mellon Dynamic US Equity, DE Shaw Broad Market, and Acadian Emerging Markets) and allocating the funds, as follows: Vanguard Intermediate Term Treasury Fund ($2 million) and RBC Access Capital Community Investment ($1 million).
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> Motioned by: Taylor Safford Seconded by: Herb Myers Motion: Passed

Pearce said there were no recommendations for the Green Fund since it is generally at target across the various asset classes, and they were content with the managers. Pearce also said there was a bigger strategic level conversation happening with the Ad-Hoc Working Group, which may impact the Green Fund so he would delay any changes until that time.

d) Private Investment Review & Recommendations: Walker started out with a review of the private investment portfolio-to-date information. She said the total portfolio inception, to date, returned 25.5% internal rate of return. Walker said that over time Cambridge had observed, over a number of different market environments, typically a value-add of private investments over public investments with somewhere between 300 to 500 basis points per year, which they considered a fair compensation for all the illiquidity. She said the return would have been about 12.3% had the funds been invested in global equities. As such, she said the private investment portion of the portfolio had been extremely additive to returns, which is the reason they continue to recommend private investments to all of their clients.

The data also showed that the Venture Capital asset class was up almost 126%, which was more than double the 60% return the portfolio would have earned had we been invested in small CAP public equities (the leading fund was Urban Innovation Fund, which had a 311% return for the most recent quarter). Walker said there were also strong returns from Accolade and Greenspring Global. To that end, they were recommending a mezzanine debt strategy (a little bit of a hybrid between debt and equity) that was much more conservative on that risk-return spectrum. Specifically, the recommendation was for a $1 million commitment to HCAP V. Walker said the final stages of their diligence process were being completed so this would be a contingent approval from the committee until everything was formalized in

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December. Walker said this was HCAP's fifth fund and that the firm had significant experience targeting investments that helped generate quality employment opportunities and economic development in low- and moderate-income communities. She said the $1 million was nicely conservative to balance out the Venture Capital commitments recently made. On motion duly made, seconded and unanimously carried, the following Minute Action was taken:

MINUTE ACTION: that the Committee approves a $1,000,000 commitment to HCAP V.
Motioned by: Neda Nobari Seconded by: Taylor Safford Motion: Passed

e) Sustainable Investments Discussion: Pearce mentioned that "sustainable investments" was going to be a persistent agenda item. He said one of the things that came out of past meetings was understanding where our portfolio stood in terms of net zero and carbon footprinting. As such, he included information in the packet (a first draft) of what the portfolio's exposure looked like and pointed out that these assessments/ analyses tools did not exist five years ago when the Foundation started the Green Fund, and even up to a year ago, the data would not have had the same level of depth as today. Pearce said the Foundation's portfolio, as measured by MSCI, had 3.8% allocated to fossil fuel reserves owners (spread across a number of different managers), which was significantly less than the global equity opportunity set at 6.1% in line with the MSCI US Index. He said we had done things in the portfolio, like adding the Acadian Emerging Markets Fossil Fuel Free Fund, which had removed a lot of fossil fuel reserve ownership exposure. Additionally, there was broad based strategy, like the Mellon Dynamic US Strategy and DE Shaw Board Market Strategy that were commingled strategies (no fossil fuel free version existed) with minimal exposure. Pearce said that when we looked at the contribution of carbon emissions in our portfolio, we saw that energy made up a substantial part - 17.6% - despite being a very small part of the market value. So, we had 91% of our market value contributing 16% of our emissions. Pearce said that while we were never going to be able to simply just sell out and get to zero emissions, there might be some low-hanging fruit of managers with exposure in these industries (materials, utilities, energy) that we could make some divestment decisions. Pearce said he believed that in the short term, we were going to see a lot of conversation about how portfolios are being structured to reduce their economic exposure and then, over time, there would be more focus on getting to net zero by doing things like sustainable forestry, investing in carbon-capture technology or other clean technologies that would actually help pull emissions out of the atmosphere.

Finally, Pearce said he would provide information on a sustainable investment between meetings. He said he would put all the details on the investment into a memo via email and hopefully get the approval to move forward by the end of November through December.

V. **IPS Working Group Update**: Gen said he would send the update via email in the interest of time.

VI. **Executive Session:** The Committee moved into executive session. Gen gave the Committee a week to review previously circulated materials and decide whether to ask

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Cambridge Associates to take another look at two past fund managers: March Capital and Headlands.

VII. Adjournment: There being no further business to discuss, the Investment Committee meeting adjourned at 1:21pm, without objection.

Respectfully submitted,

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Sheldon Gen, Chair Date