

Approved February 25, 2021

## MINUTES

**Governors Present:** *Chuck Nelsen, Chair; David Hodson; Stuart Casillas; Joyce Densmore-Thomas; Michael Franson; Robin Gayle; Jay Gilbert; Tom Giustina; David Heinsen; Jon Krabbenschmidt; Tom Martin; Marcia Moore; John Morrell; Dennis Murphy; Christina Nichols; Cathy Pleasant; Mike Prime; Marilyn Rees; Darryl Schoen; Dave Scotto; Dave Alexander (Faculty Representative); Kaylee Biedermann (Student Representative)*

**Ex Officio Present:** *Gayle Hutchinson, President; Ahmad Boura, Vice President for University Advancement (CEO) Ann Sherman, Vice President for Business and Finance (CFO)*

**Staff Present:** *Vance Kelly, Chico State Enterprises; Jeni Kitchell, Business and Finance; Pam Hollis, Wendi Engasser and Evonnia Dominguez, University Advancement*

**Financial Advisor:** *Chris Van Dyke; Arnerich and Massena*

Chair Chuck Nelsen called the meeting to order at 1:04 p.m.

Nelsen asked for changes or corrections to the minutes of the June 25, 2020 meeting. There were none. David Hodson moved to approve the minutes. Darryl Schoen seconded, and the committee voted to approve the minutes.

### **Chair's Report – Chuck Nelsen**

Nelsen welcomed the five new board members to the Finance & Investment Committee, noting there would be an opportunity to get to know them in the General Session. Two presentations from recipients of the 19-20 Governor's Awards were made. Dean Terence Lau introduced Dr. Arash Negahban, who presented "Developing an Online Graduate Certificate in Enterprise Analytics" and Drs. Kristen Minetti and April Howell presented their work on the Women in Business Conference they created with Governors' Award funding.

In his report on "Fiduciary Responsibility During a Pandemic" Nelsen shared "Vanguard's View of Best Practices", recommending it as supplemental educational material for FIC Committee members. Nelsen shared some graphic data to help remind the committee that the fluctuations and volatility the market is currently experiencing represents only a very small section of the endowment's investment horizon, and that perspective is important to remember when reacting to current market activity.

Nelsen asked for discussion about the final assessment and recommendations by RVK, the firm the board hired to review the performance of investment advisor Arnerich and Massena. Boura reviewed the timeline and the process the firm followed in their assessment. Nelsen asked the committee to decide whether to seek a request for proposals from other firms or to continue to work with Arnerich and Massena and address the RVK recommendations. After some discussion, David Heinsen made a motion to continue with Arnerich and Massena.

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Dave Hodson seconded the motion, and the committee voted unanimously to approve.

### **Endowment Performance and Market Update Report - Chris Van Dyke**

Chris Van Dyke provided a review and outlook of the Endowment and Strategic Reserves portfolio as of June 30, 2020. Second quarter results experienced a tremendous rebound as central banks and world governments responded to the COVID-19 pandemic with historic stimulus. Performance within equities was particularly strong with the S&P 500 Index returning 20.5%. Fixed income strategies also posted positive returns for the quarter as interest rates remained at historic lows. As a result, the Bbg BC Aggregate bond index returned 2.9% for the quarter. Mr. Van Dyke highlighted that the performance, while strong, has continued to exhibit an increasingly higher level of concentration not seen last since 1999-2000. Illustrated in his discussion was YTD performance through August of the S&P 500 and what has driven results. Over the last 8 months the top five names in the S&P 500 returned 59%, the S&P 500 in total returned 11% with the other 495 holdings returning a paltry 1%. What's more, over the same time period the following themes have been apparent: large companies outperforming smaller companies, lower quality companies have outperformed quality companies, and the most expensive companies continue to get more expensive.

The endowment portfolio finished the quarter gaining 13.1% for the first quarter. Much of the drawdown in performance has been recovered since March with some equity indices reaching new all-time highs. Performance versus the policy benchmark trailed slightly for the quarter (13.1% versus -13.7%) as performance was hindered by the underperformance within US large cap equity. Despite the heightened volatility, the portfolio continues to be rebalanced within the established strategic asset allocation parameters as set forth within the Investment Policy Statement.

The Foundation portfolio value as of March 31, 2020 was \$60.6 million, with the value at \$62.4 million as of August 31, 2020. The asset allocation continues to be managed well within IPS guidelines and cash flows continue to be utilized for the purposes of rebalancing and meeting future private markets commitments. The portfolio continues to migrate towards a higher private markets allocation with our target of ~10% of the portfolio in new commitments for 2020. Overall, the portfolio is being managed with a long-term time horizon with a focus on growth and appreciation.

The Strategic Reserves portfolio is performing within expectations and is currently balanced within IPS guidelines. The asset allocation now represents a 60/40 mix of capital appreciation versus capital preservation. As of June 30, 2020, the portfolio value was \$15.2 million with the portfolio value of \$16.6 million as of August 31, 2020. While performance has lagged near-term, performance since inception remains above policy benchmarks.

### **CEO's Report - Ahmad Boura**

Boura shared the 19/20 Fiscal Year End Operating Budget to Actual report and explained that despite the many challenges presented by the pandemic, the University Foundation ended with a surplus of \$263,542 for the year.

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Boura also shared the Operating Budget for the 20/21 Fiscal Year to date, reporting that the University Foundation is on the right track early in the year with a net surplus of \$67,191 as of 8/31/2020.

Boura also gave a report on underwater endowments, explaining that the foundation currently held about \$39,860 in several endowments which did not have enough earnings to meet their distribution obligations without invading the corpus. Although UPMIFA, the Uniform Prudent Management of Institutional Funds Act, allows for the distribution of principal when earnings are inadequate to make commitments, the policy of the University Foundation is to give the donor an opportunity to make an additional gift to strengthen the endowment before distributing from the principal. Boura shared the form they will use to give donors this choice.

CFO Ann Sherman gave a presentation on the fall campus budget planning, highlighting the three continuing uncertainties that plague the campus; COVID-19 continuing impact, reduced state budget allocations; and fall enrollment numbers. The University has seen a 5.8% reduction in state support and a budget gap of 17.3 million dollars

Vance Kelly presented a review of the financial statements for fiscal year end 6/30/20, noting that liquidity minimums were met with cash holdings of a little over \$2 million held in Chase and LAIF. Some revenue variances from the previous year were substantial, due to the COVID-19 pandemic, which has impacted fundraising revenue and created volatility in the market, reducing investment earnings.

Nelsen opened the floor to new business and Dave Scotto asked that the committee consider a proposal to create a formal application process for campus entities requesting funding from the University Foundation for projects. Scotto will work on a formal process and language to present at the February board meeting.

Nelsen adjourned the meeting at 3:53 p.m. noting that the next Finance and Investment Committee meeting will be held Thursday, February 25<sup>th</sup>, 2021.

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