

Governors: **Chuck Nelsen, Chair**; Stuart Casillas; Joyce Densmore-Thomas; Michael Franson; Tom Giustina; David Heinsen; David Hodson; Dennis Murphy; Christina Nichols; Cathy Pleasant; Michael Prime; Marilyn Rees; Darryl Schoen; Dave Scotto

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

Staff: Pam Hollis, ; Evonnia Dominguez and Wendi Engasser, , University Advancement; Vance Kelly, , Chico State Enterprises

Governors

Absent Robin Gayle; Jon Krabbenschmidt; John Morrell; Dave Alexander (Faculty Representative); Kaylee Biedermann (Student Representative)

Approved October 7, 2021

MINUTES

Chuck Nelsen called the meeting to order at 12:33 p.m.

Nelsen asked for changes or corrections to the minutes of the February 25, 2021 meeting. There were none, and the committee approved the minutes.

Chair's Report: Chuck Nelsen

Nelsen gave an update on the progress of the ad hoc committee comprised of Darryl Schoen, Dave Hodson, and himself, charged with evaluating the fee and distribution structure of the endowment. The central concern is protecting the long-term value of the endowment against inflation. The discussion and analyses are ongoing, and the group is working on a defined methodology to inform future board generations.

Endowment Performance and Market Update: Brian Shipley/David Janec

Bryan Shipley and David Janec from Arnerich Massena provided an investment review and outlook for the Endowment and Strategic reserves portfolios as of 3/31/2021. First quarter results continued to run, participating in the general market growth stemming from the economic recovery from the pandemic of 2020. Most major asset classes were up in the quarter, led by small cap stocks and large cap stocks returning 12.7% and 6.2% respectively. Diversification came back into play however, with bonds returning -3.4% in the quarter as interest rates rose through the quarter. With the continued reopening of the global economy, Arnerich Massena continues to hold its overweight to growth investments at the cost of stability assets. However, they are actively rebalancing the portfolio following the strong run up in asset prices, specifically in small cap stocks. Inflation concerns are being considered in portfolio construction, and the portfolio benefited from a shorter duration position in the fixed income allocation. Arnerich Massena continues to be forward looking in their portfolio construction, holding its anemic fixed income expectations and looking for other engines of growth including emerging market stocks, private equity, and commodities.

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The Endowment portfolio finished the quarter with strong absolute returns of 7.5% modestly underperforming its policy benchmark return of 7.9%. Manager outperformance was a key contributor to returns, as was the general tilt towards growth assets. Stale pricing in the private equity investments likely contributed to the underperformance though we believe that performance will continue to add value.

The Endowment portfolio value as of 3/31/2021 was \$77.7m. The asset allocation continues to be managed within IPS guidelines and is expected to tighten up relative those guidelines as future private capital commitments become available for investment. The portfolio continues to be managed with a long-term time horizon, and additional inflows from the foundation have pushed the total assets up to new all-time highs.

The Strategic Reserves portfolio has outperformed its policy benchmark across all time frames, with a 6.7% return in the first quarter, against its benchmarks return of 5.4%. The Strategic Reserves portfolio was \$22.6m as of 3/31/21 and the target allocation is 60/40, with the actual allocation around 2.8% lower in the growth asset category due to a large inflow prior to quarter end. The more recent allocation as of 5/31/21 was in line with Arnerich Massena's capital market expectations, namely a 5.6% overweight to growth assets.

CEO's Report: Ahmad Boura

New Faculty and Staff Awards Endowment

CEO Ahmad Boura presented a proposal to provide permanent funding for the faculty and staff awards, which have been funded annually, on an ad hoc basis, using dollars from the Governors' Award funding. . Boura proposed to allocate \$1 million of the strategic reserves to create an endowment to support faculty and staff awards in perpetuity without having to take funds from the Governors Awards. Joyce Densmore-Thomas moved to approve the proposal. Tom Guistina seconded the motion, and the committee voted unanimously to approve. David Scotto said it was important to have a paper trail. Boura noted the board packet and meeting minutes provide documentation of the board's decisions and votes. Dave Heinsen asked whether it is really necessary to sequester the funds when that could limit flexibility. Nelsen suggested that the sequestering is important to formalize the board's commitment to funding the awards. Boura reminded the group that the board will continue to have discretion over these funds. Scotto suggested having language put in place on the new endowment clarifying the board's authority.

Boura said that because the new endowment won't make its first distribution until '22-'23, the board is asked to bridge the gap for '21-'22 with a one-time transfer of \$11,000 from reserves. Marilyn Rees made the first motion, Cathy Pleasant seconded the motion, and the board voted to pass the motion.

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Governors' Award Distribution Modification

Boura also presented a proposal to revise the distribution of the Governors' Award funding to include Business and Finance in the awards. The current distribution is 70% to Academic Affairs, 10% to Student Affairs and 20% to cover underwater endowments and proposals submitted to the board. The proposed change takes 10% from Academic Affairs awards to fund proposals from Business and Finance. Chris Nichols, moved to approve the change, Michael Prime seconded the motion, and the committee voted to pass the proposal.

Operating Budget

Boura shared the '20-'21 Fiscal Year to Date Operating Budget report for the University Foundation, noting that for the period from July 1, 2020, to May 31, the University Foundation had an unprecedented \$2,805,746 in revenue, 170% over the budgeted amount. The increase is attributed to market earnings. Along with lower than normal expenses due to the pandemic, there is a year-to-date operating surplus of \$1,688,583. Boura also presented the '21-'22 Fiscal Year Projected Operating Budget, with \$1.9 million in projected revenue and expenses.

Nelsen asked to make a motion to approve the '21-'22 Operating Budget. Prime made the first motion, Michael Franson seconded the motion, and the committee voted to approve the budget.

CFO's Report: Ann Sherman

CFO Ann Sherman gave an update on the State University Budget. She spoke on financial considerations, budget allocation uncertainties (both state and university level), provisional budgets (including new division of information technologies), the availability of one-time campus funds, and anticipated HEERF funding and expenditures.

University Foundation Financial Report: Vance Kelly

Vance Kelly from Chico State Enterprises presented a year-to-date review of Financial Statements as of April, noting that cash and investments increased \$12.1 million from December. Revenue from this year is substantial, with a \$23.6 million variance from the same point last year,

New Business: Nelsen

Nelsen opened the floor to new business. There was none.

Nelsen adjourned the meeting at 2:59 p.m., noting that the next Finance and Investment Committee meeting is scheduled for Thursday, October 7, 2021.

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