



Approved February 25, 2022

MINUTES

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

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

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

Guest: Brian Shipley & Dave Janec, Arnerich Massena

Governors Absent: Jay Gilbert; Jon Krabbenschmidt; Tom Martin; John Morrell; Malik Duffy (Student Representative); Gayle Hutchinson

Chuck Nelsen called the meeting to order at 9:02 a.m.

Nelsen asked for changes or corrections to the minutes of the June 24, 2021 meeting. There were none. Chris Nichols moved to approve the minutes. Marilyn Rees seconded the motion, and the committee approved the minutes.

Chair's Report: Chuck Nelsen

Nelsen welcomed new board member, Matt Ober. Ober briefly summarized his background and said that he looks forward to working with the board. Nelsen reminded the board that an ad hoc committee was created last year to evaluate the fee and distribution structure of the endowment, explaining that the goal is to make sure the endowment retains its spending power in perpetuity and through inflationary periods. The committee is working to find a methodology that keeps the foundation in compliance. Nelsen hopes to have an update on the committee's recommendation for the next board meeting.

Nelsen also updated the board on its portfolio risk-return and said this is an excellent time to understand the rough estimate of expected returns and risks. Arnerich Messena discussed the portfolio in terms of where the board stands now and if the portfolio needs changes to meet its target with fewer risks and more returns.

Nelsen also asked the board to consider combining the Strategic Reserve and Endowment Portfolio into one investment account. They are currently managed as two separate portfolios with a very similar risk profile. Both profiles carry similar risks. The biggest difference is that the Strategic Reserve does not have an

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allocation to private markets, investments that have a very long duration. Nelsen said that we are always looking to get a little more return out of the portfolio, and asked if it would be better if we just invested it all with the endowment investment profile. He asked the committee to take some time to think about this and discuss it further at the next meeting.

Dave Hodson said this is an important topic and he is glad we are having this conversation. Matt Ober asked if liquidity was a concern. Nelsen said that in his tenure on the board, only once was there an unusual demand on the foundation's cash when the campus requested funding for training and equipment to switch to remote teaching early in the pandemic. It caused no issues with cash flow, partly due to the great fundraising work of Ahmad and his team. Boura said that Vance Kelly from CSE has done some cash flow analysis to respond to that question.

Nelsen said he would bring the topic up again at the February board meeting.

Endowment Performance and Market Update: Brian Shipley/David Janec

Brian Shipley and David Janec provided an investment review and outlook for the Endowment and Strategic reserves portfolios as of 6/30/2021. In the second quarter of 2021, investment returns continued their torrid pace set in recent quarters as all major asset classes appreciated. The rotation of leadership shifted back to large cap US stocks which returned 8.5% in the quarter, but were closely followed by international stocks, emerging market stocks and small cap US stocks which returned 5.5%, 5.0% and 4.3%, respectively. Traditional fixed income also rebounded from their first quarter drawdown returning 1.8% in the quarter. Despite the potential headwinds of the delta variant, Arnerich Massena continues to favor growth investments over stability investments due to anemic forward looking returns in the fixed income space. However, rebalancing and diversification continues to play into our methodology as we continue to sell from recent outperformers and build out positions in funds that have faced pressure. As expected, the overweight to growth investments drove the majority of the performance in the quarter, while our overweight to low duration fixed income investments was a headwind, as traditional fixed income outperformed its shorter duration peers. Looking forward, we continue to be intrigued by opportunities in the international, emerging markets, and private investment landscape.

The Endowment portfolio finished the quarter with strong absolute returns of 6.4% handily outperforming its policy benchmark return of 5.3%. Manager outperformance was a key contributor to returns, as was the general tilt towards growth assets. Private equity investments were the largest contributor to relative and absolute performance in the quarter. Some detractors to performance included investments in the emerging market areas which underperformed their benchmarks. The Endowment portfolio value as of 6/30/2021 was \$86m. 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.

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The Strategic Reserves portfolio continues to outperform its policy benchmark across all time frames, with a 4.9% return in the second quarter, against its benchmarks return of 4.3%. The Strategic Reserves portfolio was \$21.5m as of 6/30/21 and is managed similarly to the Foundation account, namely an overweight to growth assets at the cost of stability investments. The primary difference in the two accounts is the overall risk tolerance is lower for the Strategic Reserves, and the availability of illiquid investments in the Foundation account.

Shiple and Janec also proposed an update to the asset class structure of the Endowment and Strategic Reserves portfolios. Primarily the purpose of the asset class structure change is to combine the Low Volatility Hedge and Growth Hedge categories into a new Hedge & Diversifying category, as no proposal to buy or sell any underlying assets was discussed. With the movement of underlying assets from the stability bucket to the growth bucket (Rimrock Low Volatility Fund and Variant Alternative Income Fund), Arnerich Massena proposed a new target for the IPS of 85% growth and 15% stability assets, recognizing that the underlying assets haven't changed and the risk and return profile of the overall portfolio remains unchanged. The committee requested additional time and education before taking this recommendation. Arnerich Massena said they will provide this at a time that is convenient to the board.

CEO's Report: Ahmad Boura

Vice President Ahmad Boura gave the FY20-21 year-end budget-to-actual report saying that year end revenue numbers were phenomenal, thanks to investment returns on the endowments. Boura pointed out that carefully managed expenses also added to the very large surplus of over \$2 million. Some expenses were a bit higher than budgeted; investment services, printing, and subscriptions. The CSE fee was higher than budgeted because it was in the process of negotiation last year, but it will come down this year. The final agreement has the foundation paying \$490,000 for '20-'21, and \$450,000 for '21-'22., Boura also presented the FY21-22 year-to-date budget-to-actual report and said that only two months into the budget period, they are off to a great start.

CFO's Report: Ann Sherman

Vice President Ann Sherman said that students will receive the HEERF III (Higher Education Relief Act) funds recently passed by the legislature in February under the Biden administration. HEERF III provides emergency relief funding to students during the pandemic and Chico State received almost \$28 million for students. Sherman is currently looking at ways to distribute all funding to students based on federal guidelines..

University Foundation Financial Report: Vance Kelly

Vance Kelly presented the Financial Report noting the impressive growth between the 6/30/20 balance of \$84.6 million and the 6/30/21 balance of \$117 million, a \$32.4 million increase in 12 months. Kelly also presented the Statement of Financial Position, which is essentially the balance sheet, comparing June 2020 to June 2021 reflecting again an increase in total liabilities and net assets of \$35.8 million. The Statement of Activities or Income Statement reflected an increase of \$34.5 million in total revenue mostly due to investment gains, but donations were responsible for almost \$7 million of the increase. Boura credited the board with helping to drive \$14.6 million in donations by initiating and approving programs such as the Endowment Challenge which helped bring in a record number of new endowment gifts, in the midst of a global pandemic.

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Kelly gave a presentation on the foundation's cash flow, noting that the current Investment Policy establishes guidelines for a minimum liquidity of \$2 million which is managed through two bank accounts. All the cash comes in to the depository account. The AP account holds all the payables and all expenditures go through the AP account. Kelly analyzed the historical outflows noting that twice a year, in August and September they have unusual outlays for the scholarship distributions. Excluding those transactions, he is able to see what the average cash outflow needs are. His job is to manage the cash in a way that the maximum is always invested. If it's not needed, it should be put to work. Nelsen suggested that the current minimum of \$2 million may be higher than necessary. Kelly agreed that with his active management, the liquidity minimum could be reduced. Dave Scotto pointed out that the Investment Policy would need to be amended if that number is going to be changed. Hodson added that this is a worthy exercise because anything that helps us get more help to our students has value. Nelsen suggested making a motion to modify the investment policy to lower the targeted cash number to \$1.6 million. Kelly said he agreed, but would manage to \$1.7 million. Chris Nichols moved to lower the cash minimum to \$1.6 million Dave Hodson seconded the motion. Chair Nelsen asked for those opposed. There were none and the motion passed.

New Business: Nelsen

Brian Shipley and Dave Janec exited the Zoom meeting for a closed session. Nelsen shared that there was some concern among board members that Arnerich Massena's presentations were not as clear and thorough as previously with Chris Van Dyke. Hodson suggested that they needed some guidance about the level of complexity in their presentations. Scotto said they spend too much time talking about what has happened but they need to focus on what we should do in the future. That's the role of the board. Cathy Pleasant agreed, adding that they tend to talk over her head using a lot of jargon without explanation. Boura said he would work with Arnerich Massena about simplifying the deck when they present, and adjusting the presentation to better match the audience.

Nelsen adjourned the meeting at 12:12 p.m., noting that the following Finance and Investment Committee meeting is scheduled for February 24, 2022.

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