

Approved June 24, 2022

*Governors present:* **Chuck Nelsen, Chair**; *Stuart Casillas; Joyce Densmore-Thomas; Jay Gilbert; Tom Giustina; David Heinsen(r); David Hodson; Tom Martin; Dennis Murphy (r); Christina Nichols; Matt Ober (r); Cathy Pleasant; Mike Prime (r), Marilyn Rees; Darryl Schoen; Dave Scott (r); Dave Alexander (Faculty Representative)* **Absent:** *Jon Krabbenschmidt; John Morrell; Malik Duffy (r) = remote*

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

*Staff:* *Pam Hollis, Robin Carter, Evonnia Dominguez and Wendi Engasser, University Advancement. Vance Kelly, Chico State Enterprises*

*Guests:* *Bryan Shipley and David Janec, Arnerich Massena*

## MINUTES

Finance & Investment Committee Chair Chuck Nelsen called the meeting to order at 12:04 p.m. He asked for changes or corrections to the minutes of the October 7, 2021 meeting. There were none. Darryl Schoen moved to approve the minutes. Christina Nichols seconded the motion and the minutes were approved.

### Chair's Report: Chuck Nelsen

Nelsen opened the Chair's Report with a discussion regarding the acceptance of crypto currency as an additional donation option. Currently, the Foundation accepts donated property, stocks and cash. Crypto currency is another potential asset class. Crypto users are the fastest growing donor demographic, especially among younger donors; however, 42-57-year-olds are actually spending the most. Matt Ober mentioned that a lot of benefactors who donate in crypto currency don't think about the dollar amount. The average gift size in crypto currency is \$10,500. The most popular donation to Chico State is \$100. VP Boura said his first inclination is to immediately liquidate any gift of crypto currency for cash, however, he is working with Matt Ober to investigate further. VP Boura is exploring a company called The Giving Block to add to the available giving technology suite. The company charges \$5,000 a year for the software and a 2% conversion rate on crypto currency. VP Boura will give an update and recommendation at the June board meetings.

The analysis and recommendation from the Ad Hoc Committee regarding the fee structure was discussed. The Ad Hoc Committee determined a methodology. Take the percentage yearly endowment portfolio returns over the last 10 years and subtract from that percentage number: the average yearly inflation over that same period and .25 of one percent. The resulting percentage number is the amount of Endowment returns available for outside distributions as either fees for the Foundation or distributions from the Endowment. The percentage amount remaining after fees and distributions should be positive and if substantially positive, prompt a discussion about increasing the distribution rates. If the percentage amount remaining after fees and distribution is negative this should prompt discussion about reducing the Foundation fees for distributions from the Endowment. The recommendation is to maintain the current fee and distribution structure for the next three years and re-evaluate in the fall of 2025.

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**Arnerich Massena Report: Bryan Shipley and David Janec**

Nelsen offered kudos to Arnerich Massena for streamlining the reporting and significantly reducing the amount of paper being printed.

Bryan Shipley and David Janec joined the FIC in person to provide an investment review and outlook for the Endowment and Strategic Reserves portfolios as of 12/31/2021. In the fourth quarter of 2021, investment returns continued to appreciate, however in a much narrower rally led by the US Mega and Large cap stocks which were up 11% in the quarter. Diversification detracted from value with bonds flat, and US Small Cap and International stocks up modestly. Emerging markets continued to lag, returning -1.3% in the quarter. As pandemic worries gave way to inflation worries, Arnerich Massena removed its overweight to growth investments, neutralizing tactical tilts in the portfolio. Asset allocation decisions were additive in the quarter and the year as the portfolios were overweight the growth portion of the portfolio for most of the year when risk assets appreciated. For the quarter, being shorter on the yield curve was a headwind to performance as longer-term bonds outperformed, but the opposite was true for the year, and we continue to hold this tactical strategy.

The Endowment portfolio finished the quarter delivering positive performance of 1.8%, trailing the policy benchmark of 3.9%. Manager underperformance was the key detractor to returns, as passive investment in the S&P 500 was the best approach to capture the strong returns realized from large cap stocks during the quarter. Private equity investments also detracted from performance given the strength of public markets but were substantially additive for the year. International investments continued to add relative value and two new funds, the ARGA Emerging Markets Value Fund and Kayne Anderson Renewable Infrastructure funds were added to the portfolio.

The Endowment portfolio value as of 12/31/2021 was \$88 million. The asset allocation continues to be managed within IPS guidelines and is expected to tighten up relative to 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 underperformed its benchmark for the quarter but continues to outperform its policy benchmark across longer term frames, with a 1.5% return in the fourth quarter, against its benchmarks return of 3.2%. The Strategic Reserves portfolio was \$24.5million as of 12/30/21 and is managed similarly to the Foundation account, namely a neutral exposure to growth and 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.

Shipley and Janec continued their proposed 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

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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. Similarly, for the capital reserves portfolio Arnerich Massena proposed a new target for the IPS of 70% growth and 30% stability assets. The motion was approved by the committee and Arnerich Massena will follow up with IPS drafts for the committee's review.

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

The budget as of December 2021 was presented with revenues at 123% of budgeted amounts, mostly due to market increases in December. Expenses remain less than budgeted due to surges in the Omicron variant of the coronavirus, which delayed the return to full in-person fundraising activities. Additionally, staff vacancies due to labor shortages impact expenses. A budget surplus of \$1.8 million reflects these trends as of 12/31. The January picture is similar, but the expectation is that the current market downturn will show up later this year.

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**CFO's Report: Ann Sherman**

Foundation CFO Ann Sherman updated the group on the State of California budget. The state is currently \$10 billion ahead of its 21-22 Budget Act Assumptions, but this rapid revenue is expected to slow. The Legislative Analyst Office (LAO) forecasts personal income tax revenue to be higher than expected through 23/24, but that corporate tax revenue will decline by 12% in the same year. Sales tax forecasts 4% growth in 23/24 with 3% additional in each subsequent year. Discretionary funding to the higher education is a very small portion of the state's discretionary spending. The governor's proposed budget does include a 5% increase for the CSU in 2022-2023, which includes commitments through 2026-2027 and enrollment growth funding, \$100 million in one-time deferred maintenance and energy efficiency projects and \$50 million to upgrade equipment and facilities at 4 university farms. Sherman initiated a discussion around the campus' enrollment challenges which are exacerbated by declining demographics and stiffer competition from private and other public universities both in and out of California.

**University Foundation Financial Report: Vance Kelly, Chico State Enterprises**

For 12/31/21 the statements show a \$5 million increase in Cash and Investment balances since 6/30/2021. Unrestricted net assets continue to grow providing flexibility for program priorities, as well as cash for emergencies. These funds grow annually when revenues exceed expenses as a result of prudent fiscal management. Comparing revenue to last year is a challenge due to the extraordinary year 20-21 was for investments. Darryl Schoen questioned whether the presentation could be adjusted to compare the same six-month periods for adjacent years, rather than comparing this year's six months against last year's 12-month numbers. Vance Kelly agreed that he could adjust the display to include the common period, year against year. Expenses continue to be less than expected due to the resurgence of COVID.

**New Business: Nelsen**

Nelsen asked the group for any new business. There was none, and the meeting was adjourned at 3:00 p.m.

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