



Approved October 7, 2022

MINUTES

(r) = attended remotely

Governors Present: **Chuck Nelsen, Chair**; *Stuart Casillas; Joyce Densmore-Thomas; Jay Gilbert; Tom Giustina (r); David Heinsen; David Hodson; Tom Martin; Dennis Murphy; Christina Nichols; Matt Ober (r); Cathy Pleasant; Mike Prime; Darryl Schoen (r) Dave Scotto; Dave Alexander (Faculty Representative)*
Absent: *John Morrel; Marilyn Rees*

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

Staff Present: *Pam Hollis, Robin Carter, Ileana Rowell, University Advancement; Vance Kelly, Chico State Enterprises*

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

Finance & Investment Committee Chair, Chuck Nelsen, called the meeting to order at 12:01p.m. He asked for changes or corrections to the minutes of the February 24, 2022, meeting. There were none. Jay Gilbert moved to approve the minutes. David Heinsen seconded the motion, and the minutes were approved. There were some technical corrections to the February 25, 2021, Finance and Investment Committee minutes. In the second bullet on page two, the word “distribution” was replaced with “fee”. In the third bullet, the term “unrestricted net asset” was replaced with “board discretionary endowments”. These changes were made at the recommendation of the endowment accountant who advised that the new language would provide better clarity as to the board’s intent to any future accountant reading the minutes for guidance. Scotto moved to correct the minutes. Gilbert seconded and the minutes were approved as corrected.

Chair’s Report: Chuck Nelsen

Nelsen opened the Chair’s Report with a discussion about creating a methodology to assess the impact of fee and distribution rates on long-term endowment value. Nelsen asked the Governors if this should be addressed as it came up or whether a schedule should be created. David Hodson highly recommended institutionalizing a process for regular review. Dave Scotto said that the next step should be for the Governance Committee to create a policy that outlines a schedule for regular review and Chair Nelsen asked for the Governance Committee to

Draft changes to the Investment Policy Statement were made by Arnerich Massena to reflect their change in philosophy as they transitioned to a more streamlined structure. They expanded and renamed the “Cash” category to “Cash and Low Duration”, and merged “Low Volatility Hedge” and “Growth Hedge” into “Hedge and Diversifying”. Bryan Shipley said he doesn’t see any significant further changes moving forward. With no objections or comments, the changes will be sent to the Governance Committee.

The Foundation’s mission is to support CSU, Chico’s strategic plan by raising, investing and disbursing funds to fuel the growth and excellence of the University.

**BOARD OF GOVERNORS
FINANCE & INVESTMENT Committee**

Colusa Hall Room 100B
Thursday, June 23, 2022
9:00 a.m. to Noon



California State University **Chico**
University Foundation

Dr. Mahalley Allen gave a report on her Governors' Award - Pathway to Law Preparation Support. Statistics show that California's attorney population is predominantly white and male. One of the reasons is the lack of diversity in law school admissions. Only a small portion of students are people of color. One of the largest obstacles is the access to the Law School Admission Test (LSAT). With a cost of \$1,800, taking an LSAT preparatory course is cost prohibitive to many people of color. Studies show that preparatory courses greatly enhance a students' success and the ability to attend prominent law schools. The Governors' Award covered the costs for twenty-two Chico State students to take a professional LSAT preparation course (tuition and materials). Allen presented testimonials from some of the student recipients. This is a great example of how small dollars have a big impact.

Arnerich Massena Report: Bryan Shipley and David Janec

Bryan Shipley and David Janec provided an investment review and outlook for the Endowment and Strategic Reserves portfolios as of 3/31/2022 along with updated performance results through the end of May 2022. The first quarter of 2022 saw a reversal of recent investment trends with all major asset classes experiencing market declines led by US Small Cap and Emerging Markets stocks – down 7.5% and 7.0% respectively. US Large cap stocks fell 4.6% – the first negative quarter for this asset class in two years. Finally, bonds fell 5.9% marking the worst quarterly returns for fixed income investments in over forty years. While pandemic worries continue to subside, geopolitical conflict in Europe took center stage with Russia's invasion of Ukraine contributing to volatility in markets. Inflation reading continued to rise, combining with supply chain issues to create a challenging environment for most investment assets. Cash and low duration bonds fared better than their longer dated counterparts neither gaining nor losing in the quarter. Similarly, hedge funds proved to be a safer haven, returning - 0.3% in the quarter. In general, asset allocation decisions were positive contributors to returns in the quarter with an underweight to intermediate term bonds in favor of shorter-term bond investments. Likewise, an overweight to Hedge and Diversifying assets helped mitigate some of the underperformance of some of the active managers in the quarter.

The Endowment portfolio finished the quarter with negative performance of -4.7%, trailing the policy benchmark of -4.0%. Manager underperformance was the key detractor to returns, though as discussed, most assets were down in the quarter. As the risk off trade was the prevalent theme as the first quarter, growth-oriented managers such as Spyglass, Grandeur Peak and Eventide underperformed their individual benchmarks. International investments detracted value in the face of the largest war in Europe since World War II, though certain investments held up better than others including the Artisan International Value and ARGA Emerging Markets Value funds. Private equity added value during the quarter. While Arnerich Massena anticipates some weakness ahead for the overall private equity asset class in reflection of what they have seen in public markets, they believe this particular portfolio emphasis on buyout should be somewhat insulated from larger valuation declines.

The Foundation's mission is to support CSU, Chico's strategic plan by raising, investing and disbursing funds to fuel the growth and excellence of the University.

**BOARD OF GOVERNORS
FINANCE & INVESTMENT Committee**

Colusa Hall Room 100B
Thursday, June 23, 2022
9:00 a.m. to Noon



The Endowment portfolio value as of 3/31/2022 was \$84m. The asset allocation continues to be managed within Investment Policy Statement guidelines and will continue to do so as Arnerich Massena works to finalize the new Investment Policy Statement with the Governance Committee in the near future. The current positioning is right on target as they see continued volatility in the coming months with overweights to cash and low duration. Arnerich Massena will continue to look for opportunities to work towards the targeted allocation to private equity and anticipate several more years before the targeted exposure is achieved.

The Strategic Reserves portfolio underperformed its benchmark for the quarter, but is in line over longer periods of time, with a -6.0% return in the first quarter, against its benchmarks return of -4.2%. The Strategic Reserves portfolio was \$23.8m as of 3/31/22 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.

During the meeting, Shipley and Janec and the FIC committee approved changes to the Investment Policy Statement, and it will move to the Governance committee for final approval and implementation. Shipley and Janec also introduced the new performance reporting documents when reviewing the portfolio update through May and look forward to granting access for live portfolio updates in the near future.

CEO's Report: Ahmad Boura

Boura reported on the 2021-2022 Operating Budget to Actuals through 5/31/22. Revenue is over \$3 million. Expenses are as expected, providing a surplus of about \$1.5 million. Projected budget for 2022-23 includes modifying some expenses to accommodate growth in staff. There will be some additional expenses incurred for professional contracting services and employment consulting. There were no questions or discussion. Dennis Murphy moved to approve the proposed budget. Scotto seconded and the motion passed.

Boura presented a proposal for the Student Veteran's Continuing Service Scholarship, an endowment to benefit students who are serving or have served in the armed forces. The proposal continues the efforts of Mike Guzzi, former Chico State Associate Vice President of Facilities and Capital Projects, who was a passionate advocate for veterans on campus. Approximately \$18,400 was raised through an annual veterans' "Hoorah 5K Run" and additional crowdfunding efforts. Boura recommended that the board allocate \$6,600 in one-time funding to reach the \$25,000 minimum needed to create this endowment. Jay Gilbert moved to allocate the funds. Chris Nichols seconded the motion. Positive discussion ensued resulting in Gilbert's amendment to the motion raising the foundation's contribution from \$18,400 to \$31,600, creating an endowment of \$50,000 instead of \$25,000. Scotto seconded the motion. The committee voted unanimously to increase the contribution.

The Foundation's mission is to support CSU, Chico's strategic plan by raising, investing and disbursing funds to fuel the growth and excellence of the University.

**BOARD OF GOVERNORS
FINANCE & INVESTMENT Committee**

Colusa Hall Room 100B
Thursday, June 23, 2022
9:00 a.m. to Noon



Boura will be talking to staff to see how the Foundation can continue to enhance recognition efforts for faculty and staff. Recognition efforts are beneficial for morale and promoting the university as a whole. A preview for new awards that will be proposed in the fall was presented.

Boura presented information on the Student Managed Investment Fund (SMIF). This is a program where students have management over \$25,000 to invest. The program was distributed to the board for review. Questions may be submitted and will be addressed during the Fall 2022 Board of Governors meeting. The \$25,000 start-up funds belong to the Foundation but is not invested through Arnerich Massena.

CFO's Report: Ann Sherman

Ann Sherman gave an update on the University Budget. The State budget is not out yet. The Governor is committing to a five-year compact with the CSU and UC equivalent to a 5% increase in base General Fund resources annually (if goals are met).

Shared priorities for higher education are to increase undergraduate enrollment; eliminate equity gaps in graduation rates for underrepresented students; increasing student numbers in the fields of STEM, education, technology, healthcare, climate action, and social work; and access to high-quality online course offerings.

The Legislative Analyst's Office believes state campuses will have a bigger fiscal challenge and the Governor should increase the funds.

University Foundation Financial Report: Vance Kelly, Chico State Enterprises

Vance Kelly gave an overview of the Foundation Financial Statement. When compared to April 2021 cash and investment summary, endowment investments increased \$1.56 million. The Statement of Financial Position showed an increase in assets of \$5 million. Total liabilities have increased from last year. Total liabilities and net assets are a little over \$5 million. The Statement of Activities showed total revenue was down 3%. The Statement of Activities showing expense and transfers was very similar to last year with a slight increase in expenses. May balances for the Cash and Investments Summary looks positive with an increase of \$1.5 million. Cash is still looking strong. The Statement of Financial Position showed that net assets were down a little from last May. The Statement of Activities report showed there were more hosting and hospitality charges.

Kelly informed the committee that Chico State Enterprises (CSE) and the Foundation were preparing to do a request for proposal (RFP) for an auditor. Due to the timing of an audit, the RFP process had to be postponed. CSE reached out to a few firms for pricing and decided to retain the current auditor for one more year. The RFP process will resume once the current audit is over.

The Foundation's mission is to support CSU, Chico's strategic plan by raising, investing and disbursing funds to fuel the growth and excellence of the University.

BOARD OF GOVERNORS
FINANCE & INVESTMENT Committee
Colusa Hall Room 100B
Thursday, June 23, 2022
9:00 a.m. to Noon



New Business: Nelsen

Nelsen asked the group for any new business. There was none.

The meeting was adjourned at 3:11 p.m. with a reminder for the next meeting on Thursday, October 6, 2022.

The Foundation's mission is to support CSU, Chico's strategic plan by raising, investing and disbursing funds to fuel the growth and excellence of the University.