

**BOARD OF GOVERNORS
FINANCE & INVESTMENT Committee**

Colusa Hall Room 100B
Thursday, October 6, 2022
10:00 a.m. to 2:00 p.m.



California State University **Chico**
University Foundation

Approved February 24, 2023

Governors Present: **Darryl Schoen, Chair**; Stuart Casillas; Joyce Densmore-Thomas; Jay Gilbert; Tom Giustina; David Heinsen; David Hodson; Dennis Murphy; Christina Nichols; Matt Ober; Cathy Pleasant; Marilyn Rees; Dave Scotto; David Alexander (Faculty Representative); **Absent:** Tom Martin; John Morrell; Taylor Stewart, (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: Pam Hollis, Robin Carter, Ileana Rowell, Chris White, University Advancement; Vance Kelly, Financial Director, Chico State Enterprises

Guests Present: Bryan Shipley and David Janec, Arnerich Massena

MINUTES

Finance and Investment Committee Chair Darryl Schoen called the meeting to order at 12:03 p.m. He welcomed three new board members David Hufford, Tim Sauer and Braydan Young. He asked for changes or corrections to the minutes of the June 23, 2022 meeting. There were none. Joyce Densmore-Thomas moved to approve the minutes. Dave Scotto seconded the motion, and the minutes were approved.

Chair's Report: Darryl Schoen

Schoen opened the Chair's Report with a discussion about the Student Managed Investment Fund. An ad hoc committee was established to vet a proposal from Professor Jaycob Arbogast to establish a fund of real dollars that students can invest as a hands-on educational experience. Beginning with \$25,000 in seed money, faculty will guide students to invest using the foundation's Investment Policy as a guide. The ad hoc committee reviewed programs at other universities including Cal Poly San Luis Obispo and University of Texas. Their goal was to ensure the university is protected and guard rails are in place to prevent any liability. The program was approved in August.

Dr. Shrija Dighangi made a presentation about her Governors' Award for the Women's Circle Peer Group. She established a weekly women's peer group to provide opportunities for social interaction. All women were invited to join. Students worked with facilitators for 10 weeks learning about wellness – physical, financial, etc.

Pablo Soto, from Academic Advising presented about his award for "Fulfilling Growing Online Advising Needs." He explained that each adviser is expected to meet with 1,625 students, and that it's overwhelming. With the support of the Governors' Award, outreach to these students has become more strategic and effective. This award provided funding for technology allowing advising to improve their virtual services connecting to students online.

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Arnerich Massena Report: Bryan Shipley and David Janec

Bryan Shipley and David Janec joined the Finance and Investment Committee in person to provide an investment review and outlook for the Endowment and Strategic Reserves portfolios as of 6/30/2022. The second quarter continued the trend observed in the first quarter of 2022 with all asset classes experiencing negative returns led by US Small Cap (-17.2%) and US Large Cap (-16.1%). There was some diversification benefit to investing internationally with International Equity retreating -13.7% and Emerging Markets down -11.4%. Fixed income securities, as measured by the Barclays Aggregate Bond Index, continued its historical drawdown, declining -4.7% in the second quarter culminating in a -10.3% return through the first half of the year. Cash and Low Duration securities maintained their value in the quarter and hedge funds, as measured by the HFRI Fund of Funds decreased less than other risk assets, down 4.9% in the quarter. Geopolitical issues continue to simmer in Eastern Europe, but the main driver of negative returns in the quarter was inflation with the headline number reaching 9.1% year over year price increases, a 40 year high. The price increases were felt across the board, but were primarily driven by large increases in energy, vehicle sales, and food increases in the quarter. While the headline number has rolled over decreasing to 8.2% year over year as of September, prices still remain elevated and present an ongoing challenge for Fed officials tasked with managing inflationary pressures. Against this backdrop, tactical asset allocation decisions to overweight the Cash & Low Duration and Hedge & Diversifying categories continued to add value as they both outperformed broad equity and fixed income investments.

The Endowment portfolio finished the quarter with negative performance of -8.8%, outperforming the Policy Index return of -10.1%. Asset allocation decisions were slightly additive in the quarter, with an overweight position to Cash and Low Duration protecting some of the extreme losses in the fixed income space. An overweight to alternative investments including private equity also protected the downside as they performed better than their public equity peers. Manager selection was mixed in the quarter with some managers continuing to underperform their benchmarks while others were able to reverse the trend and add value in the quarter. Some of the managers that outperformed their benchmarks included the Baird Ultrashort Bond Fund, Variant Alternative Income Fund as well as funds in the value segment of the market including ARGA Emerging Markets Value. Global Public equity managers struggled to keep pace in the risk off environment with Spyglass Mid Can Growth and Vulcan Value Partners leading the underperformers in the quarter. Similar to the first quarter, private equity added value during the quarter generating positive results for the quarter. While we continue to anticipate some weakness ahead for the overall private equity asset class in reflection of what we have seen in public markets, we believe this particular portfolio emphasis on buyout should be somewhat insulated from larger valuation declines.

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The Endowment portfolio value as of 6/30/2022 was \$78m. The asset allocation continues to be managed within IPS guidelines and will continue to do so as we work to finalize the new Investment Policy Statement with the Governance Committee in the near future. The current positioning is right on target as we see continued volatility in the coming months and plan to maintain overweights to Cash and Low Duration. We 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 -10.4% return in the second quarter, against its Policy Index return of -9.4%. The Strategic Reserves portfolio was \$21.7m as of 6/30/22 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.

CEO's Report: Ahmad Boura

Vice President Boura reported on the foundation Operating Budget for year-end 6/30/22 noting that we finished the year with revenue at about \$3.6 million and expenses at \$1.6 million, resulting in a surplus of \$2,006,915 that goes back into the unrestricted fund.

Boura also shared this year's report, year to date through 8/31/22, noting that with only two months of data the report is not yet highly informative. At the request of Chair Schoen, another column was added to the display comparing two months of budget to two months of actual. This early in the year, the display was not terribly informative, but as the year progresses it will become more useful.

Boura advised the group that he is working with faculty and staff on preparing proposals to the board for new faculty and staff awards, which he hopes to have in February. He will be asking some board members to work with the faculty and staff on the proposals. Additionally, he is collaborating with the president to create a President's Award to honor faculty who bring national or global recognition to the university.

CFO's Report: Ann Sherman

Vice President Sherman gave an update on the University Budget noting that although the university is receiving \$3.4 more than last year, those monies are earmarked for negotiated salary increases, new building maintenance and foster youth enhancements, while the campus has unfunded commitments for utilities, insurance, security, software, and equity increases totaling almost \$6 million. Meanwhile, tuition and fee revenue has declined \$8 million due to a severe drop in enrollments, and every 125 students contribute \$1 million in revenue.

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Campus-wide efforts are underway to increase enrollment by improved yield, retention and student success while reducing expenses. One-time reserves will help carry us for the next two to three years, but action must be taken now.

Some options for immediate actions include campus enrollment committees focusing on increasing yield, retention and persistence, marketing and communication and program revitalization. The president has instituted a hiring chill as teams work to refine budget scenarios through 2026.

University Foundation Financial Report: Vance Kelly, Chico State Enterprises

Vance Kelly gave an overview of The Foundation Financial Statement at June 30, 2022 noting total liabilities and net assets of \$118,033,613. A decline of \$4,46,4924 in the unrestricted net asset was due in part to a transfer of \$1,000,000 last year to create a quasi-endowment that funds the faculty and staff awards. Market losses also contributed to the decline. On the revenue side, the foundation lost \$1,408,605 over the fiscal year due to unrealized market losses of \$20,293,088. For the current fiscal year, the cash position is \$108 million at 8/31/22 with total assets at \$118,467,907. Revenue year to date is \$2.2 million and expenses are at \$1.8 million resulting in a \$401,148 increase in net assets.

New Business: Schoen

Schoen asked the group for any new business. There was none and Schoen adjourned the meeting at 3:11 p.m. with a reminder for the next meeting on Thursday, February 23, 2022.

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