BOARD OF GOVERNORS
FINANCE & INVESTMENT Committee
Monday, June 19, 2023
3:00 p.m. to 4:30 p.m.

California State University Chico
University Foundation

Approved October 13, 2023

Remote via Zoom

Governors Present:	***Darryl Schoen, Chair****; Stuart Casillas; Joyce Densmore-Thomas; Jay Gilbert; Tom Giustina; David Heinsen; David Hodson; David Hufford; Chuck Nelsen; Christina Nichols; Matt Ober; Cathy Pleasant; Tim Sauer; Dave Scotto; Braydan Young;* ***Absent:*** *Tom Martin; John Morrell; Dennis Murphy; Marilyn Rees; David Alexander, (Faculty Representative)*
Ex Officio Present:	*Ahmad Boura, Vice President for University Advancement (CEO); Jamie Clyde, Interim Vice President for Business and Finance (CFO)* ***Absent:*** *Gayle Hutchinson, President*
Staff Present:	*Pam Hollis and Robin Carter 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 3:11 p.m. He asked for changes or corrections to the minutes of the February 23, 2023 meeting. There were none. The minutes were approved as presented.

Chair's Report: Darryl Schoen

Schoen reported on the ad hoc committee for the Gayle E. Hutchinson Presidential Award for Excellence. The committee was tasked with proposed language for the award, which included the criteria for the award, the amount, the funding mechanism, the nominating process, the selection committee structure, and the selection process. The Governance Committee passed the proposed language in the meeting earlier today.

Arnerich Massena Report: Bryan Shipley and David Janec

Bryan Shipley and David Janec from Arnerich Massena joined the meeting via Zoom to provide an investment review and outlook for the Endowment and Strategic Reserves portfolios as of 3/31/2023. The first quarter continued the recovery experienced in the fourth quarter, reversing a quarters-long trend of negative returns for most asset classes. Negative macroeconomic themes persisted, including instability in the banking system and questions about the debt ceiling domestically. However, these risks were overwhelmed by the beginnings of a recovery in the growth sector, driven by several names in the artificial intelligence space. Against this backdrop, all asset classes experienced positive returns in the first quarter, led by US Large Cap stocks (+7.5%) and International stocks (+6.9%). Fixed income markets also continued to deliver positive returns with longer duration securities outperforming their shorter duration peers as measured by the Bloomberg Barclays Aggregate Bond Index (+3.0%) and FTSE US 3m Treasury Bill (+1.1%). Hedge and Diversifying investments were up 1.2% in the first quarter, continuing to demonstrate their non correlated price path which offered tremendous value in 2022. This second consecutive strong quarter was certainly welcomed by investors, though markets have not yet recovered to the higher achieved in late 2021 as demonstrated by negative rolling 1-year returns. Despite strong investment returns, the market outlook is not without headwinds. The Fed continued its unprecedent rate hiking cycle, raising its benchmark rate to 5% in one of the most rapid ascensions in recent history. However, the goal of a soft landing or avoiding a typical recession seems to be nearing a reality as inflation has started to cool, down from a peak of 9.1% in June2022 as measured by the Consumer Price Index. These rate hikes have greatly increased the demand for fixed income securities, particularly and the short end of the yield curve which money markets now yielding nearly 5%. This rapid rate hike also caused issues with certain lenders in the first quarter as some banks were forced to sell longer dated portfolio holdings at a loss, causing the federal government to rescue institutions such as Signature Bank and Silicon Valley Bank.

The Endowment portfolio finished the quarter with a positive return of 3.9%, trailing the Policy Index return of 4.5%. Asset allocation decisions were additive in the quarter, with an overweight position to Global Public Equity providing the biggest boost in the quarter as the risk asset recovery continued. A modest overweight to Cash and Low Duration held back returns slightly as their longer duration counterparts again performed better in the quarter. Manager selection trends continued to add value to the portfolios in all asset classes other than private investments. Global Public Equity managers such Spyglass Mid Cap Growth and Vulcan Value Partners continued to recoup their 2022 losses and have led the way in 2023. Less liquid investments were up slightly on an absolute basis in the quarter, but similarly to the fixed income were instrumental in protecting against downside risk for 2022. As is expected in rapidly increasing markets, private investments tend to trail their public counterparts and account for most of the underperformance in the quarter and year.

The Endowment portfolio value as of 3/31/202 was $82.7m. The asset allocation continues to be managed within IPS and 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 returned 4.7% in the first quarter, outperforming its policy benchmark which returned 4.1%, reflecting the positive manager effect discussed above. The Strategic Reserves portfolio was $25.7m as of 3/31/23 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, which in this case helped bolster returns.

CEO's Report: Ahmad Boura

Vice President Ahmad Boura reported on the 2022-23 operating budget to actual. As of April 30, the investment earnings were lower. Arnerich Massena makes decisions to benefit the long-term, although investment earnings may show some short-term losses. Investment losses were offset by lowering expenses.

Boura proposed the operating budget for 2023-24 with expected revenue at $2.6 million and expenses at $2.5 million. An additional line item was added for Alumni Engagement Events – there is a new

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.

university president who might require some additional visits and some new, smaller engagement events. Schoen asked for a motion to approve the budget. Nelsen moved to approve the 2023-24 Operating Budget as presented. Tim Sauer seconded, and the budget was approved.

Boura presented background information on the Faculty Awards program. The Foundation currently supports eight faculty awards for around $11,000. Joyce Densmore-Thomas and Chris Nichols worked on an ad hoc committee with Marianne Paiva, Faculty Senate Chair and Shelley Hart, Faculty Recognition & Support Committee (FRAS) Chair to create a new faculty award proposal. New awards include the Outstanding Faculty Leader Award ($2,500) which is focused on faculty leadership, and five Professional Achievement Honor - PAH (1,000) awards, which are nominated by the Deans and were previously unfunded. Nichols and Densmore-Thomas reported on their experience in the ad hoc committee. Both enjoyed the experience and were impressed with the movement toward acknowledging more excellent work being done by the faculty. Schoen asked the board to approve the Faculty Award Proposal as presented, funding an additional $7,500 in awards. Densmore-Thomas made a motion to approve the proposal. Tom Giustina seconded, and the motion passed.

CFO's Report: Jamie Clyde

Interim Vice President Jamie Clyde gave an update on the State and University Budget situation. The California state budget is $308 billion and higher education receives $23.6 billion (8.1% of total state budget). The CSU system receives $5.2 billion (20.8% of higher education budget). Chico State receives $152 million, which is less than 4% of the CSU budget. Chico State's 22-23 operating budget resources were $242 million with 63% coming from state support and 31% coming from tuition. State funding is based on the number of students enrolled as a full-time student (FTS) taking 15 units or more. The CSU target enrollment for Chico State is 15,560. From 2017-18 to 2022-23 enrollment dropped by 4,000 students. Current full-time enrollment is 12,430. There will be a CSU pull-back of state support by Spring 2024 if full-time enrollment is not within 5% of target enrollment (14,782 students). Fewer students equal less tuition income and a lower contribution from the state. While enrollment and tuition revenue declined, state dollars were able to offset the loss. Starting in 2024-25, if enrollment targets are not met, there will be a $6 million pull back from the state each year. Efforts across campus are being made to increase enrollment through marketing, rebranding videos, billboards, social media and communication in various languages. Campus is also making efforts on the expense side, investing in process improvements, implementing budget reduction planning scenarios and looking at all sources of revenue.

University Foundation Financial Report: Vance Kelly, Chico State Enterprises

Vance Kelly gave an overview of the University Foundation financial statement. Total cash and investments as of April 30, 2023 are $116 million with the endowment value at $84 million. Total liabilities and assets increased by $3.6 million. The cash and investments for May 31 are $114 million, which is down slightly.

Kelly also presented information about cash balance safety. JP Morgan Chase holds the Foundations bank balance which averages about $900,000 to $1.1 million. The Federal Deposit Insurance Corporations (FDIC) covers up to $250,000 per depositor, per ownership category. Kelly stated that there is the possibility of requesting additional collateralization from JP Morgan Chase for excess between the FDIC and the balance – at 7 basis points (.0007 x amount), which would cost about $6,000 a year.

New Business: Schoen

Schoen asked the group for any new business. There was none and Schoen adjourned the meeting at 4:52 p.m.

The next meeting will be held on Thursday, October 12, 2023.