

**BOARD OF GOVERNORS
FINANCE & INVESTMENT Committee**

Thursday, October 12, 2023
9:00 a.m. to 12:00 p.m.



California State University **Chico**
University Foundation

Approved February 23, 2024

Governors Present: **Darryl Schoen, Chair**; Stuart Casillas; Joyce Densmore-Thomas; Gayle Dilley; Jay Gilbert; Tom Giustina; David Heinsen; David Hodson; David Hufford; Olena Lacy; John Morrell; Chuck Nelsen; Christina Nichols; Cathy Pleasant; Earl Reed; Tim Sauer®; Cindy Daley, Kate Minderhoud **Absent:** Matt Ober; Dave Scotto; Braydan Young

Ex Officio Present: Steve Perez, President; Ahmad Boura, Vice President for University Advancement (CEO); Jamie Clyde, Interim Vice President for Business and Finance (CFO)

Staff Present: Pam Hollis, Christine Ponce, 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 9:03 a.m. He asked for changes or corrections to the minutes of the June 19, 2023 meeting. There were none. The minutes were approved as presented.

Chair's Report: Darryl Schoen

Schoen welcomed new board members Gayle Dilley, Olena Lacy and Dr. Earl Reed, along with new faculty representative Cindy Daley and new student representative, Kate Minderhoud. Schoen introduced Dr. Shawn Bates, who gave a presentation about his Governors' Award "Course-Based Undergraduate Research Experience in Psych 324", which provided undergraduate students with an opportunity to design and run experiments using live organisms in behavioral neuroscience.

Dr. Matthew Looper also presented his Governors' Award work on the Maya Hieroglyphic Database. Funding for this project allowed his students to develop a mapping component for the hieroglyphic database which serves to interpret hieroglyphic samples to learn more about the Mayan linguistics, history, and culture.

Arnerich Massena Report: Bryan Shipley and David Janec

Bryan Shipley and David Janec from Arnerich Massena joined the FIC in person to provide a full investment review and outlook for the Endowment and Strategic Reserves portfolios as of 6/30/2023 as well as an update through 9/30/23.

Equity markets continued their torrid pace with "the Magnificent 7" (Apple, Nvidia, Amazon, Microsoft, Meta, Tesla, and Google) stocks pulling most investable indices up with them, accounting for 73% of the 16.9% S&P 500 return through June 30th. This "risk on" atmosphere contributed to broad gains with US Small Cap Stocks (8.1%), International Stocks (+9.5%), and Emerging Market Stocks (+4.9%) also appreciating through the first half of 2023. Fixed Income securities reversed their first quarter trend with longer duration securities retreating a bit (-0.8%) and underperforming their shorter duration counterparts (+1.3%) in the second quarter. Hedge & Diversifying investments had modest gains in the quarter (2.2%) and year to date (+3.4%) continuing to zig while other asset classes zag. As the third

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quarter ended there was increased rate volatility with longer bond rates increasing forcing prices down. This, coinciding with additional political gamesmanship and further geopolitical crisis in the form of war in the Middle East, raises additional headwinds for continued market strength in the fourth quarter.

With the Federal Reserve holding rates steady for some time and inflation starting to moderate, there are signs that macro events may be subsiding and giving further weight to the fundamentals of what drives our economy. Along these lines there are questions about the stress of the US consumer and those effects on our consumer-driven economy. With household credit card debt at all-time highs and personal savings rates near all-time lows there is some question of how much more the consumer can push GDP forward in coming quarters. Additionally, we could experience some selling pressure on equity markets as we return to a more normal fixed income environment and fixed income investors are able to earn more traditional levels of yield. Long term this is a healthy relationship as the last 15 years have been an aberration in terms of the return expectations both in equity and fixed income markets.

The Endowment portfolio finished the second quarter with a positive return of 2.3%, trailing the Policy Index return of 3.6%. 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. Overweights to both Low Duration as well as traditional Fixed Income offset each other as their longer duration counterparts underperformed 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 as Spyglass Mid Cap Growth continued its strong performance trend, and fixed income managers lost less than their benchmarks in the quarter. 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 continued to trail their public counterparts and account for most of the underperformance in the quarter and year.

The Endowment portfolio value as of 6/30/2023 was \$84.6m. 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 though with the expectation of a more normal yield curve we are closely monitoring our overweight 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 2.5% in the second quarter, underperforming its policy benchmark which returned 2.9%, with the primary driver of underperformance being an underweight to Global Public Equity which was the strongest performance in the quarter. The Strategic Reserves portfolio was \$25.3m as of 6/30/23 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 stock market behavior.

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CEO's Report: Ahmad Boura

Vice President Ahmad Boura reported on the foundation's operating budget, providing the final budget to actual report for fiscal year 2022-2023, which ended with revenues at \$2,267,246, expenses at \$1,961,824 and a net surplus of \$305,422. Boura also presented the Budget to Actual report for the current fiscal year through 8/31/23, noting that expenses appear low because many expenses are paid quarterly, and the first payments have not yet been processed by August 31.

CFO's Report: Jamie Clyde

Interim Vice President for Business and Finance Jamie Clyde gave an update on the State and University Budget situation, explaining the state budget cycle and allocation process, then reporting on the final budget to actual for fiscal year 2022-2023 and sharing the budget plan for 2023-2024.

Clyde noted that in 2022-2023 the campus balanced the budget by using 12% of its reserves after planning to use 31%. They kept costs down by implementing a hiring freeze and reducing divisional budgets. For the current fiscal year, budgeted revenues are \$247 million, with 30% coming from tuition fees and 63% coming from the state allocation. The final 7% comes from miscellaneous sources. The budget plan calls for the campus to use an additional \$22.2 million of its \$61.5 million in reserves.

The CSU Board of Trustees approved a multi-year 6% tuition increase, effective Fall 2024 tuition will increase for each of the next five years.

Clyde also gave an update on the status of the campus' various capital projects, noting that the new Behavioral and Social Sciences building which will replace Butte Hall, is expected to be complete in the Spring or Summer of 2024. The new University Services building will be completed in the Fall of 2024. At the University Farm, plans are underway for a new farm store with offices and conference space. State-funded with an \$11 million budget, estimated completion is January 2025. Additionally, a new Human ID Lab Building is planned with funding from a state earmark which the University Advancement team championed, and property at 380-388 Orange Street in Chico will be renovated for campus use.

University Foundation Financial Report: Vance Kelly, Chico State Enterprises

Vance Kelly gave an overview of the University Foundation financial statement, comparing the fiscal year end 2022-2023 with the prior year end and noting that total assets increased \$8.6 million over the year. Looking at revenue and expenses for 2022-2023, Kelly noted that the \$1.4 million decrease in revenue from the prior year was due to unrealized losses that impacted the prior year's revenue while the market was experiencing extreme fluctuations. Kelly reminded the group that unrealized gains and losses are "paper only" and the fluctuations are due to stock market activity. The 2023-24 report showed activity only through August, and without the full first quarter data, the report is not as informative as it will be at the next meeting when Vance will have two full quarters of data to report on.

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New Business: Schoen

Schoen asked the group for any new business. There was none and Schoen adjourned the meeting at 11:56 a.m.

The next meeting will be held on Thursday, February 22, 2024.

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