

Finance & Investment Committee Minutes



CSU Foundation

Mar 2, 2023 at 1:30 PM PST

@ Zoom -

<https://calstate.zoom.us/j/83072410855?pwd=WVhaQnA5bk5xUW55VnM4QnVmR2Rrdz09>

Attendance

Present:

Members: Ronald Barhorst, Kristin Crellin, Ron Fong, Kimberley Goode, Michael Lizárraga, Lorene Miller, Scott Wells

Guests: Todd Au, Dennis Dwyer, Tony Parmisano

Staff: Wendy Garcia, Aaron Moore, Lori Redfearn

Absent:

Members: Keri Askew Bailey, Jolene Koester, Michael Lucki, Henry Perea, Ali Razi, Shari Slate, Gaddi Vasquez, Gillian Wright

I. Call to Order (Presenters: Ronald Barhorst)

The meeting was called to order at 1:30 p.m. The meeting was held via Zoom videoconference.

II. Public Comment (Presenters: Ronald Barhorst)

The floor will open for public comment.

There were no remarks from the public.

III. Approval of Minutes for December 1, 2022 (Consent) (Presenters: Ronald Barhorst)

Presentation of the minutes of the Finance & Investment Committee meeting held on December 1, 2022. Approval will be by **consent**.

RESOLVED, that the Finance & Investment Committee of the California State University Foundation approves the minutes of the December 1, 2022 meeting by consent.

 [2022.12.01 Finance & Investment Committee Minutes.pdf](#)

Motion:

RESOLVED, that the Finance & Investment Committee of the California State University Foundation approves the minutes of the December 1, 2022 meeting by consent.

Approved by consent

IV. Approval of the Financial Statements as of December 31, 2022 (Action) (Presenters: Aaron Moore)

Presentation of the year-to-date financial statements for the California State University Foundation for the quarter ending December 31, 2022. The statements included in the presentation are:

1. General Fund – Statement of Activity: Actual vs. Budget
2. Statement of Activity and Changes in Net Assets
3. Statement of Financial Position
4. Investment Report
5. Charitable Gift Annuity Program (State Street Global Advisors) – Statement of Changes in Net Assets
6. Private Equity Fund (Northern Trust) – Statement of Changes in Net Assets
7. Long Term Investment Portfolio (Morgan Stanley Smith Barney) – Statement of Changes in Net Assets
8. Detailed Fund Balance

RESOLVED, that the Finance & Investment Committee of the California State University Foundation approves the financial statements for the quarter ending December 31, 2022, as submitted.

 [2022.12.31 Quarterly Financial Statements.pdf](#)

Aaron Moore presented the year-to-date financial statements for the quarter ending December 31, 2022. Aaron noted two revenue items that are in progress including 1. Board contributions which he thanked those who had already given and 2. Endowment management fees which are assessed on June 30th each year. On the expense side, Aaron highlighted about \$95,000 in operations expenses which is normal for this time of year and also noted that any unused funds for project expenses will be transferred at the end of the year. The Board's continued support of the Trustees' Award Endowment incentive continues to bring benefit to that program as the Board has matched over \$68,000 this year. As a reminder, there is a placeholder if needed to have a 4% distribution from the reserves to support the operations. As of December 31st, there were investment gains of just under \$37,000 and the latest benchmark for unrestricted reserves sits just over \$5 million.

Aaron then reviewed the statement of activities. Contributions as of December 31st were just over \$1 million and investment income was back in the green at \$215,000. Aaron noted the "Other" category in support and revenue primarily relates to the university's enhancement funds which are funds that each campus auxiliary contributes for system-wide priorities. On the expense side, projects, grants, and other assistance sits at \$2.7 million and student scholarship distributions sits at about \$1.9 million. Aaron expects those distributions to be around \$2.5 million for the total year which is equivalent to the last few years. Other expenses and conferences total about \$150,000 total. Supporting services did not include anything major to report as it totaled just over \$100,000. Net assets as of December 31st stood at just over \$39 million. For the companion statement of financial position, current assets include \$1.3 million in cash and a very similar amount in current pledge receivables. Non-current assets include just

over \$36 million in investments and the charitable gift annuity program at \$7.7 million. Current liabilities totaled \$114,000.

Aaron then moved on to the investment report. Cash totaled \$1.3 million and investments with State Street for the charitable gift annuity program totaled \$7.7 million. Aaron noted that he has a message out to Northern Trust about the Private Equity Core Fund to try and get it closed. Investments held with Morgan Stanley total about \$36.5 million and total investments equal \$45.5 million. Aaron reviewed the fund balance detail and noted that funds were in good shape as of December 31st. He noted a few underwater endowments which were a result of timing and were not of particular concern.

Motion:

RESOLVED, that the Finance & Investment Committee of the California State University Foundation approves the financial statements for the quarter ending December 31, 2022, as submitted.

Approved

V. Approval of the Charitable Gift Annuity Investment Report as of December 31, 2022 (Action) (Presenters: Dennis Dwyer)

Presentation of investment update on the assets held in the State Street Global Advisors Grants and Annuity Trust for the benefit of the Charitable Gift Annuity Program.

RESOLVED, that the Finance & Investment Committee of the California State University Foundation approves the Charitable Gift Annuity Program Investment Report for the quarter ending December 31, 2022, as submitted.

 [2022.12.31 Quarterly CGA Investment Report.pdf](#)

State Street Global Advisors representative, Dennis Dwyer, reviewed the charitable gift annuity fund for the quarter ending December 31, 2022. Dennis highlighted the current market value as of December 31, 2022 of \$7.7 million. He noted that as of the night prior to the meeting, current market value was at \$7.8 million, a 1.5-2% increase. January was a very good month with equity markets and fixed income markets doing well. Dennis then reviewed the California gift annuity fund and noted a market bounce back for October and November, with a slight pullback for December because of the hawkish messaging from the Fed. Dennis stressed that the pool remains very healthy despite some deterioration in effective payouts and asset-to-liability ratios. Current market value of assets is slightly lower than the original gift value of all those assets, however the asset/liability ratio is very strong at 191%. Dennis then walked through the multistate fund and highlighted that it is a much smaller pool, however it is more aggressively invested and doesn't have the California investment rules weighing down

the allocation. Current market value is higher than the original market value and the assets to liability ratio was at 338%. Dennis reiterated that both pools are very healthy and have no concerns. Dennis then moved on to the underlying holdings and noted that commodities have been one of the few asset classes that actually posted a positive return in 2022. For the funds used within the California pool, the commodity fund one-year was ahead of the benchmark by 140 basis points and then the emerging markets local bond fund ahead by 90 basis points. Wrapping up, Dennis spoke about the outlook, with the first half of 2023 potentially looking like 2022 with volatility and uncertainty, with the second half less concerned with inflation and interest rates and more concerned with recessionary soft landings. He noted their economist is forecasting no recession for 2023 but possibly one in 2024. The second half of the year could potentially be a better environment to take risk in equities, high yield bonds, and credit bonds.

Motion:

RESOLVED, that the Finance & Investment Committee of the California State University Foundation approves the Charitable Gift Annuity Program Investment Report for the quarter ending December 31, 2022, as submitted.

Approved

VI. Foundation & Scholarships Investment Report

- A. Approval of Long-term Investment Report as of December 31, 2022 (Action)
(Presenters: Todd Au, Tony Parmisano)

Presentation of a summary of the investments of the California State University Foundation.

RESOLVED, that the Finance & Investment Committee of the California State University Foundation approves the long-term investment report for the quarter ending December 31, 2022, as submitted.

 [2022.12.31 Graystone Performance Monitor.pdf](#)

Todd Au from Graystone Consulting walked through the capital benchmarks and noted significant differences for the full year. Mr. Au noted that usually in a bear market the U.S. market outperforms international markets, however here international actually outperformed the U.S. market. Mr. Au highlighted a big difference between growth and value, partially due to the rapid increase in interest rates over the course of the year, and the negative impact that has on the discounting of future cash flows for growth companies. The other key component for value was commodities as energy did well and was up about 65% last year. Real assets were important to performance last year and were one of the only positive areas because of their linkages to inflation. Mr. Au stressed that

being diversified was very important to overall performance relative to stocks and bonds. In terms of outlook, Mr. Au anticipates the first half of the year to have a lot more volatility before settling in and beginning the new cycle higher. Mr. Au acknowledges the economy is slowing down and the big question is whether we end up in a recession or not. The firm's base case is that we don't actually touch a recession this year but we get close. It is also anticipated that we have very fast, short economic cycles moving forward as the Fed is doing everything in their power to combat inflation. The firm anticipates two more rate hikes ahead of us, one in March and one in May, and then a pause. Equity market returns continue to be challenged as markets continue to digest what will likely be an earnings recession. The firm is advising caution and to continue to be defensive in asset allocation. For the first time in a while, we are able to earn a decent rate of return on fixed income, so for investors holding fixed income and waiting for an opportunity to buy back into equities at better valuations makes sense. There were no questions from the committee.

Tony Parmisano from Graystone Consulting then walked through how the markets have affected the portfolio most recently. Asset allocation relative to long term targets and policy was neutral weight in every asset class. As it sits today, the firm trimmed 5% from public equities. In the short term, the firm believes that there is more volatility ahead for public equity markets and believe 5% for fixed income would be a high hurdle for equities to overcome. They therefore took this as an opportunity to make the portfolio more defensive as the first half of the year continues to unfold. Mr. Parmisano then reviewed the underlying managers within the portfolio. Most of the 5% trimming in equities came from the international developed managers. This was added to two new positions within fixed income. From a performance perspective, the fourth quarter wrapped up in strong fashion. The portfolio was in line to benchmark, slightly behind on year-to-date, and slightly ahead on fiscal year-to-date. Mr. Parmisano reiterated that it was a very tough environment for stock and bond investors, however, alternative investments did a good job last year at protecting capital as markets traded lower. He noted the full NACUBO study will be prepared for next quarter's meeting. Moving on to individual manager performance, he noted there was nothing to be addressed at this stage. Mr. Parmisano highlighted how the private equity portfolio has been outperforming the public equity portfolio. He reiterated that they have a strategy they are hoping to bring live within the next couple of months and should have as an agenda item for the next meeting.

Motion:

RESOLVED, that the Finance & Investment Committee of the California State University Foundation approves the long-term investment report for the quarter ending December 31, 2022, as submitted.

Approved

B. Discuss Potential New Private Equity Fund Commitment (Information)

Graystone will share background information on a new private equity investment. Since the Board has delegated Outsourced Chief Investment Office (OCIO) authority to Graystone, no action is required. However, the Finance & Investment Committee is briefed on any new long-term illiquid investments.

Mr. Au noted that this item will be pushed to a future meeting as the launch has been postponed to Q2. Ron Barhorst posed the question of where you would look to get the assets to put into the core fund. Mr. Au discussed the goal of keeping the risk characteristics neutral when funding a private equity program. Mr. Parmisano reiterated that this would be the same case for any of the private equity investments that are calling capital.

C. Cryptocurrency Gift Acceptance Policy (Information)

Graystone will share best practices on how organizations are creating cryptocurrency gift acceptance policies.

Mr. Parmisano led the discussion on different mechanisms for accepting cryptocurrency donations. Most major banks and brokerage firms, including Morgan Stanley, do not have mechanisms to actually receive cryptocurrency, liquidate it, and convert it back into U.S. dollars. There are, however, firms that do provide this service. While Morgan Stanley does not have a formal partnership with firms, they have narrowed down a couple firms that they believe are good. Mr. Parmisano then walked through the services the two firms offer, including providing a website widget that allows donors to donate cryptocurrency, establishing a wallet for you on the Gemini exchange, immediately liquidating that cryptocurrency, converting it to U.S. dollars, and then sweeping it to your outside account. He stressed that the costs associated with this are very low to establish at around \$2,000 to \$3,000 per year. Firms charge roughly 3% on the actual transaction itself, so a \$100,000 gift would cost \$3,000 just for the transaction. The process itself takes about 2 weeks to a month to establish. Todd Au highlighted that usually the gift acceptance policy is that you would liquidate upon receipt of an asset, so if you do not have this mechanism in place to accept the gift, you can't actually liquidate it upon receipt. He also noted the younger

generation of potential donors interested by cryptocurrency. This is a way to have outreach to a donor base that you may not be touching at the moment for a relatively low cost. Lori Redfearn commented that she gets one to two inquiries a year about accepting cryptocurrency. The largest gift of cryptocurrency a campus has received is San Francisco State which received a \$25 million gift donated by the founder of Ripple. She also commented on the unusual transfer of funds and how it was sold off in tranches and in total took about a year to complete the liquidation. Ms. Redfearn highlighted the low volume in transactions and noted that the CSU Foundation could be of services to campuses similar to the way we are of service to them in the systemwide charitable gift annuity program. She also noted that it is a new asset class and something that should be considered in our investment policy. Mr. Au discussed how considering the volatility, the firm is not comfortable at this point making recommendations from an investment perspective. However, they do see the need to address it in gift acceptance policies which is separate from the investment policy itself. Lori noted that we will do more research with our counterparts at the campuses to see if they would see this as a valuable service.

VII. Old Business (Presenters: Ronald Barhorst)

The floor will open for old business.

A. Update on Charitable Gift Annuity Contract (Information) (Presenters: Aaron Moore)

Aaron Moore will provide an update on the status of awarding the contract for the Systemwide Charitable Gift Annuity Program administration and investment management.

Aaron Moore provided an update on the status of awarding the contract for the Systemwide Charitable Gift Annuity Program administration and investment management. The goal is to have BNY Mellon to begin service July 1 of this year. Two of the major criteria as part of the contracting process have been met, including the IT security review and the accessibility evaluation of the product, which has been waived. We are now in the final stages of the red line contract. Aaron noted that both he and Wendy Garcia hope to soon begin the transition of the program data over between State Street and BNY Mellon.

VIII. New Business (Presenters: Ronald Barhorst)

The floor will open for new business.

There was no new business to discuss.

IX. Adjournment (Presenters: Ronald Barhorst)

There being no further business to discuss, the meeting adjourned at 2:27 p.m.