

CSU Foundation - Finance & Investment



Committee Minutes

CSU Foundation

6/12/2024 10:00 AMPDT

@ Harper Alumni Center, California State University, Sacramento (6000 J Street, Sacramento, CA 95819)

Attendance

Present:

Members: Ronald Barhorst (remote), Kristin Crellin, Michael Lucki (remote), Steven Stuck, Gillian Wright (remote)

Guests: Todd Au, Christopher Carter (remote), Tony Parmisano

Staff: Wendy Garcia, Aaron Moore, Greg Saks, Donnie Tippie, Melissa Watkins

Absent:

Members: Michael Lizárraga

- I. Call to Order (Presenters: Mike Lucki, Treasurer)

The meeting was called to order at 10:16 a.m. The meeting was held in-person at Sacramento State University and via Zoom videoconference.

- II. Public Comment (Presenters: Mike Lucki, Treasurer)

There were no remarks from the public.

- III. Approval of Minutes (Consent) (Presenters: Mike Lucki, Treasurer)

 [Minutes.pdf](#)

Mike Lucki asked for any corrections to the minutes. There were none.

Motion:

RESOLVED, that the Finance & Investment Committee of the California State University Foundation approves the minutes of the March 14, 2024 meeting by consent.

Approved by consent.

- IV. Approval of the Financial Statements as of March 31, 2024 (Action) (Presenters: Aaron Moore, CFO)

 [2024.03.31 Quarterly Financial Statements.pdf](#)

Aaron Moore presented the financial statements for March 31, 2024. He provided an overview of the operating budget, noting the final year of receiving a management fee from a grant and the positive status of board contributions and endowment management fees. Operating expenses were on target with \$73,000 remaining. Project expenses will be adjusted by June 30, with a year-to-date investment gain of \$500,000 and unrestricted reserves at \$5.1 million. The statement of financial position showed \$1.8 million in cash, \$2.7 million in current assets, and just under \$52 million in non-current assets, totaling \$54.4 million in assets. Liabilities were minimal, primarily local agency liabilities. Through Q3, charitable contributions were \$1.3 million, investment income \$3.7 million, and total revenue just under \$5 million. Program service expenses were \$4 million, with operational costs bringing total expenses to \$4.11 million and net assets at \$45.1 million. Investment details included assets with BNY Mellon, Northern Trust, and Graystone. A minor fund balance issue was corrected. No additional questions were raised, and the next meeting will provide updated fiscal year-end reports.

Motion:

RESOLVED, that the Finance & Investment Committee of the California State University Foundation approves the financial statements for the quarter ending March 31, 2024.

Motion moved by Kristin Crellin and motion seconded by Steven Stuck. Approved

V. Systemwide Charitable Gift Annuity (CGA) Program

A. CGA Quarterly Investment Reports (Action) (Presenters: Christopher Carter)

 [Q1 2024 Performance.pdf](#)

Christopher Carter from BNY Mellon presented the asset allocation for the California Charitable Gift Annuity (CGA) Reserve account for the first calendar quarter, highlighting a balanced allocation of approximately 50% equities, 49% fixed income, and 1% real assets, all within investment policy guidelines. The reserve stood at \$3.7 million as of March 31. The surplus account, invested more aggressively, targeted 70% equities and 29% fixed income. The multi-state CGA followed a similar allocation, maintaining a healthy surplus. Performance for Q3 showed strong returns, with the reserve account at 4.56%, the surplus account at 6.12%, and the multi-state CGA at 5.85%, driven by an overweight in US large cap equities. Fixed income strategies were adjusted to increase yield, with a focus on high yield and emerging market debt. The presentation concluded with an

optimistic outlook for the economy, despite some risks like sticky inflation and high government debt servicing, projecting low recession odds for 2024-2025.

Motion:

RESOLVED, that the Finance & Investment Committee of the California State University Foundation approve the charitable gift annuity investment reports as of March 31, 2024.

Motion moved by Steven Stuck and motion seconded by Kristin Crellin .

Approved

VI. Foundation & Scholarships Investment Reports (Presenters: Todd Au, Tony Parmisano, Graystone Consulting)

A. Quarterly Investment Report (Action)

 [Performance Monitor.pdf](#)

Todd Au provided a high-level overview of the portfolio, emphasizing its perpetual time horizon designed to support the spending policy. He noted that slight deviations from policy targets exist, with a 7% underweight in public equities and an overweight in private equity, attributed to stalled distributions in private equity markets over the past two years. As these markets begin to recover, expected cash distributions should realign the portfolio. Changes during the quarter included the introduction of a new private equity manager and an increase in US large cap equities funded by reducing international positions. The portfolio remains consistent with minor changes, such as a pending full redemption from Private Advisors. Despite lagged private equity valuations affecting short-term performance metrics, the portfolio performed well, with notable gains in public equities, fixed income, hedge funds, and real assets. Long-term performance remains strong across 5, 7, and 10-year periods, indicating a healthy portfolio overall.

Motion:

RESOLVED, that the Finance & Investment Committee of the California State University Foundation approves the quarterly investment report as of March 31, 2024.

Motion moved by Michael Lucki and motion seconded by Kristin Crellin .

Approved

B. Capital Market Assumptions Annual Update (Information)

 [Global Investment Committee Capital Market Assumptions.pdf](#)

Tony Parmisano from Graystone Consulting began with a discussion on the capital markets. He highlighted an allocation study and a group analysis with NACUBO. Parmisano noted the strong performance of capital market indexes through March 31st, driven by a few major tech companies. He discussed market concentration, growth stocks, and the implications of stretched valuations. The fixed income environment saw modest interest rate increases, and oil prices rose significantly in the first quarter. He expressed a cautious economic outlook, with a potential recession probability around 20%, largely due to persistent inflation. Parmisano projected a gradual decline in inflation and anticipated interest rate cuts by the Fed in 2024 and 2025. He also mentioned the potential market impact of the upcoming election, expecting Republican control based on current data, with varying sector performance depending on the election outcome. Finally, he indicated challenges for earnings surprises in 2024 and cautioned about market expectations over the next 12 months.

C. Asset Allocation Study (Information)

 [Asset Allocation Study vs. NACUBO Peer Group.pdf](#)

Tony Parmisano provided an overview of the annual asset allocation study, explaining that Graystone Consulting creates capital market assumptions annually, which are used to evaluate the long-term strategy and ensure alignment with objectives. The study uses a blend of secular (20+ years) and strategic (7 years) horizons to predict portfolio outcomes. This year, expectations are for modestly higher returns due to higher starting interest rates and advancements in A.I. and infrastructure. The study revealed that the portfolio has a heavier weight in alternative investments compared to its NACUBO peer group, resulting in higher expected returns. However, the difference in returns between stocks and bonds is narrower. The study showed a 73% probability of meeting the target return over the long term. Parmisano suggested that, if endowment management fees increase, the asset allocation might need adjustment to target higher returns. He concluded by inviting questions and noting that increasing returns would require taking on more risk, particularly by investing more in private markets.

D. NACUBO Peer Group Analysis (Information)

 [NACUBO Comparison Study.pdf](#)

Todd Au reviewed the performance of the portfolio relative to the NACUBO peer group, emphasizing that while the NACUBO data provides insights, its varied nature requires interpretation with caution due to differences in reporting. The portfolio, categorized in the under \$50 million group, slightly underperformed this year by 20 basis points but has consistently outperformed over longer periods, driven largely by strong private equity performance. Looking ahead, Todd suggested adjusting the fixed income allocation downwards to potentially increase the expected rate of return, aligning with larger institutions' strategies. Discussions on spending policy, new endowment gifts, socially responsible investing, and discretionary management all showed alignment with peer group trends. The committee will continue these discussions in future meetings.

VII. Old Business (Presenters: Mike Lucki, Treasurer)

A. Endowment Impact Benchmark Report

 [Endowment Impact Benchmark report.pdf](#)

 [2023 Pilot Results.pdf](#)

Aaron Moore provided an update on the CSU Foundation's involvement with the Intentional Endowments Network (IEN). He highlighted that CSU now offers system-wide membership to all campuses and philanthropic auxiliaries through a partnership with IEN, facilitated by foundation sponsorship. Last year, they participated in the Higher Education Climate Leadership Summit in Long Beach, where Chancellor García delivered a keynote. The foundation also engaged in IEN's Endowment Impact Benchmark pilot project, partnering with BlueMark as a verifier. Feedback provided by Todd and Tony from Graystone Consulting helped refine the data collection tools. CSU Foundation achieved a silver level in the pilot, focusing on strategy, management, governance, and transparency pillars. Aaron noted opportunities for improvement in narrative reporting and further defining roles in the investment policy statement. The foundation's transparency efforts, including quarterly performance reports and policy accessibility, were acknowledged as industry-leading practices.

VIII. New Business (Presenters: Mike Lucki, Treasurer)

A. Amendment to Endowment Spending Policy (Action) (Presenters: Aaron Moore)

 [Spending Policy Draft Changes.pdf](#)

 [Endowment Management Fee Overview.pptx](#)

 [Endowment Management Fees Comparison Chart.xlsx](#)

Aaron Moore presented a proposal to adjust the CSU Foundation's endowment management fee from its current 0.5% to 1.25%, aligning more closely with CSU benchmarks and generating an additional \$240,000 annually. This adjustment aims to better support operational needs, particularly in scholarship management and alumni engagement, areas that have seen increased demand and operational challenges. Aaron emphasized that this change would bring the foundation's fee structure in line with peer institutions within the CSU system and enhance financial sustainability moving forward. The committee discussed the implications for donors and affirmed that the adjustment is permissible under existing fund agreements. They recommended forwarding the proposal to the full board for approval, effective July 1st.

Motion:

RESOLVED, that the Finance & Investment Committee recommends to the Board of Governors the amended Spending Policy modifying the endowment management fee from 50 basis points to 125 basis points, effective July 1, 2024.

Motion moved by Michael Lucki and motion seconded by Kristin Crellin .

Approved

- B. 2024-25 Foundation Operating Budget (Action) (Presenters: Aaron Moore, CFO)

 [2024-25 Budget.pdf](#)

Aaron Moore presented the proposed operating budget for the upcoming fiscal year, starting July 1st. The budget reflects adjustments based on recent decisions, including projections for key income sources. A grant-specific management fee is anticipated to phase out completely, while board contributions are projected at \$140,000. The endowment management fee, estimated at \$360,000, may vary based on June 30th balances. Total operating revenues are expected to exceed \$500,000. Significant investments are planned in operational areas such as staffing and technology, alongside increased support for programs like Chancellor's Office employee recognition and community outreach, including a \$50,000 sponsorship for international education initiatives tied to strategic enrollment objectives of the university. The budget also earmarks \$100,000 for the Trustees' Award endowment incentive and proposes a 4% distribution from unrestricted reserves, totaling \$206,000, to bolster operational support.

Motion:

RESOLVED, that the Finance and Investment Committee of the California State University Foundation recommends to the Board of Governors the approval of the 2024-2025 California State University Foundation budget and working capital reserve. This includes any revisions to the 2023-24 budget.

Motion moved by Michael Lucki and motion seconded by Aaron Moore.
Approved

IX. Adjournment (Presenters: Mike Lucki, Treasurer)

There being no further business, the meeting adjourned at 12:25 p.m.