Finance Committee Meeting Agenda
Tuesday, October 22
11:00 a.m. to 12:30 p.m.
Administration Building, ADM 361 A
1600 Holloway Avenue, San Francisco, California

I. Call to Order by the Chair, Kal Salama

The University Corporation, San Francisco State (UCorp) Finance Committee was called to order by the Chair Kal Salama at San Francisco State University, Administration Building, Room ADM 354, at 11:07 a.m. with the following members present:

Finance Committee Members Present
Kal Salama, Committee Chair
Bonnie Li Victorino
Brian Yoo
Gene Chelberg
Jay (11:12am)

Finance Committee Members Absent
Neil Cohen
Jason Porth
Yvonne Bui
Yasmin Aly

Others Present
Felix Lin Beacon Pointe
Derek Newcomer – phone
Gabriel Kenan - phone
Mary Bagazinski, Board Clerk
Tammie Ridgell, AVP of Finance and Administration

II. Review and Approval of Minutes: August 27, 2019

Minutes are pending review.

III. Report from Beacon Pointe, Felix Lin, President, Institutional Consulting Services

Felix Lin gave the following report:
- Derek will go over their recommendation for alternatives, reviewing the liquidity and other characteristics.
  - Being FFF is driving our decisions
Kimpact – Kairos – are drawing capital. After they draw this amount, they will be at about 85% capital called. We have been pulling those assets from FPA. Once they get to 100%, there will be a decision to make on where to put the remaining capital.

Q (K) – does this reflect the 85%? It was a million dollars that was left after we committed to Redwood VI. The one we’re reviewing now is for that part? Yes.

- Derek

Private Investment Matrix Review

We have Kimpact and Redwood. In order to avoid FF, we have to stick to private investment. We have real estate.

Q – Why the big discrepancy on the fee side? Kimpact’s fees are so low.

When there are opportunities, they call capital. You want to diversify that out. Kimpact is different; it’s an Evergreen fund. If you commit capital, it will go there all at once. Then the question becomes are we missing anything?

Q – Do you compare them with a benchmark? If you’re dollar cost averaging, you can be over allocated or under allocated depending on your traditional markets’ rise. The normal rule of thumb is 1.3 or 1.5 the amount you’re allocating when you’re committing capital – to ensure that you will hit your target.

Partners have a private equity masters fund. We cost average in over a period of time. We would do that over multiple years so we get to that targeted level. Private markets get more liquid. The Partners Group – where we could get the 100% private equity fund. It’s suitable and better on the tax side. Expenses 1.5% for management, 2.3% total annual.

  - For context – 1.5% partners, 0.8% for funds.
  - Much less than if you’re going direct fund to fund.
  - Your fee going direct would be around 500 basis points.
  - It’s an efficient way, in a liquid structure – 5% quarterly available in a tender offer. You’re able to get liquidity.
  - It’s a diversified portfolio across vintage years. When we do that cost averaging - you get a lot of different exposures to industries. We’ve been pleased with performance. Since its inception, it has produced an 11% annualized rate of return.
  - In 2018 when the markets were off, there was a 7.4% return. When market is volatile, the return stream is steady. This is a good idea for future.

American Liquidity fund

  - No queue – 100% capital will be drawn. Unlike real estate value fund, it has more quality in its core. The fund is in 5 billion of assets – more high quality type assets.
  - Property diversification is office and multifamily, renegotiating lease terms right now to be lower. They’re preparing for volatility – less office, more industrial.
  - It’s generating 6% dividend yield. Stability and asset quality and in regional markets and is tenant based, providing diversification by industry vis-à-vis what you have. Located more within real estate market.
  - American Core has master leases, and they’re increasing the credit quality of their tenants. Focused on major markets where you’re getting large headquartered type. It’s more the larger companies that are needing that space.

Main Highlights of each

  - Q (T) – Do they have audited financial statements? D – Yes, we have access to management, communication happens on a quarterly basis. We have insight on their positioning. Most have audited financials. ESG is included in their
philosophy when they invest. Especially with environment. They have their internal scoring. There is a substantial return on that, for example, Kimpact – people are really starting to see the benefit of abiding by ESG.

- **American Core Reality Fund** – recommended by Beacon Pointe
  - **We are recommending the American Core reality fund**
  - **Strategy, performance, allocations? Fund Performance since its inception has had 10% return over ten years. The return is not in double digits, but its core is Return – 6-7% annualized returns.**
  - Bell-weather type strategy – built around assets in SF, LA, East Coast – Boston, Orlando, markets within MSA. $5.7 billion gross assets.
  - Pg. 12 – Fund Snapshot
  - Cash flow and dividend yield: A lot of our clients have used it as a fixed income proxy – with yields so low.
  - Pg. 15 – Their recent activity re: investments – they are very active in repositioning the portfolio. They don’t just sit on it and hold it. Depending on flows, they will buy or sell properties.
  - Pg. 16 – Targeted position and what the impact will be.
    - Derek – What sets this apart is its performance during 2008 time period. At that time people were stretching more. They will actively sell assets, benefit from that, and then reposition those funds into more attractive opportunities.
  - Pg. 30 – Performance
    - Fixed income bond-like, with “coupon” payments. They break it out into the income and then the appreciation is given the appreciation of the property, etc. It’s a class A property, and giving yield off that.
  - Pg. 32 – Their insight as to where they think there’s value. It’s a good sign that they’re active managers.
  - Q - Can you talk about the current diversification of the portfolio – for the current ones we have?
    - Majority are owned by Redwood – mostly are multi-family real estate
    - Kimpact is low income and residential. Multi-family in Utah, Texas, Oklahoma
    - Multifamily space with different geographical locations
    - Contrast that with American Core – you would get some office, some industrial, some multi-fam, but not the majority will be muti-family.
  - If this portfolio were 75% multi-family – housing affordability is still difficult. Rents are still trending up. However, we don’t want to be too concentrated.
  - Pg. 34 – breakdown of tenants and businesses that are in the real estate
  - It is private real estate. For example if 2008 hits – how did American Reality fare?
    - They have the ability to gate the funds. That would be a frustration for some, but it’s a benefit for investors. In periods of market stress. They will close the funds for redemption. It’s a “guardrail” set-up. Any rush for liquid assets, they can put up a gate. There were a couple quarters that they didn’t allow redemptions. You couldn’t get your full investment out.
  - Partner’s Group (pg. 56) - good makeup of institutional quality investment portfolios. They use them across separately managed accounts.
    - Integrated approach. Started with secondaries. There are more companies staying private longer. It’s becoming a broad area of
investments. They will invest in the secondary market. The majority of investments will be held in the direct program with an opportunistic approach.

- Pg. 67, pg.18 – Implementing relative value since inception. Direct exposure to companies. Migrated to be more of a primary fund investment vehicle. Due diligence – with direct company exposure.
- Pg. 68, pg. 19 – Diversified pool of assets within this fund structure. Were really positive on this.
- Q – What’s the cross product there between the directs North American and Europe? Both. Is there any bias? Bias towards US. Light on Europe now.
- Pg. 20 – Performance of strategy compared against MSCI World. From a returns perspective, that’s what we like – a different return pattern. Based on the return and risk what the amount of their ratio has been. Gives you an idea – good for an institution looking to get exposure in private equities.
- Derek – the firm themselves have a lot of fire power of C - level knowledge. They can create value within these companies, to increase revenue, etc. to do things necessary to take companies from 1 billion to 5, for example. This is where you have true, active participation in the underlying investments.

o Recommendation –
  - Tranche would go towards Private equity. It’s diverse in different ways.
  - Pg. 33 – On Watch-Due to Cash Flow at 0 – they’re using the cash flow to revitalize the property itself. Instead of taking out capital, they’re using cash flow to offset costs of bringing the asset up to a level they’re thinking is appropriate.
  - Q – How transparent is that process? Do you know what they’re remodeling, etc? Yes, we go through that on an annual basis. Do you get exposure to that? Yes. We do provide the oversight. When it’s audited, we go through and go into more detail.
  - Kal – when we see the zero % cash flow – its distributed cash flow? That is correct. But 90% leased. As the asset matures, the cash flow will start to jump up.
  - J – Do they use pro-formas to do that? They have a plan? Yes. They’re in touch with them on a monthly basis.

- Questions? No, thank you, Derek!
- Felix Report
  - Pg. 4 Update – where we’re at in our current allocation
  - Performance – our portfolio, minus differences in ESG
  - Top line is most important line – returns as of Sept. 30
  - Total Composite
    - Barclays aggregate – are long notes, we don’t have that duration
    - Alternatives – we’re trying to draw from that and allocate towards KimPact, Redwood, in addition to another one.
  - How would the portfolio have handled 2008?
    - Analysis that shows the max drawdown. If we went through a 2008-similar period, portfolio would go down 23%.
40% of our portfolio in bonds. Ours would be down 23%. It took us the same amount of months – 5-6 months for drawdown.

We know it could get this bad, but won’t be the same as last time.

This is a way for committee and clients to budget. We don’t expect this worst case, but if our portfolio was down this way, what’s our Plan B?

It’s another way to think about our middle risk. We’re protected because we have a diversified portfolio – especially bonds.

Another reason, if you’ve got that holding on the real estate. Low income housing should be able to buffer that a little bit better.

- Don’t need a decision re: American Reality, we can also have someone join the meeting next time.

IV. Report from the AVP of Finance and Administration, Tammie Ridgell

- September close
  o Schedule of Net Assets
    ▪ Statements of net assets, on our report, during the year UCorp reports investments all in short term. As part of the year-end process we show the split between long term and short term. This is done due to time at month end to age fixed income.
    ▪ Pledges, acct receivables, inventories
      • Inventory negative number – processing the reduction of inventory through sales. There’s increases in revenue that haven’t hit the books yet.
      • We have our non-current amount in Holloway and there is also a noncurrent payment representing the total amount that will go back to campus
    ▪ Contributions – separating them out
      • New ones coming through, in addition to investment income.
  o FSR
    ▪ Food vendors and other business revenue – this is primarily composed of contracts with our food vendors on campus and are more stable as we project revenue for the year. We currently show a 20% increase due to revenue coming from campus
      • Welcome Days - Business Services can look inflated during the year with the revenue collected which is offset with expenses going out to the vendors. This activity is currently unbudgeted however since it has been an activity for the last few years that management would budget in the future to assist with consistent presentation.
    ▪ Follet
      • Running even – 160k for the first three months. Barring anything that changed for the spring semester.
      • Q (J) – What percentage of their revenue do we have? We only get revenue on books, digital sales, possibly from computer sales. There are certain things that are included according to contract.
      • How long is their contract? We’re in the option period.
      • Royalties gets split between advancement.
- That's why we don’t get a portion of sales, we get a portion of royalties.
- It's usually front loaded by semester.
- We'll have a better idea by October, if we’re really ahead. Right now looking at 3% total, if everything stays constant for spring semester. The min is 790k.
- Last year we were working with them to put a hard floor in regarding revenue.
  - Shops
    - Lobby Shop, Healthy U
      - Strong revenue first quarter – lobby shop up 12%
      - HU – up 13%
      - Timing is everything with the shops
    - Ctrl+P
      - Performing well. Possibly timing. Oct will tell. Is this real or just timing?
  - Open24
    - Running smoothly. We’re starting to reach some of the highs. Have had some 5k/weeks. We’re looking good, but behind budget a bit.
    - Q (J) – Does the University invoice for the utilities for that? We receive utilities for all of our sites, I would have to look for that. We don’t get an invoice regularly; it’s not consistent.
  - Overall, our gross profit is down about 1%, up 6% from last year.
  - Benefits are up a little.
  - Repairs are down a little.
  - Credit card fees continue to be up. When you do Apple pay, fees go up. Credit card fees 2.9% – almost 3%. We can’t use debit card. We didn’t know that when we switched providers. You don’t get the option so we lose the savings there.
  - FSR
    - Overall salaries and benefits
      - In alignment with what we’re expecting. This is related to the shops.
      - Re: Campus admin side – there will be some changes.
    - Auditing fees
      - We have the bulk of that since we do most of the audit.
      - When we issued the RFP, Grant Thornton provided us a quote for 5 years.
      - When they did an additional work on Holloway and time overages they charged additional amounts to what was quoted in year 4.

V. Schedule of Meetings

Finance Committee Meetings
Meetings held at least quarterly

Tuesday, October 22, 2019 11:00 a.m. to 12:30 p.m. 3rd Floor, ADM 361 A
<table>
<thead>
<tr>
<th>Date</th>
<th>Time</th>
<th>Location</th>
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<tbody>
<tr>
<td>Tuesday, November 19, 2019</td>
<td>11:00 a.m. to 12:30 p.m.</td>
<td>3rd Floor, ADM 361 A</td>
</tr>
<tr>
<td>Tuesday, December 17, 2019</td>
<td>11:00 a.m. to 12:30 p.m.</td>
<td>3rd Floor, ADM 361 A</td>
</tr>
<tr>
<td>Tuesday, January 28, 2020</td>
<td>11:00 a.m. to 12:30 p.m.</td>
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<tr>
<td>Tuesday, February 25, 2020</td>
<td>11:00 a.m. to 12:30 p.m.</td>
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<td>Tuesday, March 24, 2020</td>
<td>11:00 a.m. to 12:30 p.m.</td>
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<td>Tuesday, April 28, 2020</td>
<td>11:00 a.m. to 12:30 p.m.</td>
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<tr>
<td>Tuesday, May 26, 2020</td>
<td>11:00 a.m. to 12:30 p.m.</td>
<td>3rd Floor, ADM 361 A</td>
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<tr>
<td>Tuesday, June 16, 2020</td>
<td>11:00 a.m. to 12:30 p.m.</td>
<td>3rd Floor, ADM 361 A</td>
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**Board of Directors**
Meetings held at least bi-annually

<table>
<thead>
<tr>
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<tbody>
<tr>
<td>Monday, October 14, 2019</td>
<td>3:00 p.m. to 4:30 p.m.</td>
<td>ADM 460</td>
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<tr>
<td>Monday, December 2, 2019</td>
<td>3:00 p.m. to 4:30 p.m.</td>
<td>ADM 460</td>
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<tr>
<td>Monday, February 17, 2020</td>
<td>3:00 p.m. to 4:30 p.m.</td>
<td>ADM 460</td>
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<tr>
<td>Monday, April 6, 2020</td>
<td>3:00 p.m. to 4:30 p.m.</td>
<td>ADM 460</td>
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<tr>
<td>Monday, May 4, 2020</td>
<td>3:00 p.m. to 4:30 p.m.</td>
<td>ADM 460</td>
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<tr>
<td>Monday, June 22, 2020</td>
<td>3:00 p.m. to 4:30 p.m.</td>
<td>ADM 460</td>
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VI. Call for Adjournment

The committee will have a follow up discussion at the November meeting regarding BP’s recommendation.

Meeting adjourned at 12:52 p.m.

Respectfully Submitted,

Kal Salama
Chair, Finance Committee