



Finance Committee Meeting Minutes

Tuesday, July 30, 2019

11:00 a.m. to 12:30 p.m.

Administration Building, ADM 354

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 11:07am, with the following members present:

Kal Salama, Committee Chair
Jason Porth
Jay Orendorff
Eugene (Gene) Chelberg (phone)

Finance Committee Members Absent

Bonnie Li Victorino
Neil Cohen

Others Present

Yvonne Bui, UCorp Board Member
Mary Bagazinski, Board Clerk
Felix Lin, Beacon Pointe
Tammie Ridgell, AVP of Finance and Administration
Mark Rewey, Principal, Director of Marketing & Business Development
Mike Diehl, Portfolio Manager, Fixed Income

II. Review and Approval of Minutes from June 18, 2019 – Jay moved, Jason seconded, approved.

- Felix introduced Mark and Mike, from Segall-Bryant to the committee then here and introduce them to the committee. He has been looking forward to the opportunity to bring them. Mark will give an intro, and Mike will provide a more in-depth explanation of strategy, how portfolio is positioned, and thoughts on current market.

III. Introduction to Segall Bryant & Hamill, Mark Rewey, Director of Marketing & Business Development, SBH

- Mark thanked the committee for having the confidence in Segall-Bryant to manage this portfolio. Introduced PM Mike Diehl who works on the portfolio and strategy. Mark will cover the firm, Mike will go into detail about the portfolio.

-SBH At-A-Glance (pg. 2 of presentation)

- Strength of organization
- Firm is diversified, in client strategies
 - o Niche – small cap international
 - o Average experience is 27 years of investment professionals
- Majority employee owned firm
 - o 53% is employee equity owned – this directs/reflects the amount of risk you're going to take
 - o Diversified mix of investment strategies and clientele.
- Fixed income team – pg. 3
- Questions re: organization



- 10 years ago, what were your assets under management?
 - Through the credit crisis we dipped, but fixed income was good
 - We grew substantially after that
- What other organizations constitute your firm?
 - Our team left Stein Roe in 94
 - Mike Daugherty was with us 19 yrs.
 - Tono Bravo came in
 - Fixed Income team has been organically grown until recently – we acquired Denver investments.
 - Did acquire international team in Philadelphia 5 yrs ago/International small cap
- Mike Diehl
 - Thank you for being our client. It's always a pleasure to do these client review meetings.
 - Will go over investment philosophy, account performance, portfolio characteristics, and highlights
 - Philosophy
 - Reflects in performance and portfolio characteristics, take advantage of inefficiencies, within corporate securities
 - Experienced analyst team, bottom up fundamental research
 - Emphasize downside protection
 - Stable portfolio values
 - Corporate bond market focus
 - Portfolio profile (pg.5)
 - Almost 50% of portfolio comes due within 3 years, front-end loaded cash flow provides for flexibility for client
 - Distribution by sector – underweight Treasuries.
 - We are in compliance with your investment guidelines. If that changes, we can amend easily; it's easy for us to accommodate that.
 - Corporate sector detail (pg. 6)
 - Comparison: yes, we're overweight corporate securities- over the benchmark. We have a shorter duration.
 - Duration = bond price sensitivity to interest rate change
 - Top ten holdings – very diversified among industrial and consumer space
 - Our holdings – opportunistic coming to debt market. Don't rely on having a lot of debt outstanding.
 - Companies are not large debt issuers
 - Increase quality and diversification by focusing on smaller debt issuers. Focus on quality during distressed times.
 - Distinguish ourselves from the Index – distinct advantages of not looking like everyone else. Gives transparency and liquidity
 - Kal's question –
 - Bottom up focus
 - Determining industry mix
 - We tend to focus on industrial space – more transparency there – slight bias towards that.
 - Treasury yield curve (pg. 30)
 - Downward move in interest rates – led to huge return across all markets.
 - Broad Market up 10%
 - Index market capitalization (pg. 33)
 - Hard to buy negatively yielding debt
 - Driving price and returns in 2019
 - Global central bank assets (pg. 36)
 - Provide continual back stop for the market – driving interest rates and returns for this year
 - Think economy is generally okay. GDP is growing. Numbers have been fairly solid.



- Question (re. on pg. 33) - What is negative yielding debt? If you bought this, you pay them to borrow from you.
 - Government rates based on maturity.
 - 13 trillion dollars in negative debt – investors care about the return on your money. They want security of high quality debt. Is this a sign of a looming problem?
 - It's a market that people have been waiting for a 'black swan' moment to happen. Try not to make huge duration bet.
 - Volatile flow events dictate swings
 - Overall economy has been okay – better than European countries. Something will have to change.
 - Compared to the rest of world, we're in a good spot. Economy is in good shape currently. We're in a good position for the long term.
- Re: pg. 38 – Four Factors that affect Interest Rates
 - Government debt – putting pressure on upward interest rates
 - 10 year government rates – attractive vs government peers
- Near term outlook – end of year
 - Biggest potential influence for markets, pg. 40 – potential volatility
 - Taxable bond weekly cumulative fund flows
 - During 4th quarter 2018 – dip
 - Volatility – fund flow driven

After the SBH presentation, the Finance Committee did round table introductions.

- The Finance Committee is set up in the UCorp bylaws. We cover investments and financials.
- Beacon Pointe manages our investment portfolio. SBH manages a part of fixed income portfolio.

- IV. Report from Beacon Pointe, Felix Lin, President, Institutional Consulting Services
- Quarter end and monthly report
 - Full report – once a year update to how our portfolio looks in comparison of others. We're a little different, we compare with endowments, foundations, for education
 - Pg. 6 – Allocation to equities or fixed income relative to other universities, etc.
 - Our exposure to equity is bottom line – 48.9% equity. Our average is about 50% total equity.
 - Re: bonds – around 40%
 - 10% of alternatives
 - We are going to be less aggressive and more liquid than most
 - Question: Felix we can get a graph for alternatives?
 - Pg. 7 – Net of fee return rank
 - The lower the number the better
 - The greater the risk, the higher the return
 - Pg. 9 – Green = composite numbers – if we had been invested with those strategies
 - Black numbers are actual earned numbers for our portfolio
 - This portfolio has transferred to different managers, due to different guidelines
 - ESG – environmentally, social, governance
 - SB – they run conservative, we include them to dampen risk.
 - Diversification with managers and different styles is a good thing, one of our strategies,
 - Aperio is separately managed. We have given them the mandate to exclude all FF in portfolios and try to mimic the S&P.
 - Q – Is FFF university proscribed?
 - Began as a movement with Foundation University board – led by students to divest in FFF. They made a decision to do this 3+ yrs. ago. Gene brought up question as to whether or not UCorp should follow suit.
 - Change in returns?



- ESG and FFF have always had strong correlation. We've always run a part of the portfolio – very small. We didn't lose that much.
- Funds follow their own guidelines. Example Aperio they follow our guidelines, we explain what we would like.
- Only one that has ability to encroach FF – alternatives (FPA) they provide diversification. They can invest in whatever they want. We've moved out of certain ones to comply with FFF, etc.Crescent – will be used to funnel capital calls for real estate investments (Kimpact – social impact real estate fund and redwood – new fund invested at end of year- they called capital already – those funds invest in the first 3 years, clean it up, make it better, sell during year 8, or 9)
- Impact investing – low income housing.
- Focus of cash flow, once investments become stabilized.
- There are benchmarks for each manager – see Total Portfolio
- Kimpact report – what we're invested in
 - Basics of what was contributed, total number of investments
 - Fine print – goes through each investment, explain social programs, how much capital, what leverage is being used,
 - Overpayment – Blackstone increasing price for no reason; was not focused on sustainability or social responsibility
 - Q – Redwood fund is relatively new, but they have heat map based on population growth, etc.
 - Example – states that are pro-growth, i.e. Texas
 - Kimpact is social good combined with good rate for investors
 - Regulated property for many years into future 15 yrs. + longer
 - Meant to be open ended evergreen fund.
 - Q – re: CSU has banned travel to some of those states. Does this apply vis-a-vis auxiliaries? Our funding is not state funding. Aux can choose to not invest in those companies as well. There isn't direction on investments.
- Felix also mentioned needing to add specific language re: being fossil fuel free into the policy.

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

Tammie provided a quick update of May and June:

- We're in middle of audit – starts next Monday 8/5
- We provide interim financial statements – schedule of net assets and statement of revenue for board to review. This is UCorp as a whole, which includes funds that the board doesn't make decisions on (which are endowments, grants and contracts, donations – these are governed by guidelines and have specific purposes – these are restricted in terms of use).
- UCorp is investing funds and investing earning as part of unrestricted revenue – however a lot of these still have use. Info that the committee must be aware of is provided.
- Q – What investment return did we use for the budget?
 - The last year – we used ours. What was the actual number? It was around 5.5 and we came in around that.
- For balancing purposes, the investment is a huge component. When there are huge swings like in May, it doesn't have impact on programs, because those operate on cash.
- Haven't used investments for withdrawing – primarily used with growth
- Also the reason that we have a conservative portfolio - we also rely on regular return.
- Re: Revenue
 - Admin fee for grants and contracts – we're projecting being up through the year
 - Commission for Follett – this year is up slightly over that 10% - good news because they're stabilizing. We want to establish a new floor going forward, because we pay rent for that space.
 - Lobby shops through May



- Overall
 - Revenue down 2%, when you aggregate and include Open24, it hasn't reached the numbers
 - Summer activity – related to numbers of people on campus. Summer enrollment is up (but could be online). Traffic on campus affects vendors, etc.
 - Ctrl+ p – up
 - Business income is all vending: Lobby Shop, Ctrl+P, Healthy U
 - Business Services (income): vending revenue, notaries,
 - IDC – is admin services
 - Projected deficit, by end of May. June will change these numbers.
 - UClub – will have to decide where revenue will go. It will be part-repayment and part-ops. This will change the way the financials are reported.
 - You could allocate those costs. We want their true costs to be there (for the shops) it's so long before it's paid back, we would have to decide where that goes.
 - Is that capitalized? Yes. The Board had increased the reserve for the Plant fund and those are going to be used.

VI. Schedule of Meetings

Finance Committee Meetings

Meetings held at least quarterly

Tuesday, August 27, 2019	11:00 a.m. to 12:30 p.m.	3rd Floor, ADM 361 A
Tuesday, September 24, 2019	11:00 a.m. to 12:30 p.m.	3rd Floor, ADM 361 A
Tuesday, October 22, 2019	11:00 a.m. to 12:30 p.m.	3rd Floor, ADM 361 A
Tuesday, November 19, 2019	11:00 a.m. to 12:30 p.m.	3rd Floor, ADM 361 A
Tuesday, December 17, 2019	11:00 a.m. to 12:30 p.m.	3rd Floor, ADM 361 A
Tuesday, January 28, 2020	11:00 a.m. to 12:30 p.m.	3rd Floor, ADM 361 A
Tuesday, February 25, 2020	11:00 a.m. to 12:30 p.m.	3rd Floor, ADM 361 A
Tuesday, March 24, 2020	11:00 a.m. to 12:30 p.m.	3rd Floor, ADM 361 A
Tuesday, April 28, 2020	11:00 a.m. to 12:30 p.m.	3rd Floor, ADM 361 A
Tuesday, May 28, 2020	11:00 a.m. to 12:30 p.m.	3rd Floor, ADM 361 A
Tuesday, June 18, 2020	11:00 a.m. to 12:30 p.m.	3rd Floor, ADM 361 A

Board of Directors

Meetings held at least bi-annually

Meeting & Retreat, TBA, August 2019	9:00 a.m. to 3:00 p.m.	TBA
Monday, September 16, 2019	3:00 p.m. to 4:30 p.m.	ADM 460
Monday, October 14, 2019	3:00 p.m. to 4:30 p.m.	ADM 460



**The University Corporation
San Francisco State**

Room ADM 361
1600 Holloway Ave.
San Francisco, CA 94132

ucorp.sfsu.edu

Monday, December 2, 2019	3:00 p.m. to 4:30 p.m.	ADM 460
Monday, February 17, 2020	3:00 p.m. to 4:30 p.m.	ADM 460
Monday, April 6, 2020	3:00 p.m. to 4:30 p.m.	ADM 460
Monday, May 4, 2020	3:00 p.m. to 4:30 p.m.	ADM 460
Monday June 22, 2020	3:00 p.m. to 4:30 p.m.	ADM 460

VII. Call for Adjournment

With no further business to discuss, the meeting was adjourned at 12:50 p.m.

Respectfully Submitted,

Kal Salama
Chair, Finance Committee