



The University Corporation
San Francisco State

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

ucorp.sfsu.edu

Finance Committee Meeting

Tuesday, May 14, 2024

11:00am to 12:30pm

via Zoom

Ly Chau
Tammie Ridgell
Kal Salama
Janey Wang
Neil Cohen

Guests

Mitch Hughes, Beacon Pointe

UCorp Staff

Rosa Barragan

Called to order by **Kal** at 11:06am

- reviewed & approved agenda.
- Finance Committee Meeting Minutes – April 23, 2024, minutes reviewed; Tammie/Ly motioned/seconded; approved unanimously

Investment Portfolio Update report by Mitch Hughes – April, 2024

- Beacon Pointe Report:
 - Markets continue to do well
 - April was a down month, and it is starting to bounce back in May
 - Last three months, one year or even three-year return figures still up, with growth equities in particular up 31% for the one year trailing.
- Seeing markets to be highly appreciated at this time. Inflation reports came-out still high and it seems that it's going to force the hand of the Federal Reserve to stay in what is a tighter financial condition.
- Not expecting rate cuts any time soon. Caution with inflation remains. There could still be, if anything, a drop of maybe two-times in rates by the end of this year.
- Noting that since it is an election year it will be hard to either raise or lower interest rates dramatically. Not much movement is expected into November and December.
- Remaining risk neutral for UCorp's investments.
- Prices have moved-up dramatically and we do not anticipate a deep recession, which could raise concerns.
- Portfolio performance – refer to report
 - Market Value at beginning fiscal year at \$31million, \$1,266,000 have been earned from the initial amount plus small additions to the portfolio. Since the



- inception of this portfolio, roughly \$14 million has been added and the net investment change has been about \$17million.
- 2022 and 2023 were difficult for not having a net exposure into energy, which did prop-up returns for a short period of time and now UCorp is catching-up. The one-year trending back in line with the Allocation Index by year 3 Year five and year seven are outperforming by 50 basis points and 30 basis points respectively. Year-to date and one month outperforming in all categories.
 - Strong performance for fiscal year-to-date for equities in large cap and small cap so really all of your domestic equity looking like the S&P Indexes, with the removal of a lot of the fossil fuel companies which are being tracked.
 - Remaining indexes could see tracking in line.
 - Highlighting Boston Common, who had a difficult run is now catching-back-up

Kal: asked to clarify the equity section, which ones are individually held positions versus funds.

Mitch: responded that Aperio Group, Boston Common are individually held. When you see ETF that is a fund.

Kal: asked to that this means UCorp holds individual companies in name?

Mitch: responded that yes, it's correct

Kal: asked to do the same for "fixed income"

Mitch: answered that Segall Bryant and Hamill individual securities held by UCorp. TIAA-CREF is a mutual fund. UCorp owns the bonds in the former and it is like Boston Common, actively managed, but UCorp does not own the underlying securities directly in the mutual fund.

Mitch: Overall asset allocation holds-up well and similar to how we have many clients across the board.

Continuing to report on the real estate section of the portfolio: Starting to see markdowns and getting audited figures. Kairos is conservative and you had a chance to meet both Carl Chang and Jonathan Nadell and their approach as well as their thinking. Very conservative. There are steep markdowns, however, in looking at the longer-term performance (this is what you always want to turn your attention to) in particular to the inception to date numbers. Positive figures in the long term, outperforming their indexes by almost 200 basis points. This is what you want to see from alternatives managers, having illiquid investments outperform by 2% or 200 basis points over a long period of time. Still very happy with Kairos' performance and there are no concerns.

Action Items:

- no action items recommended.



UCorp's Operational Budget for FY 2024-2025 by Tammie

- Update on the continuing conversation around activity on campus and as it relates to UCorp's investments:
- Encampment on university grounds:
 - The president has been negotiating, which has been noted in the newspaper with the students around their demands and there has been conversations and responses. So far as it relates to the Foundation and the University Corporation there have been inquiries about divestment from military type of investments for weapons and things of that nature. Once these negotiations are finalized UCorp will be reviewing our portfolio around those demands and potentially adding to our investment policy. This is just an update and once there is a firm direction moving forward, this policy will be brought back to this group and the board for approval.

Neil: stated that he is interested to know the outcome of the divestment policy. There is inconsistency with investments in China and now this issue with divesting from weapons making. It bothers him what is driving this request personally and professionally.

Tammie: responded that this is something that will be thought-out and will be brought to the committee and the board for certainty. Trevor and Kal will be asked to assist us with evaluating first our portfolio and what is there and then write the verbiage for the investment policy. This will be done through a humanitarian perspective and not from a specific perspective. There are some things done in conjunction with UCorp with the Foundation Board leading it as well as with the President. This is where we are at this point.

Kal: reassured Neil that there has been much talk about actual divestment and divestment request have been minimal and benign to the portfolio so far.

Proposed UCorp Operational Budget 2024-2025 Presentation – Tammie

- There has been an attempt to provide an all funds budget representing all UCorp funds. This is just a perspective in how things could turn out, regarding all of our funds, and based on history over the last few years the way revenue comes in and how expenses go out. This is just an overall perspective on what we could anticipate.
- Please note that there are cases where our projection (specifically in this case) the revenue is less than the expenses overall on the all funds page. This is not concerning as there are programs that have accumulation of funds that have been received in previous FY's.

Kal: asked to clarify since UCorp gets the revenues, they are for multi-year programs. The revenue all comes at once and the expenses are projected and are looking at the portion of the revenue and expenses that are expected to be accrued this year?

Tammie: responded that the way accounting works for grants is that if there is no stipulation, even if a grant is for three years they are not fully recognizable when they are received. . So most of these grants don't have funds sitting in deferred revenue, where you recognize revenue as you spend. The revenue has been fully recognized when they come in.



- Projecting revenue and we also have expenditures for funds that are in that projection that would exceed or be larger in particular cases. What it shown is coming in when you average it out over three years, because we are using a small period of time in comparison to averaging over ten years.
- Campus programs that have received funds and have not expended those funds, it is possible in any given year to expend more that it looks like you are bringing in a fiscal year, but rather it is because you have a carried forward balance supporting it.
- Projection from funded grants expected to be \$146,000
- Increase over last year. Projected revenue \$355,000 for our accounting service fee associated with our campus programs and our other fee generating programs that UCorp manages on behalf of the university.
- Operations
 - Current year the food vendors and retail have settled on the new restructure of agreements to reflect rent in post-pandemic.
 - This is a decrease from original pre-pandemic levels but higher than it has been. It's about 50% to 60% of what they were originally paying.
 - Projections for the stores are around what is expected
 - Healthy U: bringing in the revenue not as high as pre-pandemic, but coming in closer to alignment of pre-pandemic levels
- There are no major changes to the budget to the majority of expenses
- Bulk of the expenses are mostly salaries and benefits, as expected.
- Insurance is about 40% higher due to general increase in cost as it relates to liability and crime.
- Auditing has increased proportionally
- Support to the campus has not changed it remains at \$75,000
- Smoothing methodology continues to be used regarding investments and expected returns, the rate is about 5.5% for projecting on investment income.
- Follett revenue is another large piece
- **Noting:** Post pandemic discussion with Chris is the low enrollment and its effect on vendors' profitability. We project a deficit for the shops for 2024-2025 though there has been an increase in revenue. It will take longer to fully return to pre-pandemic levels. We are budgeting conservatively due to factors like low enrollment and its effects on vendors/retail
- **Noting:** Operation Reserves- recommended change: In the past when doing the budget, operation reserves are evaluated and assessed and if adjustment to the reserves are needed. Due to the budget submitted with a deficit in the past two or three years it has been recommended not fund the reserve adjustment. It does not make sense to actually fund the reserve from a deficit creating a larger deficit. However, ending the current year the budget is projected to end this fiscal year with a deficit, it was recommended to fund the adjustment to the reserve if the actuals ended positively. The reserve account represents six months of operations. This is the purpose.



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- **University Club:** good news is UCorp has expended about one million on behalf of the campus to renovate and open the University Club, which actually never panned-out and these funds were funded from the plant reserve. We will be receiving/recouping the undepreciated portion which is about \$750,000 back from Associated Students who will now be taking over that space. Expected to receive the funds either at the end of fiscal year or at the beginning of next fiscal year and we will reestablish the plant fund reserve.

Kal: asked when you say funded, where do the funds come from?

Tammie: responded that it is just a paper entry to the budget. You will see it as part of the budget's net assets, and you will see it on the balance sheet in an actual account.

Kal: adjourned meeting at 12:30pm