The University Corporation
San Francisco State
Room ADM 361
1600 Holloway Ave.
San Francisco, CA 94132
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Finance Committee Meeting
Tuesday, September 10, 2024
11:00am to 12:30pm
via Zoom

	Guests	**UCorp Staff**
Ly Chau	Bill Thompson, Beacon Pointe	Maggie Woo
Tammie Ridgell		
Kal Salama		
Janey Wang		
Yessica Gonzalez Gudino		

Called to order by **Kal** at 11:03 am
- reviewed & approved agenda.
- Finance Committee Meeting Minutes – June 04, 2024, minutes reviewed; Tammie /Ly motioned/seconded; approved unanimously

Investment Portfolio Update report by Bill Thompson – June 2024, July 2024 and August 2024
- Beacon Pointe Report:
- Early August had some significant volatility that reared its head. It was a period where the US market sold off significantly. Japan saw 15 percent down!, Within two weeks the markets had bounced back. Japan had bounced back within the next trading day. Next week we have the Fed meeting, likely to see a 25-basis point cut, maybe 50. Still expect 3 or 4 25 basis point cuts by the end of the calendar year. The view from the top is that the data suggests that we may very well experience a soft landing and avoid any sort of recession. The focus was on inflation. We had these peak inflation numbers and depending on what your reference point used, wewere way above the Fed's target inflation point. Covid was really out of control, and you can see that with the fed interest rate hikes in very short order, we really stressed the market. The Fed has done an excellent job bringing inflation back down. We're almost where the Fed would like us to be at 2%.
- the US Government has record amounts of debt, and as a debtor, inflation is actually a good thing. For holders of fixed income, inflation is not a good thing, but for an issuer of debt, inflation is helpful. And so, you know, you could make the argument, and you'll never hear this in the headlines, but a little bit of inflation is actually a good thing for the US Government. So, something between 2 and 2 and a half percent would probably be a good thing. So, you know at 2.6%, we're within squinting distance of the target. So, the heavy lift of getting inflation under

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control is largely done. It'll take a lot of work to get from 2 and a half to 2%. The headlines are inflation is still rampant, you know, and we know through groceries, and we all live our lives day to day, and we know we're seeing some stress of higher pricing out there. From a macro perspective, looking across the US Economy, inflation really has been largely contained.

- Over the last week or two when we saw employment numbers, we saw unemployment tick up. There was some stress in payroll numbers. The market is looking to see whether there is any stress in the employment because that tends to be the kind of cycle when there's layoffs, there's less spending, less spending leads to stress on corporate earnings. Stress on corporate earnings leads to more layoffs. All eyes are really on the employment numbers that we see. Employment is ticking higher and not going in a concerning direction. The good news is that if we were to see meaningful economic stress or see us go into recession or negative economic growth., the fed rate at over 5% provides a lot of room to actually cut.
- The year-to-date return numbers are really good here in the US. The trailing one-year numbers look really good too. Capital market story, Nvidia lost something like 280 billion dollars in a day. They lost something like 9% during the recent volatility. That's the single largest dollar downturn ever in the history of the stock market, on a dollar basis. The AI story really has reared its head over the last 9 months, and really kind of been a tailwind for the capital markets. The narrative has spread throughout the market. With the hype of AI and the excitement of the market, and the optimism that we're going to navigate through this market without any meaningful drawdown in the economy. It puts some valuation risk out there, and we saw some of that drawdown in August. So that's not reflected in the June numbers here. The drawdown suggests, at some point, the markets will need justification for some of these valuations. I think in the coming quarters we'll ask the market to hold these companies more accountable and not just make it about their potential. Through June, the fiscal year end numbers look pretty good. The final quarter was good as well. The Russell 1,000 value, mid cap, and small cap saw negative numbers in the quarter. The Russell 1,000 growth versus Russell, 1,000 value you can see has played out over a 3-year period – with The Russell 1,000 growth outperforming.
- June to June you can see double digit returns really across the board in fixed income. You can see the 3-year numbers for fixed income on the heels of those interest rate fed hikes. That was a headwind for fixed income. The most recent 12-month trailing period we're starting to see some positive returns, which is good news as it relates to the cash discussion. There has been some decent yield out of some short term and even money market investments.
- There has been some valuation risk out there that we need to keep an eye on, and that's why we have the portfolio diversified.

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- For the full fiscal year, we had 2.5 million dollars in investment returns. So again, it was a very good year for the portfolio. Since inception with Beacon Point the portfolio has generated 19 million dollars in investment returns. Year-to-date 2024 through June, the portfolio returned 51/2 percent and for the fiscal year returned 8.6%. The portfolio mix is 50% in global equities, under 40% in fixed income and over 10% in alternatives. Most of the alternatives are in real estate which is more growth oriented.
- Over a 10-year period UCorp has done an admirable job of performing in line with a broader, simple benchmark, and we've done it with a more diversified portfolio and implementing an ESG overlay.
- Returns for the portfolio really came from equities. The equity portfolio was very strong, 25% from large cap equity allocation. So, 27% of the overall portfolio generated 25%. There is a smaller allocation to mid-cap and small-cap. There were decent double digit returns on a relative basis, not as strong as large cap, but got close to 12% from mid-cap more or less in line with the index, and appears small cap returned over 10%, outperforming its index.
- Boston Common, as we will see in the recent performance reports, we continue to see them come back. Recall when we had them come in and present to the committee, they've had some lagging performance. We can see over the trailing year to date, they're outperforming. They did a nice job in the most recent last couple of months. You'll actually see they continue to kind of earn back their returns on a relative basis. So far, we have been rewarded for staying with them to date. They have returned 6.4% relative to the 6% benchmark net of fee. Overall, they have done a nice job performing relative to the index since we've been invested with them.
- Fixed income on a trailing one-year basis over the fiscal year period, earned just over 31/2 percent and 37% was in fixed income during the fiscal year. Managers did a nice job of outperforming by 100 basis points the index, the benchmark, which was great.
- Kairos is mostly invested in real estate. This is the residential private real estate funds and a credit fund. First of all, the Kimpact Fund is invested in low-income housing which is aligned with their mission. The credit fund has done very well. There continues to be a lag with the real estate fund, but we like Kairos a lot.
- Overall, the portfolio did lag the benchmark by a little bit but that is a function of a really strong market, and we have a diversified portfolio. The alternatives were down 9% on a trailing one year, that pulled the overall return down.
- For July the portfolio continued to tick up to 8.9%, through August the portfolio is up 12.1%, on a trailing one-year basis. We didn't quite keep up with the broad market. We're diversified into mid-cap and small cap, which pulled the portfolio down a little bit.

- Fixed Income for the month of August had good returns as yields have come down so on a trailing one-year basis, your fixed income portfolios returned 7%.
- Alternatives don't get updated monthly and reporting is lagging behind. The June performance reports provide a better snapshot of the alternatives and their impact on the total portfolio.
- Positive returns in August despite the massive sell-off seen over a couple of days but have recouped most of it like it never happened. Beacon Pointe is not advocating for any changes today. Will continue to monitor Boston Common. Looking to potentially bring a new ESG oriented international manager which we may bring to the committee in the coming quarters.

Kal: asked if there was an update on what's happening in the real estate component?
Bill: When speaking with Kimpact last Monday and it was noted that they have seen some stabilization and some of the valuations given that rates have come down and expected Fed cuts in the future. They've already begun seeing some stabilization, and there is some optimism around deal flow. The outlook for rates to come down in some of the refi market is taking some of the stress out. That's not to say particularly in the corporate office space, which is where we don't have exposure in the Redwood Kairos funds. Some stress continues in the space as vacancies are off the charts. In the residential space there is more optimism. They have done a couple small portfolios, one was in Washington D.C. They had underwritten it for 3 or 4 year stabilization. Within one or two years they had already actually stabilized vacancies and headed up to like 90% occupancy.
Kal: commented that when we met with Carl in the city, he said that we're a quarter of the way down in terms of adjusting. That was maybe a year and a half ago.
Bill: commented, that last summer we met with him live, so it was about almost exactly a year ago and the message is now on fast forward. Four quarters later we are probably at or pretty close to the bottom at this point.

Reserve Cash Vehicles

- In previous minutes we talked extensively about the liquidity and the changes that we made defining our reserves and our short-term cash, those definitions and what we need cash for which consist of our operations, plant fund and idle cash. Once a year can look at what we would deem to be the cash that we would want to have in that bucket. Today want to discuss the dollar amount as well as whether or not we want to revisit Amalgamated Bank now that we have a process in place.
- Bill, we've talked just briefly, has some other suggestions for idle cash, that would be looking to try to generate a little bit more interest income. Right now, what I would be looking at for short-term cash as part of our short term cash review would be looking at our reserve funds, as I mentioned previously for this group we have not separated our our reserve funds into a separate account. We've just always considered them part of

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LAIF or part of the portfolio, and we've identified them within our books. I think this is an opportunity to start with the segmentation that we've done to pull those short-term amounts to see if we can earn more interest. Currently we've identified about $1.7 million available to invest as part of short-term cash.

- Our plant fund will be reestablished due to that were able to give back space in the Student Center at the undepreciated value. We remodeled the University Club using plant fund reserve funds. We will receive $750,000 for the un-depreciated value of the University Club.
- With our reserves and plant fund reserves, it would bring us to around $2,6 million dollars available for short-cash investing. In our last discussion back in June there was some discussion around drops in enrollment and the impact to UCorp. Obviously, we don't have collect tuition but when there is a drop in enrollment it would have an impact on our budget. This can be seen in our actuals, specifically with our vending services as well as our retail operations that we actually run. Revenue that is received from our accounting service fee or indirect cost don't necessarily correlate directly to decrease in enrollment. If donations are down or programming down, and we're not receiving new revenue or new programs are not created then certainly would decrease our accounting service fees. Donations that are down which come to the university through UCorp can happen when the economy is down is when you usually see more of a drop off.
- LAIF balance in August is around 18 million, as such would be very comfortable with our original projection of $5 million for the current fiscal year. We would be looking at an additional 2 million dollars of investing from our LAIF balance along with our reserves, and not feel that it would cause an impact in 12 months.

Kal asked: To clarify staying at 5 million for that total reserve fund.
Tammie responded: No, I'm saying $2.5 million idle cash and $2.5 million reserves. The reserves are inclusive of the operating reserves and plant fund reserves.
Kal asked: So, 5 million total that's not in LAIF?
Tammie responded: We would take 5 million out of LAIF
Kal responded: So that's really the segmentation behind looking at reserve cash vehicles. It's for the 5 million essentially.
Tammie responded: Yes, I think it's at this point very conservative. It's not something that would put us at risk even if something happened throughout the year, or something drastically changed financially.
Kal responded: The cash vehicles we're talking about for the reserve funds are perfectly liquid.
Tammie responded: Money could be liquidated if we had to.
Kal responded: Exactly

- Vehicles previously looked at were Amalgamated Bank and the other mutual funds from Schwab comparisons was updated. Amalgamated Bank was offering 5% fixed the process around handling idle cash which could drive the conversation if we bring in someone like Amalgamated Bank or any other type of investment. The yield for Schwab funds were 4.9% and the yield on LAIF is 4.5% right now.

Bill responded: Those were money market funds you're referring to correct and not short duration bond funds?
Tammie responded: Those were money market funds.
Bill responded: I would echo, that's what we saw on our side. I thought the Schwab was probably closer, like 5%. The big question just comes down to liquidity and risk tolerance. So, this is a blanket statement, and this needs to be interpreted on a case-by-case basis. But where cash can take on a little bit of duration. The idea is that as interest rates continue to come down, those money market yields are obviously going to continue to come down. So, getting 5 today won't be 5 in 6 months. You're going to continue to come down, they have been advocating for clients where they can go into very short duration bond funds that are under a year. The reason for that is that you get a total return. As interest rates come down, the bond values actually go up in addition to the yield you're earning on those bonds. So, it just offsets the dynamic for interest rates coming down and continuing to earn a lower yield on the money market fund. In contrast, to a short duration bond fund, which a year from now, should generate a more attractive quote, total return, yield plus. It's not a money market fund but they're generally high-quality funds very short, short duration less than a year, so the duration exposure is pretty limited. I don't know if you can invest in short duration bond funds as the language in the investment policy has short-term securities, but don't know if its defined loose enough to even allow for a short-term bond fund.
Tammie responded: I think, what I sent you did have the Bond funds.
Kal responded: I think they were in the policy; I think we left them in.
Tammie responded: We had bonds and cash essentially.
Bill responded: Yeah right, but I mean, for these reserves short term securities still includes short-term bonds, if that is of interest.
Tammie responded: Our short-term cash is less than 2 years
Bill responded: I did bring some sample short-term bond funds as a reference point to consider. I didn't send it to you in advance. My question is do we really want to focus truly on money market funds at this time for these reserve accounts? Or is there interest in introducing some complimentary allocations to a short duration bond fund alongside for funds that aren't needed for 2 years. I think our outlook, for rate cuts and yields are likely to come down from here. The yield, plus the total return of the value of those bonds going up as well, so your total return would be likely higher than this. This is not guaranteed of course. This is a reference point, because of Beacon Pointe could waive minimums for the mutual funds if we needed separately managed accounts. For the passive funds you will give up a little bit of yield. This is just a reference point, and I don't really have a recommendation today, because I think it would be guided more by how you want to think about allocating the reserves. What may or may not make sense in terms of where you want to take risk. There are short duration bond funds out

there which are very high quality. This is Beacon Pointe's, best ideas and names you'd recognize such as PIMCO and TIAA with well-known high-quality managers.
Tammie asked: If we could get a copy of the report
Bill responded: He would have to speak with his compliance department as there may need to be a couple of is disclosures that would need to be added. Which is why it couldn't be sent yet.
Janey asked: Noted that there are some BBB+ noted here is there a standard that it has to be B-level or A- level. Is there a risk of default for B level bonds
Bill responded: Short answer yes in theory. You would want to get into the construction of these portfolios. Looking at Segal Bryant funds and the way they are managed where you have AA- vs BBB+ you see you taking on some incremental risk gaining some yield due to taking on some risk. Risk of default are pretty low. Taking a Siegal Bryant they've got a good credit group who is trying to answer the question that you're asking. What are the odds of this company defaulting over the next 3 years. They are trying to minimize; don't think you could take that to 0.
Tammie asked: So, for the T-Bills you earn more for the shorter duration?
Bill responded: That is the nature of the curve today. The observation is accurate as you can get more from 1-2 months versus six-month T-Bill.
Kal responded: Noted that if the Feds did 100 basis in the next 12 months then your 5.145 is going to be 4.145 so the average for money market is going to be somewhere in between on 1 month. Clients are going out further knowing that interest rates are going to be coming down in the future. That's why the curve looks like that, because it's anticipating the lower discount rates in the future.
Tammie asked: Some vehicles where you can do a better job of locking in a rate is more attractive as the rates come down. Mutuals funds are going to fluctuate. Is that what is being said?
Bill responded: Yes, these yields will come down because they're it's a short duration vehicle investing, in short duration securities. So as holdings are mature or sold, they're going to need to reinvest those right in other securities. And if you do that in an environment where interest rates continue to come down, they are going to be reinvesting at lower yields would be on a lag basis. At the end of the day, you have to take a step back, and don't want to be greedy, you know we're looking for the best kind of balance of earning and attractive yield.
Kal responded: with as 1 year instrument to lock in a yield and you have to sell it in a half a year to raise money, you could take a loss. You would be selling it before it matures, and you have interest rate risk. So that's kind of the mismatch risk you could run into potentially.
Bill responded: It's a great example. I hope I didn't muddy the water
Kal responded: No, that 's what that bucket is for is to earn a little bit extra if you don't need to use the funds right away. So, these are the right questions to ask. As Bill pointed out there are 2 ways to earn extra yield. One is duration, risk and the other is quality. By going a little bit lower in quality away from a government into triple A are other ways to earn a little bit extra yield.

Tammie asked: Based on this should we have further discussion in our future meetings to determine which vehicle? Or would there be a recommendation?
Kal responded: I would suggest, maybe having a conversation about what vehicles and long list of possibilities. Maybe we can create a short list from the long list of possibilities. As well as select a vehicle. Since this is the 1st time, we've done this maybe just create a short list as an intermediate goal.
Janey responded: I agree and think that would be great to see some high interest with low risk, a short list to discuss next time.
Kal responded: Yes, have the duration and quality discussion as well. How low in quality are we willing to go? How far in duration are we willing to go out.
Bill responded: That's kind of the bottom line, Kal. I think number 1 there's a pretty limited opportunity cost today because you're earning decent yield right in your money market. There's no real immediate risk to putting off a decision, until the next meeting or the next couple of meetings to make sure everybody's confident about that decision. Second, I think the biggest question that you're going to need to answer is how much risk do you want to take? There are funds that you know we feel confident are probably not needed in the next 2 years. And you know maybe that's a bucket that we can take incremental risk in terms of just adding some duration. Maybe that triple B plus but taking a short-term bond fund that's double or triple A knowing we are taking a little bit more duration than a money market fund, and as interest rates come down, we would expect the total return on that to kind of offset. A decrease in yield on money market bucket and probably generate an incrementally higher yield on that cash, remain liquid and remain safe is the end goal.
Kal responded: And for context, I think the way we think about Amalgamated Bank is maybe an Amalgamated Bank would be one of many credit risks inside one of these credit funds as it's a single counterparty. In other words, you're subject to the risk that Amalgamated Bank will default. For example, a triple B or triple A fund would have many, many Amalgamated Banks in there. A treasury fund would have none of those and it would only be the United States Treasury. Treasury Fund is only US treasury the fall risk is essentially defined as O. Everything else has default, risk in it and that's how to think about Amalgamated Bank. At risk, a single credit versus a diversified pool of credit risks. This is for context, so everyone understands what kind of risk you're taking for additional returns.
Janey asked: In terms of the procedure, do we need to vote on those decisions.
Kal responded: I think we're just going to come up with a shorter list for next time.
Tammie responded: For the next meeting we will discuss the list at that time.
Kal asked: Any other questions on reserve segmentation or how much is set aside? Next is the financial status.

UCorp Financial Update by Maggie

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- To reply back to Bill's comments earlier. Investment earnings does reconcile to the accounting records. The investment portfolio is up 2.5 million for the fiscal year end of June 30, 2024.
- This time of year, during the financial statement audits we don't report on the financial position until we are done with the audit. After the audit is completed, the financial reports will resume providing to this group.
- Audit status update, we do the financial audits for the Auxiliaries. The Foundation will be finalized this week, AS is complete and UCorp is expected to be finalized next week.

Yessica asked: Do we have a draft of the UCorp financials yet?
Maggie responded: We're still working on it. As soon as it's available I will just send it out like the financial reporting team.
Yessica responded: Okay, sounds good. Thank you.
Tammie commented: Thank you, Maggie.

ESG update by Tammie

Provided the committee a brief update for the committee. It's been since June that an update has been provided. We have met all summer, meeting twice a month with the students. There were a couple of things that have come out the meetings, or out of the discussions mostly, which have been geared towards the Foundation. The Foundation was the driver of the conversations. It is expected that at some point the conversation would involve UCorp. We have different boards, and would have different obligations, and would need our board to approve any changes. UCorp to date, has not discussed or agreed to make any changes to our current investment policy of portfolio. The approach that was used is to use screens. As mentioned in the past there has not been any focus on a specific company, or specific country. The screens have been around weapons manufacturer and then looking at defining it maybe a little differently to not just include weapons but have started with weapons manufacturing. Also, looking to add a human rights screen. Using the screens will eliminate companies that might have been a concern especially based on the percentage that could be allowed in the portfolio, which was less than 5% would automatically be screened out. This has been the approach, as opposed to identifying particular companies that we wouldn't want to do business with. This is what the Foundation board will be voting on. It has not gone to their board yet, but that's what has been agreed to thus far with the students, and that's moving forward. It was also agreed to provide more visibility towards what is actually in the Foundation portfolio. For example, UCorp's direct investments that are held in the UCorp's name we would want to use screens. Also, regarding the indirect investments where we are invested in a fund we could be asked if the fund holds any weapon manufacturing and the percentage. The students have asked the Foundation if they have been given that visibility as to what those funds they actually hold. As a holder in a fund would have to work with the fund to determine what information can be shared. There will be a transparency website that is being created for the Foundation investments to understand, for a layman what their holdings are and what they are invested in. At the end of the day, I would think that type of website for visibility, ease and understanding would be something that would incorporate both UCorp and the Foundation at some point. Currently, the website is being created by the Foundation and will just include the Foundation investments. UCorp really has not been brought into the conversation at that level as this point. What we do have on our plate is whether or not we want to take a wait and see approach or if we want to start doing some of the work now in the background as it relates to our investment policy and what we feel our value alignment is as an entity. Doing more value alignment investing is something that the Foundation has taken on and is looking at with everything that they invest in aligns with and is governed by the screens and things of that nature. Looking at companies that align with your values more so than removing those that don't. It's more leaning into those that align with the values that you portray as an organization, and that you want to portray going forward. These are some of the things that have come out of the meeting and for the committee to think about.

Kal asked: So, is the plan, is really for Ucorp to just wait and see what comes out of the Foundation process?
Tammie responded: That has been the plan, and that has been the model. There are some things that they've already at least as far as their investment committee has already approved. They have provided tacit approval as their board has to give final approval regarding the types of screens that they would like to implement into their portfolio.
Yessica asked: If we wanted to get a head start, I know you mentioned there's already something that's being sent to the board for approval. What would that entail for us to start looking at our policy?
Tammie responded: It definitely would be working with Beacon Pointe, taking what the Foundation has approved. It would be looking at it in relationship to what does that mean to UCorp. Also, if we want to follow suit or not. If we had other values that we wanted to also add. So, for example, the Foundation in terms of its value alignment investing and probably much more. The Foundation is much further down the road, not from this particular instance, but much further down the road than UCorp. I think we have a good basis from an investment point that is very general. For example, we have screens for coal and tar sands as a restriction. We have an alcohol restriction but, aside from this instance, the Foundation invests with minority owned investments or money managers. Having diversity with their portfolio in terms of who they are working with, whether it is women or other minorities that they are looking to invest with as part of their money managers and how they select teams in terms of investment vehicles that they choose to go into. So those are longer discussions and not just let's do what they did, that's where we would have to think about what values we want to consider. If it's some of the things that the Foundation are doing, if it's everything the Foundation is doing or is it some things that we want to add ourselves. If it's just that we want

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to add what has been brought up. Certainly, our investment policy has probably been crafted around when new things come up as opposed to probably a holistic approach.

Kal comment: Well, we covered a lot of ground. Thank you, everybody for taking the time. If Beacon Pointe could forward that long list that will be helpful and then we can kind of think ab out making it a short list and kind of see what's consistent with the investment policy on cash that we've defined.
Tammie comment: Maybe we can have something to bring to this committee in terms of a short list.

Kal: adjourned meeting at 12:18pm