The University Corporation
San Francisco State

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

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Finance Committee Meeting
Tuesday, October 22, 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 – September 10, 2024, minutes delayed approval until next Finance Committee meeting

Investment Portfolio Update report by Bill Thompson – July 2024, August 2024 and September 2024

- Beacon Pointe Report:
- Looking at the big picture GDP going back two years has been remarkably resilient. Looking to finish out the year just north of 2%. The IMF is looking for 1.9%. The consumer has remained strong in the US - spending. We have invested in global investments which have buoyed the equity markets. There is a rosy outlook going into the new year. Europe is expected to be muted and China is expected to see a little bump which will support a positive global GDP. Coming weeks there may be some volatility, plenty of geopolitical hotspots around the world that we could point to. Last couple of meetings is a shift in the Fed's focus from inflation concerns to more labor market concerns. With inflation at or near its target it's allowed the fed to focus on the employment picture and the employment picture remains pretty good. Expect that the Fed's still have another 2 cuts expected between now or 50 basis points of cuts between now and the end of the year.
- Looking at our portfolio we've let our portfolio take us to an overweight to equities and haven't rebalance it back. Having a little overweight to stock allocation and as we'll see you have benefited from that.
- Market performance summary YTD you can see double digits across the board and single digits for fixed income. The 3rd Qtr was a really good quarter, the S&P was up 6%, Russell 1000 growth lagged in growth returning 3% in contrast to 9

1/2% for value. International EAFE index is global developed and outperformed the US in the 3rd quarter, and emerging markets did even better. Absolute returns were low teens for developed international and mid-teens for emerging markets, but both continue to lag the US. Bonds were up 5% for the quarter looking at Aggregate Bond Index. We will get into this when we talk about money markets, floating rate versus short duration. We have seen interest rates come down. Something to think about is that money market yields will move with interest rates. We have earned and attractive 5 plus percent return yield over the past 18 – 12 months. As interest rates decrease the yield will continue to come down. Putting some of our allocation in short-term bonds that will benefit from a total return. Will earn a smaller yield but as interest rates continue to come down will realize the bump from the value of the underlying bond. The point is that a blended allocation to short-term allocation to bonds vs money market floating rate strategy.

- As of end of 3 qtr the portfolio was just under $35 million which has grown over $21 million since inception. The portfolio itself had deviated slightly from our target but still well within our ranges and guidelines as highlighted. Currently portfolio has 52.3% allocated to equities/global equities, 36.8 allocated to bonds and 10.5 odd percentage to alternatives which is mainly real estate. Our policy targets are noted and can see the equities modestly overweight versus our 48% target: 4.3 overweight, 3.2 under weight in Fixed Income and approx. 1.6 underweight alternatives.
- When looking at how the allocation translates in returns, the portfolio in the 3rd qtr returned just under 5 % FYTD, total equities returned 6.2% as would be expected as the driver of returns. Bonds returned 4.1% FYTD, the alternatives we don't have marks yet on a quarterly basis. YTD portfolio has returned 10.5%, Equities returned 17.7%, fixed income returned 4.9% and alternative are down a little bit which is mainly real estate. When looking at the alternative it is good to focus long-term 3-7 years. Looking at individual returns, Aperio is largely there to give you the index and they have done a good job delivering index returns net of fees. We had Boston Common come in to present to us and as there was some frustration with their performance however, they have come back and YTD we are lagging a little bit but over the trailing 1-year they have made up a lot of ground. Looking out past 5 years since inception they are outpacing the benchmark next of fees. We have been wrestling if we should move on and Beacon Pointe is coming up with some alternative options. But what they have had to say is starting to bear fruit and come back in line with the index. Fixed Income we are lagging a little bit to what Segal Bryant has delivered - no concerns. Still single digits for fixed income is not bad. We have wrestled with the short-term bond fund and thinking maybe we should consider reallocating to more diversified longer duration, government credit index, the outlook for rates is

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probably not going to go up meaningfully at this point. Will stay where it is or trend down, if we look out over 1 or 7 years probably better rewarded taking on a little duration exposure. It is only 4% of the portfolio so not meaningful allocation. Perhaps not just the Segal Bryant but perhaps splitting it between the 2 or longer duration funds.

- On alternatives again, Kairos report their returns on a lagged basis so that will impact your near term returns again on a YTD basis. We've seen a lot of markdowns, and you can see in the trailing 1 year mostly negative returns. We expect that to start coming back. Kimpact fund had a couple of properties in Florida, and I touched base with Kairos, and none of the properties were impacted by the hurricane that passed through. Wanted to note they have exposure there, but it was unaffected by the storms.

Kal commented: Noted that 2017 is really when Beacon Pointe took over the portfolio so we're measuring as a separate inception date.
Bill responded: Thanks for highlighting that since inception in 2017 that's Beacon Pointe's start. I think you've got a good story to tell, and Tammie can reconcile the returns for the portfolio with the contribution to budgeting.
Kal commented: The green numbers used to come up when we would go through Boston Common because we'd look at their performance before they were on board.

- Kairos has come out with their new fund IX and it's going to be very much in line with their past investments that you're in. You are invested in fund VI and VIII with them. You're invested in the Evergreen Kimpact Fund, which is an evergreen fund, meaning its not a drawdown structure. You are in committed capital and they invest immediately, and it's invested in a lot of low-income oriented housing, which is the point of the Kimpact fund. The Kairos fund VI and VII are more traditional private real estate funds. This is how the new Fund IX will be invested in mainly 3 quarters multi-residential along with a quarter in kind of corporate. This separate performance report is meant to be a better reflection of your private funds because they are dollar-weighted, not time-weighted. In 2019, fund VI committed a million dollars, and you have invested a million dollars, but you didn't invest it all immediately. They called down and invested those dollars as the opportunities presented themselves and subsequently fund VIII same structure. For fund IX what is attractive is that they will be putting new capital to work in this environment where there is some stress out there across the property types and stress is the theme. They are raising $300 million with this fund and targeting an IRR of 15-18%. All terms are expected to be in alignment with the other funds. Don't have to make a decision today but one advantage to making a commitment before the first close is they will waive the 1.5% management fee for the 1st year. We have invested in previous funds and are underweight in our alternatives. This is an illiquid investment and is a 7-year fund. Past investments have been $1 million and seems reasonable to

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make a similar commitment. Advantage if we can commit before November 15th but there will be other closes if we have further questions

Kal asked: Is this also a low income or efficient structure like the other funds we have or value oriented.
Bill responded: No this is a value fund, only the Kimpact fund is the only low-income strategy. This is purely private real estate.
Kal asked: Would you suggest it coming from the equities that are overweight?
Bill responded: Yes. Think about the portfolio you have growth in equities and stability in bonds. Think of real estate as growth-oriented assets and would want to source from global equities.
Kal commented: Wanted to emphasize to the committee regarding distressed real estate which has been marked down and that the marked down cycle is pretty much complete, and the new fund would allow us to buy into the distressed environment – the opportunity to buy real estate in the marked down environment, which is in contrast with the equities which have already gone up significantly in the portfolio. It is kind of a rebalancing which Beacon Pointe would recommend us doing. Since we don't have a meeting until after the 15th do we want to discuss now?
Tammie: We should discuss and ask our questions and make a decision now if possible
Bill commented: One thought is that we could have arrange a 45 min meeting to have Kairos come in for a presentation if we can squeeze it in or if it felt rushed, we could have them come in at our 11/19/2024 meeting.
Tammie commented: Agree but would like to hear from the committee to see what additional questions they have or if they have all the information.
Janey asked: Is the 1-million-dollar investment is from current other investments? Would like to see more comparison with other investments. If the target is 8% why is this a better option?
Bill responded: Actually, the target for alternatives is 12% and currently we are at 10-1/2%. Source investments from equities. Generally, your alternatives have been a value add at 4.6% earned since inception which is more than bonds at 2.1% but lag behind equities. You would expect alternative to be somewhere in between. Net, it has been a little head wind to equities. We think that real estate can deliver an attractive long-term return to the portfolio. The tradeoff is that there will be some illiquidity of $1 million dollars which needs to be considered however should be considered in context of the $35 million dollar portfolio.
Kal asked: The portfolio is $35 million so $350 thousand would be 1% so we are 1-1/2 % below target so wouldn't $ 1million be too much more like 3%.
Bill responded: I think that is right. One thing to consider is that in the 3-year period they are going to call down capital. They are going to sell investment. Over the course of 2-year period could have 3% invested in fund IX relative to your portfolio.
Kal asked: So, it would not get called down all at once?
Bill responded: I would expect the capital to be called down 2-3 years however it is unpredictable how capital if called. In this environment it could be called down quickly

because of distressed opportunity. If the market bounces back could also see it redistributed back quickly as they are able to sell properties.
Kal responded: So, we could be overweight temporarily during this process.
Bill responded: The policy calls for 12% but policy ranges allow up to 14%. The challenge of alternatives is that you don't have the liquidity levers you have with other investments. We can look at the liquidity needs of the portfolio and stress test it. We have 80% liquidity in the other part of the portfolio. These are all good questions and don't want to make the group feel like we need to make a decision today. We can carve out another meeting time for a presentation or schedule during our next meeting.
Tammie commented: Would prefer to schedule another meeting if the committee was available for another meeting.
Kal commented: I like the timing of this as our equities are up and we would be bringing them down to the target by rebalancing, taking advantage of distressed properties, lock in no fees for a year. Open to scheduling another meeting if we have questions and having a presentation for real estate as it has been a while.
Bill commented: thinks this would be a worthwhile discussion for a presentation with Kairos.

Reserve Cash – Kal

- We had Amalgamated Bank come to us during Jason's time and suggested an allocation of our reserve cash to a deposit of the bank for $5 million. It kind of fell through the cracks because it did not fit the investment program and it wasn't LAIF, it was something in between. We didn't have a mechanism for addressing it, we tried moving forward but stepped back. We said let's redo the investment policy, do a cash investment policy just for the reserves and we put that together with Beacon Pointe's help. Now we are looking to allocate to the reserve cash and Bill gave us updated list for short-term bond and cash investment vehicles. Tammie and I spent time with it and asked Bill to provide more details. Tammie and I are leaning towards asking Beacon Pointe to oversee the reserve cash management using the cash IPS we put together. One advantage is it give us a mechanism for addressing any Amalgamated type of opportunity. We can direct them to Beacon Pointe as we might for any part of an investment program. If anyone of the committee members were approached regarding UCorp investing as part of the investment program, they could direct them to Beacon Pointe. It would also be nice for them to manage the reserve cash program. Does this help everyone understand or do people have questions?
- One concern of an Amalgamated Bank was that we didn't have the capacity to do due diligence. Community Banks as you know have had issues, we don't know anything about their finances or credit worthiness. In a structure like this, an Amalgamated bank would be evaluated by manager of one of these funds or by Beacon Pointe. Someone would be doing credit risk which helps with our fiduciary duties. Bill, do you want to review?

Bill commented: Well said, you would be essentially outsourcing the liability to Beacon Pointe. This overview is a list of short-term investment opportunities which Beacon Pointe has teased out that we think are the best opportunities. It offers a range of opportunities. You have T-bills, and numerous fund opportunities and short-term duration. Fixed income managers are all very well-known, which Beacon Pointe thinks highly of - security selection and management of their portfolio. Passive options available as well. In many cases, they can wave the minimums. Kal has thrown out a straw man proposal in terms of an allocation against several of these funds.
Kal commented: I sent Tammie and Bill an allocation as a first place/ starting point of government money market funds, which Schwab has. I see these often on other committees I serve. We are trying to separate from general LAIF funds, we can take a little more maturity or duration risk, credit risk and possibly to a little better because don't need the funds right away. These are not operational funds. They have 0–2-year maturities. Idea is that we can mix the Government money market with some of these funds. With more eyes on our investments, it might be better to use funds and have less things in the name of UCorp. Suggested the top four or five as a starting point.
Tammie commented: Want to add to make sure the committee is also following that this is part of our ongoing conversation that we have been having about investing our short-term cash and getting a little more yield on the investment higher than LAIF. These funds would be coming from LAIF. It would be a mix of our reserves which are $2.5 million and then another $2.5 million that I felt comfortable coming from LAIF. Part of the mix I would want to consider would be the liquidity at least for half where Kal laid out where we had the largest sum going to the government funds because they were liquid. If we did have to tap into those funds, we would not want to tap into bond funds with duration we would not want to sell funds from the bond fund with duration as if we sell could be selling at a loss if you do so before the duration. The funds are all liquid but would not want to sell at a loss.
Kal commented: Great point, for example if we buy a 2-year duration and interest rates go up after we buy it then there is a loss in there and if we need to sell, we could be selling at a loss in theory. Likewise, there is credit in here as these are not governments but are providing short-term loans for higher yields. These are investment grade credit, and not a high probability of default but you could have a credit event like 2008 where high quality does default in theory. It is a low probability. The idea is that you would have other funds to go to so you would not have to deal with these unusual situations which is the idea behind the money markets.
Bill commented: Reminder the construction of the list is meant to recognize the need for cash a be liquid. Minimize credit risk but take some and minimize duration risk.
Kal commented: The credit list is composed is from AAA to BBB+.
Janey asked: Even for BBB+ the default risk is low?
Kal asked: that is correct as anything BBB+ and above is considered investment grade on average.

Bill commented: Thing to consider is that these are short duration. The fund manager for the funds when doing their credit work, they are pretty confident they will be paid back on short duration may not invest in 6-7 years.
Kal: Next steps to ask Beacon Pointe to manage the Cash reserve portion and propose a portfolio.
Yessica: moved the motion
Ly: Seconded

Motion approved to take the motion to the board to approve the resolution.

UCorp Financial Update by Maggie

- Presenting the quarter ended September 30,2024. Including in you package is the balance sheet, income statement and FSR. Will focus the attention on the FSR.
- Highlighting a few points
  - Through 1st qtr the admin fee is 14% ahead of budget.
  - Business Service income for vending is 8% ahead of budget mainly due to new Sephora vending machine.
  - Self-op consisting of Lobby, Healthy U, Ctrl P and Open 24.
    - Lobby revenue down 10% of budget
    - Healthy revenue down17% of budget
    - Ctrl P is 19% ahead of budget
    - Open 24 revenue down 35% of budget
    - Overall revenue 8% below budget and 7% down from last year.
    - Gross profit 2% from budget and 1% from last year
    - The net profit is in line with the budget but down from last year due to the $19k for the door repair in the Lobby shop we might be able to due to an insurance claim we our currently working on.
    - Open 24 though down 35% of budget when looking at the total revenue it is not a significant portion of the shop's revenue, it is roughly 3%
- 1st qtr legal is 26% higher than budgeted due to legal consultation in HR and review of credit union agreement.
- Lastly Non-Operating Revenue that investments through the 1st qtr have performed well currently 65% ahead of budget but this is not and indication of where we will end the fiscal year.
- Audit status update, we have completed the audit, and it is and unqualified opinion which means it is a clean report and that financial statements presented fairly in all material expects. The audit committee has been schedule that the auditor will present to that committee.

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Kal: Noted it was nice to have the so much of our budgeted investment income earned in the first three months. Hopefully we can grow it and hold on to it.

Kal: adjourned meeting at 12:18pm