

CSUSB FOUNDATION

Building a Culture of Philanthropy

Investment Committee Meeting

Friday, August 19, 2022

9:00 a.m.

Zoom

MINUTES

Members Present: Gary McBride (Chair), Monica Alejandre, Thomas Pierce, Ellen Weisser, William Stevenson, Edward Teyber, Dr. Ben Harer

Members Absent: Douglas Freer, Robert Nava, Samuel Sudhakar

Guests Present: Michael Au-Yeung, Maria Badulis, Mike Breller, Estefania Vazquez, Derek Newcomer

Welcome

Investment Committee Chair, Gary McBride, called the meeting to order at 9:03 a.m.

Motion: The minutes for the May 20, 2022, were approved as distributed.

2nd Quarter Portfolio Performance and Discussion

Mike Breller of Beacon Pointe introduced David Newcomer to the committee. Newcomer is the head of alternative investments and will be discussing BP Real Estate Fund which was put together as an access fund to complement the CSUSB Philanthropic Foundation (CPF) portfolio.

Breller presented the 2nd quarter portfolio performance. The total market value across the portfolio is over \$46 million, this includes short-term investments and the endowment. He discussed the macro market environment. Breller mentioned what is not in the report is a 9% turnaround in the S&P 500 or US large cap stocks, international stocks, and growth stocks producing a strong rebound. Breller further explains what is happening is a push and pull between expectations and reality. Asking the question what comes out of the numbers between inflation, federal action, and soft landing versus recession. Breller points out that in the first quarter the Gross Domestic Product (GDP) was a negative number which accelerated movement in the second quarter equity market losses. The GDP for the second quarter was negative as well. Despite these results unemployment is low and wage growth is present. Discussion around recession and soft landing continued.

Breller then reviewed the market performance. During the first quarter, the S&P was down by 4% and another 16% in the second quarter leading to 20%. In the second quarter of the year, growth continues to underperform value. Breller said for a long time he was reporting how

growth is leading value managers, however this time value is leading growth. The reason for this is the sectors that make up value versus growth. The CPF portfolio remains risk neutral.

Attention was brought to the bond market numbers. Breller states this is the worst bond market activity in a six-month period. He explained how interest rates were low for so long there was no yield in bond portfolio and then interest rates moved up substantially. Breller proceeds to provide a detailed explanation on the bond market numbers.

The committee engaged in a discussion on the mortgage interest rate market, inflation, consumer spending, and the two consecutive quarters of negative GDP growth.

Breller then presented on the equity portfolio, both domestic and international are slightly behind the benchmarks. No recommendation to change out active managers. Dr. Thomas Pierce mentioned at one point everything was active in the domestic equity portfolio. Dr. Pierce asked Breller if we should be moving in the direction of the domestic portfolio having a greater passive presence, reducing the active. Breller explained to the committee since the close of the quarter Beacon Pointe has begun to incorporate this large cap as more a half and half. About 50% of it is passive now, 11 of the 33% in large cap space. In discretionary accounts, Beacon Pointe is taking a piece of the active value and growth and putting it into a passive and growth strategy that allows Beacon Pointe to do the asset allocation work. When there is cash flow, a little bit is shifted to value from growth. Instead of placing it all in the S&P 500 it would be splitting the value and growth allocation. Looking at the OCI portfolios Beacon Pointe is taking another 3% to 4% off the value growth active managers putting it into passive keeping the S&P 500 the same would result the portfolio with about 16.5% of the large cap passive rather than the 11%. Breller mentions Beacon Point has confidence in fiduciary management in the value space. It has been performing like the benchmark long term even though it is under performing this time. Beacon Point recommends keeping the S&P 500 and having two Vanguard value and growth take about 2.5% to 3% each from their active managers to move towards a 50% passive.

Motion: The Investment Committee agrees to add Beacon Pointe's recommendation to shift 6% into the passive index funds from the large cap equity active managers to the agenda.
(Teyber/Peirce)

Motion: The CPF portfolio will be adding two Vanguard funds value and growth.
(Weisser/Pierce)

Kairos Overview Real Estate Strategy- Fund VIII

Derek Newcomer reviewed Kairos Fund VIII and led the review and recommendation on the BP Real Estate Opportunities Fund II. Newcomer presented existing strategies for the alternatives in the portfolio. Discussing credit fund, the BP credit opportunities fund, and private direct lenders. Newcomer states as portfolios mature, apart from the Kimpact Evergreen Fund, CPF will see capital come in over the next three months from the assets or from the investments

performing well. Beacon Point is pleased with their performance. A question arose on what is considered a respectable rate of return. Newcomer responded with anything over 15%. The committee further questioned how they can determine the risk factor. Newcomer explains the metrics on how that can be determined are different and requires more than benching it to a beta of the market. Dr. Pierce asked Newcomer if there is an optimal mix amongst these types of assets or if they are dependent upon what market opportunities tend to arise. Newcomer said the target exposure is based on value. Beacon Pointe is focused more on the multifamily side because it is a good resilient asset class. Breller presented various strategies and types of returns.

Beacon Pointe recommended a \$1 million commitment or roughly 2% of the endowment assets be allocated to real estate funds.

Motion: The Investment Committee moved to commit \$1 million commitment or roughly 2% of the endowment assets be allocated to Beacon Pointe Real Estate Opportunities Fund II.
(Stevenson/Pierce)

Open Discussion

Ellen Weisser commented good meeting.

Meeting adjourned at 10:43 a.m.

Approval of Minutes
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Signature: Monica Alejandre

Date: 11/4/22

Print Name: Monica Alejandre

Board Position: Secretary