

CSUSB FOUNDATION

Building a Culture of Philanthropy

INVESTMENT MEETING

Thursday, November 5, 2015 - 2:00P.M.
Administration Conference Room, AD 127

Minutes

Members Present: Bryce Davis
Douglas Freer, *Treasurer*
Ron Fremont, *Executive Director*
Thomas Pierce
William Stevenson, *Investment Committee Chair*
Edward Teyber
Ellen Weisser, *Chairperson*

Others Present: Monir Ahmed
Karen Heifferon
Lisa Iannolo
Sarah Powell

Members Absent: Tomás Morales, *President*

A. Welcome

Stevenson called the meeting to order at 2:07 P.M.

B. Approval of the Minutes

Motion: *The minutes of the September 3, 2015 Investment Committee Meeting were reviewed and approved with a minor edification (Pierce/Fremont/Unanimous).*

C. 3rd Quarter Portfolio Performance and Discussion

Heifferon began her presentation with a brief examination of the overall market, which suffered negative rates of return in areas of U.S. equities, international equities and alternatives. International equities underperformed the most in part due to concerns over and repercussions of China's economy slowing down, to a continuation of plummeting oil prices and concerns over the Federal Reserve potentially raising interest rates. The third quarter's underperformance

affected the year-to-date interest rates. This is the first time since 2011 that the one-year rate of return was negative in most of the asset classes.

Hefferon moved the discussion to the specific performance of the CPF portfolio, whose quarter rate of return was -7.1%, which slightly trailed the allocation index of -6.4% and the policy index of -6.8%. She explained that the underperformance came from CPF's allocation in total fixed income. With 25.1% of the portfolio, CPF's 3rd quarter rate of return in fixed income was -2.6% compared to 1.2% reached by the benchmark index. In every other area, CPF's performance was in line with policy benchmarks. At the one-year mark, the composite rate of return again slightly trailed both the allocation and policy indices, brought down by performance in fixed income and in alternatives. Even with the recent volatility, the long-term rates of return are very close to allocation and policy indices, which Hefferon explains demonstrates that the portfolio holds up to the test of time with less risk.

Hefferon burrowed into a deeper analysis of each asset class of the portfolio. She highlighted St. James, in domestic equity, which aided the overall portfolio. It reached a -0.30% rate of return compared to the benchmark of Russell 1000 at -8.4%. St. James holds significantly more cash than other managers, which offered some protection in the down market. It is paired with FMI, which holds less cash and captures more of the up market compared to St. James, while St. James is there for down market protection, as exhibited by the 3rd quarter performance. Hefferon acknowledged that despite the negative rates of return, they are satisfied with the managers in domestic equities.

Weisser inquired about RS Global Natural Resources, which consistently bring in negative rates of return. At one-year, it had a -47.8% rate of return, with a rank of 97. Hefferon explained that they have exposure to smaller to mid-cap companies, which tend to be more volatile, than large cap names. Yet, Hefferon stated that she would not suggest selling RS Global Natural Resources because it has a place in the portfolio as an inflationary hedge and as a diversifier for the portfolio.

Hefferon brought the group's attention to the portfolio performance update as of October 31, 2015, which increased markedly. In one month, the portfolio's composite rate of return was 4.4% and the year-to-date was a -1.1%, which is an improvement from the year-to-date number of -5.3% as of September 30, 2015. The market value as of September 30, 2015 was \$22.83 million. As of October 31, 2015, the market value is \$23.02 million, which is net of the withdrawal of over \$800 thousand from the portfolio for scholarship distributions. In one month, the portfolio regained about \$1 million. RS Global Natural Resources improved with a monthly 10.6% rate of return.

D. Open Discussion

Fremont raised the topic of CPF's exposure to fossil fuels and thermal coal. According to an analysis conducted by Beacon Pointe, CPF has only .17% exposure to companies who make 50% or more in profits from mining thermal coal. That amounts to less than \$2,500 in profits. Of CPF's total portfolio, there is 5% exposure to fossil fuel. Fremont contends that the issue of social responsibility built into portfolios is gaining momentum and has been discussed by the CSU board of trustees. In an effort to prepare for potential increased external pressure, he opened the conversation to better positioning the portfolio in a way that both keeps in line with the university's commitment to environmental sustainability but also meeting the charge of protecting the endowment for the benefit for which it was intended, namely for students.

Heifferon explained the process of divestiture can be complex with many elements to consider. For one, comingled and mutual funds will invest in the companies of their choosing and they cannot be told to steer clear from companies that may have exposure to fossil fuels and thermal coal. It is easier to screen privately managed funds, but it can be cost prohibitive. She states that there is no portfolio that for every asset class, there is only privately managed funds. Especially as the portfolio grows, it will prove more difficult to get away from comingled vehicles. While it might be cost prohibitive and close to impossible to have absolutely no exposure to such resources, there might be ways to mitigate the exposure while not giving up on performance.

Heifferon closed by stating that while the third quarter was extremely volatile and skewed the other data points, it is very time-period dependent. She encouraged the committee to have the patience to stay the course and that had the committee hypothetically changed courses very quickly, the portfolio would not have had the opportunity to capture the upside of October.

E. Adjourn

Meeting was adjourned at 3:40 P.M.

Signature of Minutes Approval

Investment Committee Meeting

Meeting Date: November 5, 2015 @ 2:00 P.M.

Administration Building Conference Room, AD-127

Signature:  Date: 3/3/2016

Print Name: William Stevenson

Board Position: Chair