



MINUTES

September 26, 2022 Finance & Investment Committee Meeting of the California State University, Stanislaus Foundation Board

I. Welcome and Call to Order

Chairman R. Ronten called the September 26, 2022, meeting of the Finance and Investment Committee to order at 2:03 PM.

PRESENT: D. Bizzini, R. Fitzpatrick, M. Lahti, R. Ronten, R. McAuliffe

ABSENT: E. Junn, J. Jacinto, J. Vieira

OTHERS PRESENT: J. Borba, D. Dores, T. Au, A. Parmisano, K. O'Keefe

II. Consent Agenda

A. Approval of Minutes – May 19, 2022

The minutes of the May 19, 2022 meeting were approved as presented.

MSP (R. Fitzpatrick/ R. McAuliffe)

III. Discussion & Reports

Graystone Consulting Portfolio Review as of June 30, 2022

General Notes:

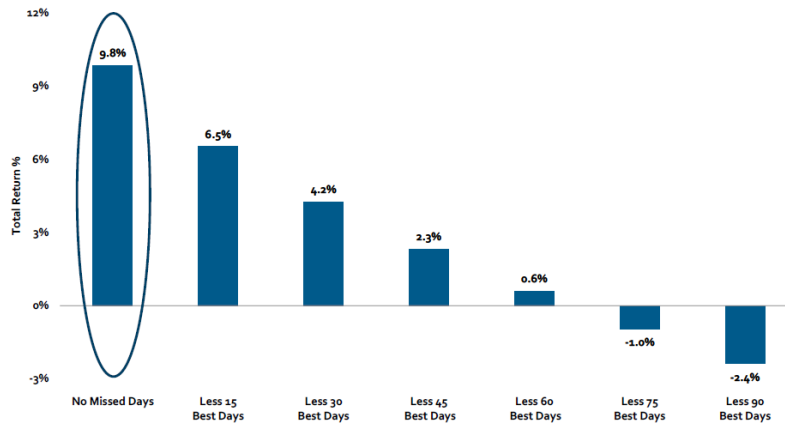
- Graystone first presented a review of the capital markets.
 - They started with a review of the volatile second quarter, highlighting that most asset classes (including both stocks and bonds) were down substantially again in Q2.
 - Next, they covered a review of their forward market outlook as well as an outlook for the economy.
 - They reminded the committee of their view that this economic recovery is expected to burn hotter but faster than previous cycles, largely due to the inflationary impulse and the expected path of fed rate hikes. As a result, recessionary risks with rising employment is a growing probability.
 - Graystone remains cautious on equity markets in the short term with an expectation that economic and earnings challenges, combined with geopolitical uncertainty keep volatility elevated through the remainder of the year.
- Graystone next reported that the portfolio is compliant with the investment policy guidelines and that asset allocation sits very close to investment policy targets.
- Graystone presented the returns and explained that the Endowment finished the quarter down approximately 10.5%, in line with the benchmark.
 - As Graystone highlighted during the capital markets discussion, the key detractor within the portfolio was the exposure to equity, in particular, exposure to growth stocks combined with an underweight to the energy sector.
 - Graystone highlighted the bright spots in the portfolio were the hedge funds and real assets allocations which outperformed both stock and bond markets during the quarter.
 - Graystone answered questions regarding the real assets and hedge fund portfolio. Graystone commented that they are operating within the policy guidelines thus they would not feel comfortable adding too much more capital to the Ironwood position (defensive). Graystone commented that they will continue to diversify the portfolio as it grows in size.

- Next Graystone took the committee through an overview of the changes made to the portfolio during the year and the quarter.
 - In U.S. equities we maintain our value tilt and are equal weight versus the benchmark. We divested from the tactical financials trade and have paired Aristotle Value Equity with Columbia Dividend Income, the latter is a manager with a larger-cap, higher-quality, lower-beta profile that has been additive to relative performance. While European equity markets have performed comparably with U.S. equities, we see the region as having asymmetric downside risk due to the Russia/Ukraine conflict and stagflation risks, with the ECB tightening policy into slowing growth. We reduced exposures to be further underweight international equities relative to the benchmark and added a lower tracking error manager in T. Rowe Price International Core Equity ADR, which will share the active allocation in international equities with Capital Group International ADR, while maintaining the passive tilt through iShares Core MSCI Intl Dev Mkt.
 - In the U.S. fixed income segment, we seek to take advantage of expectations for rates to top in the second half of the year and are maintaining an approximately neutral duration overall. We implemented this through additions in attractive parts of the aggregate benchmark: 1) adding historically wide MBS spreads through the *JP Morgan Mortgage-Backed Securities Fund*, 2) adding defensively to short duration IG corporates where yield opportunities have become evident via *Vanguard Short Term Corporate Bond ETF* and 3) purchasing mid-curve yields near 3% on a flat US treasury curve through *iShares 7-10 Year Treasury Bond ETF*. Additions were largely financed by reducing exposures in the portfolio to the actively-managed *Western Core Plus Fixed Income Fund* and divesting out of the *Invesco Senior Loan ETF* that has outperformed but may be challenged should credit conditions deteriorate.
 - **New Managers Added:**
 - T. Rowe Price Intl Equity ADR
 - Columbia Dividend Income
 - iShares BC 7-10 Ys Treasury Bond ETF
 - JP Morgan Mortgage-Backed Sec Fund
 - Vanguard Short Term Corporate Bond ETF
 - **Managers Eliminated:**
 - Vanguard Financials ETF
 - Invesco Senior Loan ETF
 - **Managers Trimmed:**
 - Aristotle Value Equity
 - Vanguard Value ETF
 - Western Core Plus Fixed Income
 - iShares BC Aggregate Bond ETF
 - DoubleLine Total Return Bond Fund
- The Committee had a discussion about the overall investment strategy relative to the tactical changes being made. Graystone reminded the committee that their Fiduciary duty is to have a strategy that meets their long term goals and objectives. Thus, they would never make overweight or underweight positions that would preclude the Foundation from meeting its investment objectives. Most of the changes that are made are going to be within the targeted asset class. As an example, while there is currently a modest underweight to public equity, many of the changes being made are to make the overall public equity composite more conservative. As an example at the moment there is an overweight to US relative to international and there is an overweight to value versus growth.

- Richard commented that it is important to stay invested because if you miss the best days then the overall return of the portfolio goes down dramatically. Graystone shared the following slide.

Effect of Timing on Annualized Returns

Annualized Total Returns of S&P 500 (1990-2022)
As of September 19, 2022



Source: Bloomberg, Morgan Stanley Wealth Management GIO. Note: Best days are defined as the days with the highest single-day returns in the S&P 500. Past performance is no guarantee of future results. Estimates of future performance are based on assumptions that may not be realized. This material is not a solicitation of any offer to buy or sell any security or other financial instrument or to participate in any trading strategy. Please refer to important information, disclosures and qualifications at the end of this material.

- Graystone reminded the committee of an adage that: “Successful investors have learned that it is TIME IN THE MARKET, NOT MARKET TIMING.”

B. 1. Cash Report

Dores reviewed the Cash Report as of June 30, 2022 which includes cash and investments by fund that tie back to the financial reports.

2. Audited Financial Statement as of June 30, 2022- D. Dores noted the audited financials were presented to the audit committee by Bobby LaCour a Partner with Aldrich, at that meeting he noted that the audit was in accordance with auditing standards generally accepted in the United States and that they are required to be independent of the Foundation and provided an unmodified opinion. Reviewed the primary areas that he went over with the committee: Statement of Financial Position which had a slight increase in cash and cash equivalents over prior year. Current pledges overall had an increase over prior year. Statement of Activities noted the higher contributions received over prior year and the lower investment return which is what was expected.

C. Philanthropic Update

M. Lahti presented a new report concept that University Advancement desires to publish on a regular basis.

IV. Action Items/New Business

A. Reintroduction of the Foundation Budget 2022/23

A foundation budget workgroup is being formed to review the budget format.

MSP (R. Fitzpatrick/ R. Ronten)

V. Calendar Item – Announcement (s)

The next meeting date of the Finance and Investment Committee is scheduled for November 17, 2022.

There being no further business before the Committee, Chairman Ronten called for a motion to adjourn.

MSP (D. Bizzini/R. Fitzpatrick)

The meeting adjourned at 4:47 PM.

Recorder: *Michele Lahti*
Michele Lahti for Mary Hartsfield

Approved: *Richard Ronten*
[Richard Ronten \(May 12, 2023 21:29 PDT\)](#)
Richard Ronten, Chair