FINANCE COMMITTEE MINUTES

SSUAF Finance Committee
Tuesday March 10, 2015
Executive Conference Room, Salazar Hall

Members Present: Ian Hannah (Chair), Amanda Visser, Robert Eyler (tele.), Tom Gillespie (tele.), Wally Lowry, Mike Marovich, Mike Sullivan (tele.), Michael Troy, Irv Rothenberg, Laurence Furukawa-Schlereth

Committee Staff Present: Katelynn White, Jennifer Benson

Guests: Todd Au, Tony Parmisano - Graystone Consulting
         Adam Rosenkranz – Student Representative

Members Absent: Erik Greeny

I. OPENING COMMENTS

Ian Hannah welcomed the committee members and opened the meeting at 3:00 p.m.

II. APPROVAL OF THE MINUTES- November 17, 2014
(See March 10, 2015 agenda packet.)

Minutes were unanimously approved.

III. UPDATES

Hannah commented on the separately managed Galbreath endowment and reminded the committee that the updates on the investment portfolio were sent out via email. Galbreath posted a 6% total return for calendar year 2014, including income distribution of 4%.

He also mentioned that the topic of socially responsible investing, particularly fossil fuel divestment, came up at both the NACUBO and AOA conference meetings he attended and thus may be a topic requiring additional review by SSUAF in the future. Associated
Students resolutions concerning this topic at various other CSU campuses (Humboldt, Chico, SFSU) have also brought additional attention to this matter.

Hannah also noted that just prior to the next SSUAF Board meeting would be a joint luncheon for both SSUAF and CSU Foundation Board members to attend.

IV. GRAYSTONE - POOLED ENDOWMENT INVESTMENTS
(See March 10, 2015 agenda packet.)

*Quarterly Update*
Todd Au and Tony Parmisano from Graystone Consulting provided the committee with a quarterly report as of 12/31/14.

Market Value of the endowment assets managed by Graystone was approximately $35.4M, which is down slightly from Q2.

Au explained the main factors driving the capital markets and influencing asset values in the recent quarter. He then outlined the current market views and perspectives that shape portfolio positioning and performance expectations for SSUAF:

*Asset Allocation Discussion*
Au and Parmisano presented analysis of SSUAF endowment asset allocation, in the context of SSUAF’s investment objectives and in comparison to NACUBO-Commonfund Study of Endowments (NCSE) data.

SSUAF asset allocation guidelines were developed after a series of studies and discussions with the Finance Committee in the first quarter of 2011 and were ultimately approved by the Board.

In comparing SSUAF to the NCSE peer group, in light of recent underperformance, the following are key points to consider:
- Lower Expected Returns & Risk
  - Lower returns but lower volatility
- Lower Equity Allocations (public & private equity)
  - Underperformance in bull markets
- Higher Hedge Fund Allocation
  - Volatility reducer and provides risk adjusted returns
- Higher Real Assets Allocation
  - More sensitive to inflationary changes

The overall recommendation from Graystone was that the asset allocation targets are still appropriate given the objectives and risk tolerance of the institution. SSUAF should allow time for a complete economic/business cycle of 7 years +.

It was noted that should the Foundation take on more risk in their asset allocation, this will lead to more volatility and would have meaningful impact to portfolio risk. There was discussion of potentially lowering fixed income allocation targets but that at current
valuations, equities did not make for an attractive alternative. There were no objections to SSUAF staying the course for a full cycle and not altering asset allocation targets/ranges at this time.

**Active Vs. Passive Investing Discussion**
The discussion then turned to the topic of Active Managers vs Passive Managers in light of recent underperformance in the active manager space.

- Investors have been debating the benefits of active vs passive management for decades.
- Active managers as a group have struggled to outperform their benchmarks over the most recent period. Since 2009 the market has experienced high correlations, low return dispersion, high valuations, and falling interest rates - all factors that lead active management to be out of favor.
- SSUAF’s long term strategy is to choose Active Managers that have exhibited successful track records of producing (net of fees) over long-term periods as measured against benchmarks. In the event that a compelling manager cannot be identified, a passive strategy will be used.
- Despite recent disappointments, Graystone is still a believer of active management over the long run. Down capture is the largest benefit of active over passive management. Graystone feels it may be worth considering complimenting active with passive strategies in the more efficient asset classes in order to lower expenses and focus on higher alpha areas of the market.
- Morgan Stanley recently published a white paper which argues that a simple 50/50 blend between active and passive will outperform a purely active portfolio.
- The committee agreed that it makes sense to stick with SSUAF’s long term active management strategy but to be open to passive/index fund opportunities as they arise and make sense in the portfolio.

V. OPEN ITEMS

Irv Rothenberg suggested that a list of talking points related to the SSUAF endowment be provided to all committee members to provide a framework for those who speak with the public. Hannah agreed to prepare such a document and disseminate to the committee and/or the full Board.

Meeting adjourned at 4:51 p.m.

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Minutes Approved by:  
Amanda Visser  
Chief Financial Officer, SSUAF

Minutes Prepared by:  
Ian Hannah  
Chief Operating Officer, SSUAF