FINANCE COMMITTEE MINUTES

SSUAF Finance Committee
Monday, November 17, 2014
Salazar Hall - Conference Room A

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

Committee Staff Present: Jennifer Benson

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

Members Absent: Erik Greeny

I. OPENING COMMENTS

Ian Hannah welcomed the committee members and opened the meeting at 3:04 p.m.

II. APPROVAL OF THE MINUTES- SEPTEMBER 8, 2014
(See November 17, 2014 agenda packet.)

Minutes were unanimously approved.

III. GRAYSTONE – POOLED ENDOWMENT INVESTMENT
(See November 17, 2014 agenda packet.)

Todd Au, and Tony Parmisano from Graystone Consulting opened by sharing that the CSU Contract has been signed and finalized, and noted that this has no impact on Sonoma State University Academic Foundation, but should overall result in a more streamlined and simplified processes.
The discussion then turned to the agenda items, including a review of the 9/30/14 quarterly results, the NACUBO-Commonfund Study of Endowments (NCSE) preliminary results, the decision by CalPERS to remove hedge funds from their asset allocation, and votes on the following managers; Westfield Equity Growth Fund, Emerging Markets Index ETF, and Millennium International Ltd.

Quarterly Results as of 9/30/14
The Market Value of the endowment assets managed by Graystone is approximately $35.5M, and overall the pooled endowment portfolio slightly underperformed the benchmark for the quarter. Parmisano explained to the committee that uncertainties emerged in Q3 causing declines in most asset classes, particularly risk assets, and equities.

NCSE Results
Based on preliminary results, SSUAF underperformed the NCSE average results for Fiscal year 2013/14 as well as the three year average. This is due primarily to differences in asset allocation, particularly due to being overweight Fixed Income and underweight Private Equity when compared to the average. However, 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. Graystone will refresh their asset allocation work to show results of a stress test at the next meeting. Au also noted Graystone’s disappointment with active management over the last couple of years but that Graystone is still a believer of active management over the long run. He added that down capture is the largest benefit of active over passive management. There was discussion of potentially lowering fixed income allocation targets but that at current valuations, equities did not make for an attractive alternative. The full NCSE report is to be released in February and thus a more complete comparative analysis may be completed at that time.

CalPERS divestment of Hedge Funds
Graystone explained to the committee that in mid-September, CalPERS announced that they would pull approximately $4 billion from their hedge fund program, which is approximately 1.5% of their total allocations. Due to such a low percentage, CalPERS experienced poor returns that failed to outperform the HFRI benchmark. SSUAF’s portfolio is optimized to a 20% target and is consistent with other endowment funds. SSUAF’s results have been very strong in Hedge Funds and are right in line with our peers. Hedge Funds are an important diversifier in the SSUAF portfolio which is designed to provide a more stable return stream, reduce volatility and offer lower correlations versus traditional markets. Due to this Graystone has recommended that SSUAF maintains the 20% target to hedge funds. No objections were made by committee members.
Portfolio Recommendations
Graystone summed up the meeting by presenting three recommendations to the committee.

The first recommendation was to move funds from the Touchstone All Cap Growth Fund, which is sub-advised by Westfield, to a separately managed account with Westfield in order to reduce the manager expense ratio.

Motion: To accept Graystone’s recommendation to move funds from Touchstone All Cap Growth Fund to a separately managed account with Westfield.

Action: Unanimously approved

The second recommendation to the committee was to terminate DuPont’s Emerging Markets and invest the proceeds in the Emerging Markets Index. The rationale related to the retirement of the lead portfolio manager amid a period of underperformance at Dupont.

Motion: To accept Graystone’s recommendation to terminate DuPont Emerging Markets Fund and invest the proceeds in the iShares MSCI Emerging Markets ETF Index Fund.

Action: Unanimously approved. Rothenberg noted that the committee’s intention is to commit to this passive index fund for a full business cycle.

The final recommendation to the committee was to submit partial redemptions in the Hedge Fund space for SCS and Evanston Weatherlow fund-of-funds and invest $1 million in the Millennium International Ltd. single manager strategy. Millennium is a multi-strategy hedge fund that Graystone believes offers improved risk/return characteristics at a reduced expense ratio relative to existing fund-of-funds vehicles.

Motion: To accept Graystone’s recommendation that we partially redeem SCS Opportunities and Evanston Weatherlow ($500,000 each) and invest $1 million with Millennium International Ltd.

Action: Unanimously approved

Meeting adjourned at 4:46 p.m.

Minutes Approved by:
Amanda Visser
Chief Financial Officer, SSUAF

Minutes Prepared by:
Katelynn White / Jennifer Benson
Staff, SSUAF