



UFSS Finance Committee Meeting

California State University, Sacramento

Wednesday, April 9, 2025 from 3:30 to 5:00 PM PDT

<https://csus.zoom.us/j/83169377993?pwd=aYA7QytdigD4k1MHUB30b5GmHp0pYS.1>

Agenda

I. Call to Order

II. Public Comments - Members of the public may speak for up to one minute

III. Review and Approval of the April 9, 2025 Agenda

IV. Review and Vote on Memorandum of Direction

V. Discussion of non-endowed investment strategy

VI. Discussion of Reserve Policy

VII. Discussion of Investment Income Allocation

VIII. Open Forum

IX. Adjournment

To: Board of Directors, The University Foundation of Sacramento State
From: Finance Committee
Date: March 28th, 2025
Subject: Recommended Policy Revisions and Operating Procedures

Executive Summary

The Board of Directors of the University Foundation of Sacramento State created an ad hoc investment task force to explore the Foundation's mission alignment with the University, the potential adoption of socially responsible principles in its investment directives, and based on its findings, to propose amendments to its policy statements.

An iterative process ensued, whereby the task force reaffirmed its commitment to its fiduciary responsibility in the stewardship of the Foundation's investment assets, while acknowledging the need to (1) explicitly articulate its support for the University's mission, (2) actively review its investment exposures relative to their alignment with the University's values, and (3) elevate its reporting and transparency to its multiple constituencies in the University community.

As articulated in this memorandum, the task force is recommending a series of modifications to the Foundation's mission statement, its Investment Policy Statement and its internal review and reporting procedures. We believe these recommendations are prudent and timely and will evolve our organization in a balanced and reasonable manner that honors our donors, supports our student beneficiaries, and further aligns our approach with the directives of the CSU system, the mission of Sacramento State and the broader campus community.

Recommendation #1: Alignment of the Foundation Mission Statement

Process: The task force reviewed the mission statements of the University and of the Foundation, considered the stated values of the University as well as leadership's vision for the future, and discussed whether alignment with the University's mission and values precluded other objectives of the Foundation, specifically to its fiduciary responsibility in the management of its resources.

Conclusion: The University's mission statement may evolve over time, but at its most basic level, it is about serving underserved students, a mandate that is implicit in the Foundation's mission statement. Through this process, the task force reaffirmed its primary commitment to the Foundation's fiduciary responsibility – our duty of care, loyalty and

obedience – in the management of the foundation’s assets. As a result, the task force concluded that both mandates – a commitment to its fiduciary responsibility and a commitment to the values of the University, if prioritized appropriately, can coexist in a reasonable and prudent manner. Finally, the committee acknowledged that the evolution in the political, social and legal environments (See Appendix A) may result in mission evolution over time, and as such, a broad, rather than specific, reference statement to mission alignment was appropriate.

Recommendation: The task force recommends our mission statement evolve as follows:

Foundation Mission Statement

The University Foundation promotes philanthropy to provide a level of excellence at the University beyond what is possible through state funds.

The members of the Board of Directors of The University Foundation accomplish this mission by helping to raise private resources that advance the mission and priorities of the University and serving as ambassadors for philanthropy in the University community.

The Board provides fiduciary stewardship in the prudent investment of its resources, actively reviews its investment exposures relative to their alignment with the University’s mission and ensures the integrity of The Foundation through accountability and transparency in its interactions with its donors, beneficiaries and the broader University community.

Recommendation #2: Alignment of our Investment Policy Statement

Process: The task force reviewed the Investment Policy Statements and the underlying investment portfolios of our peer organizations within the CSU system, considered the Foundation’s history of investment exclusion and divestiture, and discussed the implications of the Foundation’s indirect funds-based approach in reflecting mission and values alignment in our investment process.

Conclusion: The Foundation’s investment approach utilizes a highly diversified, low-cost, funds-based approach that does not invest directly in the equity of individual companies. This is a best practices approach to endowment management that philosophically aligns with current CSU system guidance (See Appendix A) and results in a policy of ‘no direct investment’ in all aspects of our implementation. The task force acknowledged that despite the University’s mission statement being very broad, subject to evolution, and open to interpretation, the Foundation over time has represented the socially responsible principles of the CSU system through the prohibition of direct investment in tobacco companies as well as funds that principally invest in commodities and fossil fuels.

Furthermore, the Foundation's current Investment Policy Statement (Goals and Objectives – Section 2.1(4)) already specifies that "... the committee will consider investments that support Sacramento State's mission statement ...". Finally, our review of the Foundation relative to the CSU peer group confirmed our current approach to be well within the guidance of the CSU system and well within the range of implementation approaches among our peers.

Recommendation: We are recommending that our Investment Policy Statement, as it pertains to mission alignment, evolve as articulated in Appendix B. This evolution includes a proposed policy statement on our socially responsible principles. The task force also believes a general review of the Investment Policy Statement for modernization and operational alignment reasons is necessary, with proposed changes listed in Appendix C.

Recommendation #3: Elevate our Review Process, Reporting, and Transparency

Process: The task force reviewed specific underlying exposures to select industries and securities in the current investment portfolio, debated what constitutes mission alignment and the complexities inherent with establishing thresholds for mission statement compliance. Additionally, the task force discussed the need for a regular review of our underlying investment exposures and considered ways to improve accountability and transparency in its interactions with its many constituent groups.

Conclusion: The task force reaffirmed that it is presently in compliance with the guidance for auxiliary organizations in the CSU system. As it relates to measuring underlying investment exposures, the task force agreed that establishing de minimis standards for specific exposures in the portfolio would be impractical and advocated for a review process whereby the Board would exercise reasonable and prudent judgment on a case-by-case basis. Relatedly, active engagement by the Board, including a regular portfolio review of more granular underlying exposures, broadly and in response to ad hoc requests, was advocated for by the committee. Finally, a more robust approach to external reporting to increase transparency and approachability in our messaging was viewed as being of critical importance.

Recommendation: We are recommending the documentation of these procedures in our Investment Policy Statement, increased levels of reporting granularity from our Advisor, and elevated reporting from our internal accounting authority as articulated in Appendix D.

Appendix A

Operating Guidance and Environmental Factors

1978 CSU Investment Policy Statement regarding Auxiliary Organizations

The CSU Board of Trustees passed a resolution asking auxiliary organizations to consider the social responsibility of those corporations in which stock is purchased or held. Each investment policy should include a statement of the board's position on socially responsible investing.

<https://www.calstate.edu/csu-system/auxiliary-organizations/Pages/investment-policy-for-auxiliary-organizations.aspx>

General CSU System Guidance

The California State University (CSU) system's socially responsible statement indicates a commitment to considering environmental, social, and governance factors when making investment decisions, aiming to align their investments with their values by avoiding companies that engage in harmful practices while seeking positive social impact alongside financial returns; this includes policies encouraging auxiliary organizations to incorporate similar socially responsible investing strategies within their own investment portfolios.

2021 CSU Guidance on Divesting Fossil Fuels

In 2021, then-Chancellor Castro announced that the CSU system would be divesting from direct investment in fossil fuels, citing the need to assure the CSU's future financial security and to honor the system's commitment to its sustainability principles.

2024 CSU Statement on Isreal Divestment

In 2024, the CSU Office of the Chancellor issued the following statement:

“In light of its fiduciary responsibilities and existing policies governing the assessment of environmental, social, and governance risks, the California State University does not intend to alter existing investment policies related to Israel or the Israel-Hamas conflict.

Because of state law and CSU's investment policies restrictions, the CSU does not invest in direct stocks or equities in any companies. The system does invest in mutual funds, bonds, and other instruments.”

2025 Political, Social and Legal Considerations

The following sample of broader operating environment considerations were incorporated into the thinking around any proposed changes to our documents, as compliance with the law, which may be dynamically changing, as well as committing to a “Hippocratic Oath” of ‘doing no harm’ to the University and the Foundation as it relates to funding sources and operations, were deemed as relevant in the revision process:

ESG: American Airlines' focus on ESG in retirement plan is illegal, US judge rules (January 11, 2025)

Synopsis: A federal judge in Texas on Friday said American Airlines violated federal law by basing investment decisions for its employee retirement plan on environmental, social and other non-financial factors.

<https://www.reuters.com/business/aerospace-defense/american-airlines-focus-esg-401k-plan-is-illegal-us-judge-rules-2025-01-10/>

DEI: New Executive Order Targets Federal DEI Practices

On January 21, 2025, President Donald Trump issued an Executive Order entitled “[Ending Illegal Discrimination and Restoring Merit-Based Opportunity](#)” (the “Order”).

<https://www.callaborlaw.com/entry/new-executive-order-targets-federal-dei-practices>

Funding: Trump threatened college research, culture and funding. Confusion reigns. Washington Post (February 8, 2025)

Synopsis: The administration has threatened their funding, federal agencies are launching investigations, and executive orders aimed at wiping out diversity, equity and inclusion efforts nationwide could transform the culture at some universities.

<https://www.washingtonpost.com/education/2025/02/08/trump-orders-impact-colleges-funding-research-culture/>

Sacramento State, UC Davis among 10 California universities being investigated. (March 18, 2025)

Synopsis: Sacramento State and UC Davis are two of 10 California universities being investigated by the U.S. Department of Education Office of Civil Rights for alleged Title VI violations

<https://www.sacbee.com/news/local/education/article301856589.html>

Appendix B

Mission Statement Alignment Investment Policy Statement Edits

2.0 Incorporation of the revised Foundation Mission Statement.

2.0 Incorporation of a policy statement of the Foundation's socially responsible principles:

It is a core value of the Foundation, to invest the Foundation's assets in a manner consistent with our socially responsible principles, within the guidelines established by the CSU Board of Trustees. As such, the Board of Directors continually strives to strike an appropriate balance between its support for the University's values and its fiduciary duty to create financial returns in support of the Foundation's mission. The Board of Directors also recognizes that because the Foundation invests mainly in commingled vehicles such as mutual funds, which limit the ability of any individual investor to enforce customized investment parameters, our ability to directly enforce customized investment guidelines may be limited. That said, The Foundation regularly reviews its underlying investments and directs its Investment Advisor to invest in investment vehicles that are as consistent as possible with the University's mission and values, while balancing the financial return objectives of the Foundation, in a manner that advances our mutual long-term interests.

2.1(1) The primary goal is to preserve the real value of the endowment corpus by achieving a growth rate on the principal amount of the endowment over a market cycle (3-5 years) of 300 basis points over the rate of inflation as measured by the CPI, while adhering to our established socially responsible principles.

2.1(3) To the extent compatible with objectives 2.1(1) and 2.1(2), the investment strategy should maximize long-term total return, while assuming a prudent level of investment risk.

2.1(4) The Advisor will consider investments that support Sacramento State's mission statement, subject to performance history, team stability, portfolio impact, costs relative to similar active and passive funds, liquidity, availability, access, and in consultation with the Finance Committee.

2.2(5) UFSS will not invest in funds that principally invest in fossil fuels.

2.2(6) UFSS will review its underlying investment exposures annually relative to their alignment with the mission and values of the University.

2.3(1) The endowment portfolio is to be invested to maximize long-term total return relative to the risk of its underlying asset allocation. The total return objective (net of fees) for the endowment portfolio, measured over a full market cycle, shall be:

Inflation (as measured by the Consumer Price Index, "CPI") plus 300 basis points and to exceed market performance as defined by a composite benchmark as defined in Appendix B, while adhering to our established socially responsible principles.

2.4(2) The Investment Manager will have the flexibility to shift the commitment of their managed assets among asset classes, industry sectors and underlying securities to pursue opportunities or to reduce risks presented by long-term secular changes in the capital markets. The asset allocation of the composite endowment portfolio will fluctuate with market conditions and with the decisions made by the individual managers.

4.0 Replicate Endowment redlines for Charitable Trusts section.

Appendix B: I. ACCOUNT CIRCUMSTANCES

The investments in this capital account represent a major asset of UFSS, and as such, are intended to be managed in a manner that will both promote their growth in excess of inflation and be mindful of capital preservation over the long-term. In 2022, at the direction of the Office of the Chancellor, the UFSS Board divested from direct fossil fuel investments. In 2025, at the direction of UFSS Board, the Foundation adopted a statement of socially responsible principles to actively align its investment exposures with the University's core values.

Appendix B: II. INVESTMENT OBJECTIVES

UFSS seeks to achieve growth of the portfolio at a moderate rate in excess of inflation. Preservation of capital is an important consideration; therefore, portfolio volatility should be held similar to that of the evaluation benchmark as a whole, over a complete market cycle.

1. Portfolio Return Objectives -

- Total Portfolio Return: Achieve a time-weighted, rate of return of 3.0% over CPI, after fees and program costs, while adhering to our established socially responsible principles. This return will be pursued through a diversified and strategically integrated approach to investment management, providing an average annual return that will be measured over a complete market cycle which is defined as five years.
- Blended Benchmark Return: Over rolling five-year cycles, to achieve a return that exceeds the Blended Benchmark, net of fees with similar risk, with the understanding that from time to time, the performance of certain socially responsible investment vehicles may deviate from such established indices.

Appendix B: III. POLICY & ASSET ALLOCATION

Investment Vehicles - The portfolio's investments will be allocated over various asset classes, either directly or through pooled or commingled investment accounts (mutual funds and index funds), that might include domestic and international equities, bonds, real estate, alternative investments, and cash or cash equivalents. With each asset class, Sand Hill Global Advisors will weigh factors including performance history, team stability, portfolio impact, expense, market efficiency, liquidity, transparency of information, diversification and mission to determine investments are in UFSS's best interests.

Appendix B: IV. INVESTMENT GUIDELINES

Sand Hill Global Advisors may utilize an appropriate combination of index funds, mutual funds and ETF's as well as specialized third party, commingled fund or mutual fund alternatives to implement the asset allocation. Third-party offerings will be used to enhance the portfolio's diversification in certain asset classes that require specialized expertise or where liquidity may be limited. In each case, the potential for added value, institutional share class fees and cost effectiveness will be a major consideration. Such categories will include passive strategies such as index funds or exchange-traded funds (ETFs), and active strategies such as international, emerging markets or REIT mutual funds.

1. Individual Equity Securities in the Direct Account:

UFSS will not utilize individual equity securities in its investment allocation.

2. Commingled Funds, Mutual Funds and Index Funds:

- The fund selection process will incorporate criteria such as investment style and process, experience of the investment team, organizational stability and performance analysis such as long-term, risk-adjusted returns, manager tenure, relative performance in up and down markets, consistency of management style, and relative expense ratios. Special care will be taken in the selection of the appropriate type of security or class of shares to minimize the expense ratio and transaction costs. When appropriate, negotiations will occur with custodians for the waiver of loads, minimums, and transaction fees.
- The fund selection process will consider investments that support Sacramento State's mission statement, subject to performance history, team stability, portfolio impact, cost relative to similar active and passive funds, liquidity, availability, access, and in consultation with the Finance Committee.

Appendix C

General Implementation Investment Policy Statement Edits

2.5(1)e Not more than 30% of the portfolio shall be invested in a single industry, using standard industry codes to define an industry.

2.5(2)d Fixed income assets should not consist of more than 5% in funds without daily liquidity.

2.5(2)e Managers may invest in the following types of fixed income securities:

- U. S. government and agency bonds
- U. S. domestic corporate bonds
- Other "dollar" denominated securities (Yankees, Eurodollars, etc.)
- Preferred stocks
- Convertible bonds
- Supranational Agency Securities
- Mortgage-backed Securities
- Collateralized Mortgage Obligations
- Municipal Bonds
- High Yield
- International and Emerging Market bonds
- Private Credit

2.5(2)g Fixed income portfolios should have an average duration of 8 years unless specific written permission is received from the Finance Committee.

2.9(4) The investment managers must be prepared to meet with the Finance Committee at least quarterly to discuss the fund performance and the future performance of the fund.

3.1(4) The rate of return objective is to perform comparably with readily available short-term investment alternatives. A 90-day Treasury Bill is appropriate for measuring the performance.

3.3(1)d The average duration of the portfolio shall be between 0–3 years. However, any specific bond can have a longer or shorter duration.

3.3(2) Cash Equivalents

- a) Managers may invest temporary cash in the following types of securities:
- Money market funds and other commingled vehicles

- Commercial Paper
- Bankers acceptance
- Certificates of deposit not to exceed \$250,000 per issuer
- Eurodollar certificates of deposit
- Bank deposit notes
- U. S. government bills and notes

III. POLICY & ASSET ALLOCATION

Asset Allocation:

	<u>Range</u>	<u>Target</u>	<u>Range</u>
TOTAL EQUITY	52 %	66%	80%
TOTAL FIXED INCOME	15%	21%	35%
REAL ASSETS	0%	4%	8%
ABSOLUTE RETURN	0%	7%	15%
CASH/CASH EQUIVALENTS	0%	2%	15%

Generally, the allocation will be within the ranges shown above; however, SHGA is permitted to have a more defensive position that may result from significant cash inflows.

IV. INVESTMENT GUIDELINES

2. Individual Fixed Income Securities in Direct Accounts;

- Up to 10% of the total account may be invested in below investment grade securities, commonly referred to as “high yield debt” or its risk equivalent, but only through adequately diversified investment vehicles.

5. Alternative Investments:

- Alternative investments will be broadly defined, but not limited to, as investments in absolute return funds, gold, real return strategies, venture capital, private equity, and other hedged investment vehicles. These categories are to be implemented only through diversified investment vehicles. In the case of absolute return private partnerships, the diversification should be achieved through a “fund of funds” approach.

Appendix D

Reporting, Transparency and Review Recommendations

Investment Policy Statements Revisions

2.2(6) UFSS will review its underlying investment exposures annually relative to their alignment with the mission and values of the University.

2.8(2)d A review of the underlying indirect exposures in the portfolio will be reviewed by the Finance Committee on a regular basis to reaffirm or challenge such exposures relative to their alignment with the mission and values of the University.

Appendix B: VI. CONTROLS AND MONITORING

As scheduled, the UFSS Finance Committee will review the investment performance of SHGA and the individual managers (retained by SHGA) in the portfolio with respect to the risk return, and mission-related objectives established by UFSS's Board. The review may include topics such as the overall business management, organizational changes and other relevant factors.

SHGA will provide on a regular basis, and in response to ad hoc Board requests, elevated reporting on underlying exposures to geographies, sectors, industries and individual securities as determined by the Finance Committee.

Internal Reporting Recommendations

The Finance Committee will regularly review and report out to the Board any findings as it pertains to matters of mission alignment. Should such matters be determined by the Board of Directors as requiring mitigation, the Finance Committee will provide direction to the Advisor, who will reasonably address within the construct of the Foundation's implementation approach.

The Advisor will work with the Finance Committee to develop detailed reporting on geographic, sector and industry exposures on a regular basis as well as provide individual corporate equity and bond exposures on an annual basis.

The Internal Accounting Team will increase the level of reporting and the approachability of our messaging in our external communications and annual audited financial statements.