



# CAL STATE EAST BAY

CSU East Bay Foundation, Inc.

October 7, 2021

2:30- 4 p.m.

Via Zoom

Board Meeting Minutes

## Members in Attendance

Carrie Stewart (Chair)

Kim Greer (Vice Chair)

Debbie Chaw (Secretary-Treasurer)

Kim Huggett

Kabir Dhillon

YuanYan Gao

Anjelica de Leon

Dr. Pascale Guiton

Balvinder Kumar

Mirna Maamou

## Staff

Carmen Rusca, Exec. Asst. to VP Administration & Finance/CFO

Maureen Pasag, Chair Foundation Audit Committee

Josephine Capiral, Accounting General Manager

## Guests

Brian J. Sharpes, CIMA, Institutional Consulting Director Graystone Institutional Consulting, Morgan Stanley

Dan Tichenor, Morgan Stanley Graystone Institutional Consulting

## MINUTES

I. Meeting called to order by Chair Stewart at 2:33 pm. Introductions of attendees were made.

### II. Approval of Minutes of May 6, 2021, Meeting

Minute Action: To approve of minutes of September 24, 2020 Meeting

Motion: Chaw

Second: Huggett

Motion: Passed

### III. Audit Committee Meeting report by Maureen Pasag

Audited Financial Statements for Fiscal Year Ending June 30, 2021

Single Audit Report for June 30, 2021

### IV. Review of Financial Investment Summary

Brian Sharpes provided an overview of the market outlook – the presentation was included in the Foundation's meeting material. He reviewed the Foundation's investment summary performance

as of August 31, 2020. The summary also included a review of the extension division, the foundation plan, and ASI portfolios since they are managed under the umbrella of the Foundation. Mid-Cycle Transition Ends with Correction: Just like bear markets have ended with a recession, the mid-cycle transition is ending with a correction. Peak rate of change in policy and economic/earnings growth has typically coincided with more conservative investment and has ended with a broader equity market correction. This is the classic mid-cycle transition that accompanies recoveries from recession. Think 1994, 2004, 2011. So far, we have experienced a rolling correction across many asset categories, and the breadth of the equity market remains weak. We expect the next and final stage of this rolling correction to end with 10%-15% correction in the S&P500 and Nasdaq.

- **Peaking Rates of Change Matter.** The peak rate of change in fiscal policy, Fed balance sheet, M2, economic and earnings growth we expected has definitively arrived. Such peaks have often coincided with setbacks in equity markets and this time should be no different. As usual, the lower quality and more speculative parts of the financial markets have led the correction with many down 20%-30%.
- **Peak Rate of Change Is Now the Consensus.** The consensus has now adopted our view on the peak rate of change in growth and policy. However, there is still a lot of pushback that the typical 10%-20% correction in the S&P 500 will happen this time. We continue to believe 2H21 will likely provide the data to decide if a broader correction is necessary or if we can simply consolidate the past year's gains with more rotations. So far, the data is supportive of a bigger deceleration than what most investors expect, and that is the catalyst.
- **Upgrade to Quality with a More Defensive Skew.** Along with the mid-cycle transition comes a shift in equity market leadership. Higher quality stocks tend to perform better. We downgraded small caps and early-cycle sectors (Retail, Transports, Semis, Homebuilders) in March while upgrading staples in April to reflect this view. We then downgraded materials in May while upgrading utilities and downgrading energy in July. These trades have all played out in accordance with the mid-cycle transition, which has not yet completed.
- **Inflation Is the Key to the Secular Bull Market for Stocks and Secular Bear Market for Bonds.** The shift in policy from monetary to fiscal dominance is a significant change that has big implications for our asset allocation recommendations. A US recession was always a necessary condition for this outcome and the health-crisis nature of this event further supports this regime shift. Finally, don't forget the other inflationary trends that were well established before this recession began—populism, nationalism, de-globalization, and a sign that the US dollar may either lose or must share its reserve currency status.
- **We Lowered Our Equity Allocations and Raised Our Bond Allocations in May.** As both monetary and fiscal policy normalizes, we expect a broader equity market correction due to either higher interest rates, i.e., "fire," or due to a more significant growth disappointment, i.e., "ice." Despite this risk for a near-term pullback in equities, we are still overweight on a 12-month basis. We also recommend owning some commodities and real estate as an inflation hedge. Avoid profitless growth stocks as valuations remain at risk from higher interest rates in the future in either the fire or ice outcome. Be patient here with new investments and use pullbacks around peaking rates of change as buying opportunities for cyclicals, growth at a reasonable price, and international stocks.

Source: Morgan Stanley & Co. Research. M2 is a measure of the money supply that includes all elements of M1 as well as "near money." M1 includes cash and checking deposits, while near money refers to savings deposits, money market securities, mutual funds, and other time deposits.

Past performance is no guarantee of future results. Estimates of future performance are based on

assumptions that may not be realized.

Brian made the following recommendations:

- DEVELOPMENTS

Foundation & Extension Division Portfolios

- ✓ Terminated Lord Abbett Inflation Focused Fund (LIFFX)
  - In Extension Division Portfolio, allocate proceeds to Virtus Newfleet Low Duration Core Plus Bond Fund (HIBIX)
  - In Foundation Portfolio, use proceeds for rebalance to new targets detailed below Foundation Portfolio
- ✓ Established target allocation changes and rebalanced to new targets:
  - Decrease Fixed Income target from 30% to 26%
  - Increase Alternative Investments target from 15% to 17%
  - Increase US and International Equity targets from 27.5% to 28.5%
- ✓ Established \$250,000 capital commitment (~1.5% of total portfolio) to Bridge Workforce & Affordable Housing Fund II, L.P.
- ✓ Rolled tactical structured note a new note linked to the MSCI Emerging Markets Index • Structured Note linked to Euro STOXX 50 matured on September 9
  - Total payoff = 13.75% (Max Payoff)
  - Emerging Markets Equities are at attractive valuations relative to US Equities • New note has similar structure (3:1 upside leverage, capped at 15.25%; 1:1 downside)
- ✓ Postponed decision on Boyd Watterson due to concerns with exposure to buildings leased by ICE

GRAYSTONE CONSULTING-See full report dated 8/31/21 for additional details and disclosures.

-RECENT DEVELOPMENTS & RECOMMENDATIONS

Foundation & Extension Division Portfolios

Establish allocation to NEW CCM Community Impact Bond Fund (CRANX)

- Recommended allocation: \$800,000 in Foundation Portfolio and \$120,000 in Extension Division Portfolio (~5% of each portfolio)
- Funds to be redistributed from current Breckinridge holding
- Investment grade, intermediate duration bond fund that seeks to preserve capital, deliver attractive risk-adjusted returns, and provide stability in a portfolio
- Seeks fixed income investments that positively benefit the environment and social initiatives
- Top impact themes include Affordable Housing, Minority Advancement, and Environmental Sustainability
- Invests in Single-Family Agency MBS, Taxable Municipals, Agency CMBS, ABS, and less than 1% US Corporate Bonds

Extension Division Portfolio

-Rebalance to new allocation targets:

- Decrease Fixed Income target from 30% to 26%
- Increase Alternative Investments target from 15% to 17%
- Increase US and International Equity targets from 27.5% to 28.5%

Minute Action: To approve the provided recommendations.

Motion: Chaw

Second: Stewart

Motion: Passed

V. Other Business

Debbie Chaw explained the annual form requirement to new board members. They will receive the annual Conflict of Interest Form via Adobe Sign and all trustees are expected to return a signed copy. This is a common audit requirement.

Chair Stewart thanked Debbie Chaw for her years of service to the Foundation Board, as this was Debbie's last meeting before her retirement. The meeting was adjourned at 3:31 p.m.

Dated: October 7, 2021

  
Debbie Chaw (Mar 29, 2022 16:43 PDT)

---

Debbie Chaw, Secretary Treasurer

Recorded by Carmen Rusca

\*The Foundation Board of Directors is a public body, and members of the public have a right to attend and participate in its meetings.