ADVANCEMENT
FOUNDATION
HUMBOLDT STATE UNIVERSITY

MINUTES
OF THE
FINANCE COMMITTEE

February 20, 2014
Corbett Conference Room

Present:
Ken Davlin
Nick Frank
Dan Johnson (by phone)
Joyce Lopes
Chuck Petrusha (by phone)
Duncan Robins

Not present:
Guy Aronoff
Patrick Cleary

Guests:
Ken Fulgham
Mary Kay Hartman
Peter Lehman
Eric Recchia
Jamie Rich
Teal Sexton
Craig Wruck

1. Call to order

The meeting was called to order by Committee Chair Ken Davlin at 1:30 p.m.

2. Visitor Comments

Ken Fulgham gave an update on the Jacoby Creek property.

3. Approval of Minutes from November 14, 2013 meeting

Upon motion duly made, seconded and unanimously carried, it was:

RESOLVED, that the Minutes of the November 14, 2013 meeting are approved.

4. Second quarter financial statements

Teal Sexton reviewed the second quarter financial statements, noting that revenue and expenses are on track for the second quarter.

With respect to the Endowment Funds, investment revenue is on track, and the distributions from the endowment for charitable purposes have increased in recent years. It was noted that the charitable distributions occur in the first quarter, so the numbers appear inflated.

The remainder distribution from the Schatz Charitable Remainder Trust significantly impacted the funds received, with charitable contributions well over budget for the entire year due to the Schatz Trust. There has been nearly a $3,000,000 increase in total assets over the last year.

5. Definition of fossil fuel investments

Professor Peter Lehman presented a report to the Committee regarding fossil fuel investments. He noted that the "Filthy 15" identified in the R.V. Kuhns report represents only fraction of the companies involved in fossil fuels. Production and consumption of products sold by fossil fuel producers are the largest contributors to the growth of carbon dioxide in the atmosphere. The identified carbon reserves (coal, oil and natural gas) held by these companies, were they consumed, would result in atmospheric carbon dioxide levels five times higher than the standard limit set by the UN 2009 Copenhagen Accord, and new reserves continue to be discovered.

Absent from the Filthy 15 list are large oil and gas companies. If the Foundation were to more accurately track its investment in fossil fuels, the analysis should be expanded to include companies such as Chevron, ExxonMobil and BP. In this case, the Foundation's investment in fossil fuels would be closer to 8% rather than the 1% cited.

Professor Lehman presented a graph to indicate whether or not divesting from these companies will affect a return on investment. The chart was constructed from an MSCI index, which shows a comparison of their All Country World Index Investible Market Index over a five-year period, with fossil fuel companies included and excluded. It indicated almost no difference in performance, except with regard to oil price fluctuations.

Since fossil fuel companies are valued in part by the value of the carbon reserves they possess, if there are policy or usage changes that decrease the consumption of carbon, the reserves, and therefore the companies themselves, may be overvalued. In this case, divestment in these companies would decrease long-term risk in the portfolio.

Student Eric Recchia noted that Blackrock is working on a retail and institutional fossil fuel free fund. San Francisco State's Foundation Finance and Investment Committee, which manages a $51,000,000 endowment fund, voted unanimously last year to not directly invest in companies with significant production or use of coal and tar sands. The SFSU President also requested that the Foundation convene a special committee of Foundation directors to make recommendations for future changes to the Foundation's investment policy with regard to divestment.

Several Committee members voiced concern that full divestment of fossil fuels investments would be a profoundly difficult task. It was noted that the Foundation does not have the scale or scope to either be an active investor or to influence institutional funds. Professor Lehman suggested that if the Foundation becomes part of a group that pushes for fossil fuel divestment, it would encourage groups to form fossil free investment vehicles. The Executive Director recommended that the Committee consider an approach to make offsetting investments to balance its fossil fuel investments. Professor Lehman mentioned that Andrea Tuttle is an expert in carbon credits, and Arne Jacobson has worked on the carbon footprint of the campus. The Executive Director suggested convening a group just to develop this topic.

6. Trustee responsibilities regarding charitable remainder trusts

The Executive Director reported that in December of 2013, the Foundation accepted a Charitable Remainder Trust for which the Foundation is both a trustee and a remainder beneficiary. He pointed out that the $500,000 principal value of the trust is not owned by the Foundation but rather held in trust for the income beneficiary until the end of her lifetime. While serving as fiduciary trustee, the Foundation is obligated to balance the interests of the income beneficiary and its own interests as remainder beneficiary. The Foundation must not place its interests ahead of the income beneficiary.

The Foundation, as the trustee, is required to value the assets in the trust annually and then pay the income beneficiary a fixed percentage, in this case 5%, of the value of the trust fund in equal quarterly installments. The trustee must pay income in four distinct tiers: First from ordinary income (generally dividends and interest) and any undistributed ordinary income from previous years, then from long-term capital gains and any undistributed long-term capital gains from previous years, then from tax-exempt income and any undistributed tax-exempt income from previous years, and finally from principal.

The trust is exempt from both income tax and capital gains tax, however the income beneficiary is taxed on income distributions, depending upon the tier from which the distribution originated. It is therefore important that the trustee consider carefully the income tax ramifications of investments selected for the trust. While the trustee has broad discretion with respect to investments, certain investments are prohibited, including those that generate either debt-financed or unrelated business income.

These particular assets are currently being invested by the broker who was the donor's broker. It is not wise to commingle the trust funds with RV Kuhns portfolio because it would subject the entire endowment to the same restrictions as the Charitable Remainder Trust.

7. Gift valuation standards

This item was brought at the Committee's request but will be discussed at a future meeting.

The meeting was adjourned at 3:22 p.m.