COMMITTEE ON FINANCE

California State University Quarterly Investment Report

Presentation By

Brad Wells
Acting Executive Vice Chancellor and
Chief Financial Officer

Robert Eaton
Assistant Vice Chancellor
Financing, Treasury, and Risk Management

Summary

This item provides the quarterly investment report to the California State University Board of Trustees for the quarter ended September 30, 2021. The information in Attachment A provides the entire quarterly investment report regarding CSU investments as required by California Education Code § 89726.

Background

Pursuant to the California State University Master Investment Policy (included as Attachment B) CSU investments as of September 30, 2021, consisted of investments in the Liquidity Portfolio (Systemwide Investment Fund Trust or SWIFT), the Total Return Portfolio (TRP), and the State of California Surplus Money Investment Fund (SMIF). Except for amounts held at the State in SMIF, all CSU investments are held by US Bank, the custodian bank for the CSU. Neither state general fund nor CSU auxiliary funds are included in CSU investments. In addition, this report does not include approximately $1.89 billion in bond proceeds, which by state law are required to be held by the state and are invested in SMIF.
## CSU Investments – Balances, Allocations, and Returns
### September 30, 2021

<table>
<thead>
<tr>
<th>Portfolio</th>
<th>Balance</th>
<th>% of CSU Investments</th>
<th>Twelve Month Returns</th>
</tr>
</thead>
<tbody>
<tr>
<td>Liquidity Portfolio (SWIFT)</td>
<td>$4.828 billion</td>
<td>76.2%</td>
<td>0.19%</td>
</tr>
<tr>
<td>Total Return Portfolio (TRP)</td>
<td>$1.352 billion</td>
<td>21.4%</td>
<td>19.38%</td>
</tr>
<tr>
<td>Surplus Money Investment Fund (SMIF)</td>
<td>$152.4 million</td>
<td>2.4%</td>
<td>0.33%</td>
</tr>
<tr>
<td><strong>CSU Investments</strong></td>
<td><strong>$6.33 billion</strong></td>
<td><strong>100%</strong></td>
<td></td>
</tr>
</tbody>
</table>

### CSU Investment Portfolios

For detailed information on the investment performance and characteristics of the CSU investment portfolios please see Attachment A.

### CSU Liquidity Portfolio (Systemwide Investment Fund Trust or SWIFT)

The purpose of the Liquidity Portfolio is to provide sufficient and immediate liquidity to meet the operating needs of the CSU. The investment objective is safety of principal and liquidity.

The Liquidity Portfolio is managed through contracts with two investment management firms, BlackRock Financial Management and Payden & Rygel, each of whom provides investment...
management services for the program. While the custodian, US Bank, holds the funds invested in
the Liquidity Portfolio, for investment management purposes, additions to the portfolio are split
evenly between the investment managers and invested according to permitted investments outlined
in the Government Code of the State and the Liquidity Portfolio investment policy. Consistent
with state law, the Liquidity Portfolio is restricted to high quality, fixed income securities.

**CSU Total Return Portfolio (TRP)**

Legislation effective January 1, 2017, expanded the CSU investment authority to allow investment
in mutual funds (including equity mutual funds) and real estate investment trusts. The Total Return
Portfolio was created to take advantage of the new investment authority.

The purpose of the TRP is to provide opportunity for additional risk adjusted returns on CSU funds
over a full market cycle. The investment objective is to achieve a prudent return within a moderate
risk level.

Under State law, investment of funds in the TRP is subject to the CSU meeting certain conditions
regarding investment oversight, reporting, and use of earnings, and may not be more than thirty
percent of eligible CSU investments. The CSU Investment Advisory Committee (IAC),
established by the Board of Trustees in September 2017, oversees the TRP and focuses on key
issues such as investment policy, asset allocation, investment manager oversight, and investment
performance.

The TRP investment policy provides a framework for the investment of portfolio funds in the TRP
and includes the following key elements as further described in the TRP Investment Policy:

<table>
<thead>
<tr>
<th>Investment Objectives</th>
<th>Investment Manager Selection</th>
</tr>
</thead>
<tbody>
<tr>
<td>Spending Policy</td>
<td>Roles &amp; Responsibilities</td>
</tr>
<tr>
<td>Time and Investment Horizon</td>
<td>Environmental, Social and Governance</td>
</tr>
<tr>
<td>Risk Tolerance</td>
<td>Framework</td>
</tr>
<tr>
<td>Expected Return</td>
<td>Risk Management</td>
</tr>
<tr>
<td>Asset Allocation</td>
<td>Monitoring and Control Procedures</td>
</tr>
<tr>
<td>Benchmarks</td>
<td></td>
</tr>
</tbody>
</table>

The IAC has adopted an investment schedule for the TRP that utilizes a dollar-cost averaging
approach and provides regular monthly contributions to the TRP. An initial investment of
$33.5 million into the TRP was made on April 1, 2018, and additional investments allowed the
TRP to reach the fiscal year 2018-2019 statutory limit of $600 million in the first half of 2019.
After June 30, 2019, a new investment schedule was adopted by the IAC and staff, with the goal
of funding the TRP to as much as 30 percent of CSU investments by mid-2020. However, in April
of 2020, the IAC approved a reduced investment schedule in the amount of $20 million total
between April and July of 2020, and in August of 2020, the IAC suspended further contributions to the TRP for the time being. Both of these actions were taken in order to preserve liquidity in the CSU Liquidity Portfolio in response to the COVID-19 pandemic. Recently, in January of 2022, the IAC approved a new investment schedule for the TRP which will place an additional $900 million into the portfolio over the next eighteen months. The investment schedule may be adjusted by the IAC at any time depending on market conditions and staff will ensure the TRP does not exceed thirty percent of CSU investments.

Since the TRP Inception Date\(^1\) through September 30, 2021, the TRP investment earnings were approximately $317.1 million. During this period, the TRP total return exceeded the Liquidity Portfolio (SWIFT) total return by 8.13 percent annualized (net of fees) or a cumulative $272.3 million.

In October 2021, the IAC approved the third annual TRP distribution to the system of approximately $55.6 million, bringing total TRP distributions to the system since inception to $112.98 million. TRP distributions are allocated to the campuses annually for capital outlay or maintenance. Consistent with state law, specifically California Education Code § 89726, additional moneys earned through investments in the TRP shall be used only for capital outlay or maintenance and shall not be used for ongoing operations.

**Surplus Money Investment Fund (SMIF)**

The State Treasurer also provides investment vehicles that may be used for CSU funds. The Surplus Money Investment Fund (SMIF) is used by the State Treasurer to invest state funds, or funds held by the state on behalf of state agencies, in a short-term pool. In order to facilitate certain expenditures, the CSU maintains small amounts of funds with the State. The portfolio includes Certificates of Deposit, Treasuries, Commercial Paper, Corporate Bonds, and U.S. Government Agencies.

**Reporting Requirements**

California Education Code § 89726 requires quarterly investment reports to the Board of Trustees and an annual report to the State Legislature and the Department of Finance.

**Subsequent Developments/Next Steps**

With oversight from the IAC, staff will implement the TRP investment schedule and continue monitoring market conditions to determine if any changes in the TRP investment schedule are

\(^1\) The TRP Inception Date was April 1, 2018.
warranted. Staff also completed the Request for Proposal for investment managers for both the Liquidity Portfolio and the new Intermediate Duration Portfolio, consistent with the CSU Master Investment Policy. On July 1, 2021, two new investment managers for the Liquidity Portfolio, BlackRock Financial Management and Payden & Rygel, replaced Wells Capital Management and US Bancorp Asset Management, respectfully. The Intermediate Duration Portfolio (IDP) launched on October 1, 2021, managed by three new investment managers, Western Asset Management Company, PGIM Fixed Income, and Income Research & Management. The next investment report to the Board of Trustees is scheduled for the May 2022 meeting and will provide information on the CSU Quarterly Investment Report for the fiscal quarter ending December 31, 2021.
CSU Quarterly Investment Report

For the Fiscal Quarter Ended September 30, 2021

CSU investments as of September 30, 2021, consisted of investments in the CSU Liquidity Portfolio (Systemwide Investment Fund Trust or SWIFT), the Total Return Portfolio (TRP), and the State of California Surplus Money Investment Fund (SMIF). All CSU investments (except for funds invested in SMIF) are held by US Bank, the custodian bank for the CSU. Neither state general funds nor CSU auxiliary funds are included in CSU investments. In addition, this report does not include approximately $1.89 billion in bond proceeds, which by state law are held by the state and invested in SMIF.

Balances and Allocations as of September 30, 2021

<table>
<thead>
<tr>
<th>Investments</th>
<th>Balance</th>
<th>% of CSU Investments</th>
</tr>
</thead>
<tbody>
<tr>
<td>Liquidity Portfolio (SWIFT)</td>
<td>$4.828 billion</td>
<td>76.2%</td>
</tr>
<tr>
<td>Total Return Portfolio (TRP)</td>
<td>$1.352 billion</td>
<td>21.4%</td>
</tr>
<tr>
<td>Surplus Money Investment Fund (SMIF)</td>
<td>$152.4 million</td>
<td>2.4%</td>
</tr>
<tr>
<td>CSU Investments</td>
<td>$6.33 billion</td>
<td>100%</td>
</tr>
</tbody>
</table>

For the quarter ending September 30, 2021, direct investment management fees\(^1\), advisory, and custodial fees totaled just under $0.7 million, or about 0.012 percent (1.2 basis points) on CSU investments average balance for the quarter ending September 30, 2021.

\(^1\) Direct investment management fees exclude TRP mutual fund investment management fees. TRP mutual fund investment management fees are included as mutual fund expenses and reported as a percent of total fund assets. See TRP Fund Expense Ratio (Fee) in the table on page 5.
CSU Consolidated Investment Portfolio

The performance returns below are for the CSU Consolidated Investment Portfolio which includes the Liquidity Portfolio (SWIFT) and the Total Return Portfolio (TRP). The table also displays the separate portfolio returns of the TRP and the Liquidity Portfolio.

<table>
<thead>
<tr>
<th></th>
<th>CSU Consolidated Investment Portfolio</th>
<th>CSU Total Return Portfolio (TRP)</th>
<th>CSU Liquidity Portfolio (SWIFT)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Year Return</td>
<td>4.90%</td>
<td>19.38%</td>
<td>0.19%</td>
</tr>
<tr>
<td>3 Year Annualized Return</td>
<td>4.16%</td>
<td>10.11%</td>
<td>2.06%</td>
</tr>
<tr>
<td>5 Year Annualized Return</td>
<td>2.86%</td>
<td>N/A</td>
<td>1.60%</td>
</tr>
<tr>
<td>10 Year Annualized Return</td>
<td>1.81%</td>
<td>N/A</td>
<td>1.19%</td>
</tr>
<tr>
<td>Since Inception Return</td>
<td>1.86%</td>
<td>10.14%</td>
<td>1.42%</td>
</tr>
</tbody>
</table>

Since the TRP Inception date through September 30, 2021, the TRP investment earnings were approximately $317.1 million. During this period, the TRP total return exceeded the Liquidity Portfolio (SWIFT) total return by 8.13 percent annualized (net of fees) or $272.3 million.

---

2 CSU Consolidated Investment Portfolio returns will also include the Intermediate Duration Portfolio (IDP) once this portfolio is incepted. CSU Consolidated Investment Portfolio returns exclude SMIF.

3 Inception Date for the CSU Consolidated Investment Portfolio was July 1, 2007. Inception Date for the CSU Liquidity Portfolio (SWIFT) was July 1, 2007. TRP Inception Date was April 1, 2018. CSU Consolidated Investment Portfolio and CSU Liquidity Portfolio Returns reported gross of fees and as total return, including income and gains (realized and unrealized).
Investment Earnings from CSU Investments Supports
Campus Operations and Student Experience
CSU Liquidity Portfolio (Systemwide Investment Fund Trust or SWIFT)

The purpose of the Liquidity Portfolio is to provide sufficient and immediate liquidity to meet the operating needs of the CSU. The investment objective is safety of principal and liquidity. Consistent with state law, the portfolio is restricted to high quality, fixed income securities.

<table>
<thead>
<tr>
<th>CSU Liquidity Portfolio</th>
<th>Benchmark</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Year Return</td>
<td>0.19%</td>
</tr>
<tr>
<td>3 Year Annualized Return</td>
<td>2.06%</td>
</tr>
<tr>
<td>5 Year Annualized Return</td>
<td>1.60%</td>
</tr>
<tr>
<td>10 Year Annualized Return</td>
<td>1.19%</td>
</tr>
<tr>
<td>Annualized Since Inception Return</td>
<td>1.42%</td>
</tr>
<tr>
<td>Yield</td>
<td>0.30%</td>
</tr>
<tr>
<td>Duration (Years)</td>
<td>1.41</td>
</tr>
<tr>
<td>Average Credit Rating</td>
<td>AA-</td>
</tr>
</tbody>
</table>

Holdings by Asset Type (% of CSU Liquidity Portfolio):

- Treasuries: 35.0%
- U.S. Corporate Bonds: 20.3%
- Cash Equivalents: 15.6%
- U.S. Government Agencies: 12.9%
- Certificates of Deposit: 11.2%
- Commercial Paper: 3.1%
- CA Municipal Obligations: 0.7%
- Agency MBS: 0.7%
- Supranationals: 0.5%

---

3 Benchmark for the CSU Liquidity Portfolio (SWIFT) is the Bank of America Merrill Lynch 0-3 Year Treasury Index.
4 CSU Liquidity Portfolio (SWIFT) Returns reported gross of fees and as total return, including income and gains (realized and unrealized).
5 Inception Date for the CSU Liquidity Portfolio (SWIFT) was 7/1/07.
6 Cash Equivalents were abnormally high on 9/30/21 to fund debt service and launch the CSU Intermediate Duration Portfolio both on 10/1/21.
CSU Total Return Portfolio (TRP)

The purpose of the Total Return Portfolio is to provide an opportunity for additional risk adjusted returns on CSU funds over a full market cycle. The investment objective is to achieve a prudent return within a moderate risk level. Consistent with state law, the TRP is invested in mutual funds subject to registration by, and under the regulatory authority of the United States Securities and Exchange Commission or in United States registered real estate investment trusts.

In October 2021, the CSU Investment Advisory Committee approved the third annual TRP distribution to the system of approximately $55.6 million, bringing total TRP distributions to the system since inception to $112.98 million. TRP distributions are allocated to the campuses annually for capital outlay or maintenance. Consistent with state law, specifically California Education Code § 89726, additional moneys earned through investments in the TRP shall be used only for capital outlay or maintenance, and shall not be used for ongoing operations.

<table>
<thead>
<tr>
<th></th>
<th>CSU Total Return Portfolio</th>
<th>Strategic Benchmark⁷</th>
<th>Policy Benchmark⁸</th>
</tr>
</thead>
<tbody>
<tr>
<td>3 Months Return</td>
<td>-0.72%</td>
<td>1.71%</td>
<td>-0.77%</td>
</tr>
<tr>
<td>1 Year Return</td>
<td>19.38%</td>
<td>8.69%</td>
<td>18.32%</td>
</tr>
<tr>
<td>3 Year Annualized Return</td>
<td>10.11%</td>
<td>7.30%</td>
<td>9.53%</td>
</tr>
<tr>
<td>Annualized Since Inception Return⁹</td>
<td>10.14%</td>
<td>7.11%</td>
<td>9.07%</td>
</tr>
</tbody>
</table>

⁷ The TRP Strategic Benchmark is Inflation (Core Consumer Price Index) plus 4.5 percent per annum. The long-term rate of inflation is assumed at 2.5 percent per annum.
⁸ The TRP Policy Benchmark is a blend of passive indices whose weights match the TRP target asset allocation.
⁹ TRP Inception Date was April 1, 2018.
Holdings by Asset Type (% of CSU Total Return Portfolio):

<table>
<thead>
<tr>
<th>Asset Class</th>
<th>Equity Mutual Funds</th>
<th>Fixed Income Mutual Funds</th>
<th>Real Asset Mutual Funds</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>45.6%</td>
<td>39.4%</td>
<td>15.0%</td>
</tr>
<tr>
<td>Passive Index Mutual Funds</td>
<td>75%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Actively Managed Mutual Funds</td>
<td>25%</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Values, Holdings & Fees (CSU Total Return Portfolio)

<table>
<thead>
<tr>
<th>Asset Class</th>
<th>Strategy Name</th>
<th>Ticker</th>
<th>Value (millions)</th>
<th>% of Total Return Portfolio</th>
<th>TRP Fund Expense Ratio (Fee)</th>
<th>Universe Median Expense Ratio (Fee)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fixed Income</td>
<td>Vanguard Total Bond Market Index Fund</td>
<td>VBMPX</td>
<td>299.5</td>
<td>22.15%</td>
<td>0.03%</td>
<td>0.44%</td>
</tr>
<tr>
<td></td>
<td>Vanguard Inflation-Protected Securities Fund</td>
<td>VIPIX</td>
<td>69.0</td>
<td>5.10%</td>
<td>0.07%</td>
<td>0.38%</td>
</tr>
<tr>
<td></td>
<td>Lord Abbett High Yield Fund</td>
<td>LHYOX</td>
<td>83.1</td>
<td>6.15%</td>
<td>0.61%</td>
<td>0.70%</td>
</tr>
<tr>
<td></td>
<td>Pacific Funds Floating Rate Income Fund</td>
<td>PLFRX</td>
<td>41.1</td>
<td>3.04%</td>
<td>0.75%</td>
<td>0.76%</td>
</tr>
<tr>
<td></td>
<td>Payden Emerging Markets Bond Fund</td>
<td>PYEIX</td>
<td>20.2</td>
<td>1.49%</td>
<td>0.69%</td>
<td>0.85%</td>
</tr>
<tr>
<td></td>
<td>T. Rowe Emerging Markets Bond Fund</td>
<td>TREBXX</td>
<td>20.2</td>
<td>1.50%</td>
<td>0.70%</td>
<td>0.85%</td>
</tr>
<tr>
<td>Equity</td>
<td>Vanguard Total Stock Market Index Fund</td>
<td>VSMPX</td>
<td>331.4</td>
<td>24.51%</td>
<td>0.02%</td>
<td>0.75%</td>
</tr>
<tr>
<td></td>
<td>Vanguard Developed Markets Index Fund</td>
<td>VDIIPX</td>
<td>157.4</td>
<td>11.64%</td>
<td>0.04%</td>
<td>0.88%</td>
</tr>
<tr>
<td></td>
<td>Driehaus Emerging Markets Growth Fund</td>
<td>DIEMX</td>
<td>76.5</td>
<td>5.66%</td>
<td>1.19%</td>
<td>1.07%</td>
</tr>
<tr>
<td></td>
<td>DFA Emerging Markets Value Fund</td>
<td>DFEVX</td>
<td>39.1</td>
<td>2.89%</td>
<td>0.41%</td>
<td>1.07%</td>
</tr>
<tr>
<td></td>
<td>RWC Global Emerging Equity Fund</td>
<td>RWCEXX</td>
<td>12.1</td>
<td>0.90%</td>
<td>1.25%</td>
<td>1.07%</td>
</tr>
<tr>
<td>Real Assets</td>
<td>Vanguard Real Estate Index Fund</td>
<td>VGSNX</td>
<td>97.5</td>
<td>7.21%</td>
<td>0.10%</td>
<td>0.88%</td>
</tr>
<tr>
<td></td>
<td>Vanguard Energy Index Fund</td>
<td>VENAX</td>
<td>28.0</td>
<td>2.07%</td>
<td>0.10%</td>
<td>0.97%</td>
</tr>
<tr>
<td></td>
<td>Vanguard Materials Index Fund</td>
<td>VMIAX</td>
<td>24.7</td>
<td>1.82%</td>
<td>0.10%</td>
<td>0.95%</td>
</tr>
<tr>
<td></td>
<td>First Sentier Global Listed Infrastructure Fund</td>
<td>FLIIX</td>
<td>52.3</td>
<td>3.87%</td>
<td>0.95%</td>
<td>0.98%</td>
</tr>
<tr>
<td>Cash</td>
<td>0.0</td>
<td></td>
<td>0.00%</td>
<td>NA</td>
<td>NA</td>
<td>NA</td>
</tr>
<tr>
<td>Total</td>
<td>1,352.1</td>
<td></td>
<td>100%</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

10 The percent of Actively Managed Mutual Funds is likely to increase in the future while the percent of Passive Index Mutual Funds would decrease consistent with the TRP implementation plan.

11 On October 6, 2021, in assessing Climate Transition Risks, the CSU Investment Advisory Committee voted to transition out of the Vanguard Energy Index Fund and reallocate to the remaining Real Assets funds. This was affected on October 27-28, 2021.
**TRP Annual Spending Distributions Assist Campuses to Meet Deferred Maintenance & Capital Outlay Needs**

The following chart shows the TRP market value, total funded contributions, total retained investment earnings, total spending distributions, and total investment earnings since inception as of September 30, 2021. Total TRP investment earnings equal total TRP spending distributions plus total TRP retained investment earnings.

![Chart showing TRP market value, funding contributions, retained investment earnings, spending distributions, and total investment earnings since inception as of September 30, 2021.](chart.png)

**Surplus Money Investment Fund (SMIF)**

The Surplus Money Investment Fund (SMIF) is managed by the State Treasurer to invest State funds, or funds held by the State on behalf of State agencies, in a short-term pool. The portfolio includes Certificates of Deposit, Treasuries, Commercial Paper, Corporate Bonds, and U.S. Government Agencies.

<table>
<thead>
<tr>
<th>Apportionment Annual Yield&lt;sup&gt;12&lt;/sup&gt;</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Trailing 12 months as of 09/30/21</td>
<td>0.33%</td>
</tr>
<tr>
<td>Average (FYE 06/30/07 – 09/30/21)</td>
<td>1.09%</td>
</tr>
</tbody>
</table>

<sup>12</sup> Annual Yield calculated by CSU Treasury Operations based on the quarterly apportionment yield rates published by the State Controller’s Office.
Master Investment Policy

For The California State University

Approved on November 8, 2017
By The Board of Trustees of The California State University
Contents

I. Scope and Purpose........................................................................................................................................... 3

II. Compliance with Law and Adherence to Policy....................................................................................... 3

III. Background and Investment Objectives.................................................................................................. 3

IV. Investment Portfolios.................................................................................................................................. 4

V. Roles and Responsibilities.......................................................................................................................... 5
   ▪ Board of Trustees....................................................................................................................................... 5
   ▪ Chancellor’s Office Staff............................................................................................................................. 6
   ▪ Investment Advisory Committee............................................................................................................... 7
   ▪ Prudence, Ethics and Conflict of Interest................................................................................................... 8
   ▪ Document and Acceptance of the Investment Policy Statement.............................................................. 8

VI. Environmental, Social and Governance (ESG) Framework................................................................. 9

VII. Adoption of the Investment Policy Statement......................................................................................... 9
I. **Scope and Purpose**

This California State University Master Investment Policy ("MIP") governs the investment of California State University ("CSU") funds. CSU investments are centrally managed on behalf of the CSU System and its campuses.

The purpose of the MIP, together with investment policies that govern individual Portfolios (as defined in Section IV) and are created pursuant to delegated authority contained herein, is to provide a framework for the investment of CSU funds consistent with the goals of the CSU Board of Trustees (the "Board") and the educational mission of the CSU.

The MIP sets forth objectives, guidelines, and responsibilities that the Board deems to be appropriate and prudent in consideration of the needs of, and the legal requirements applicable to, the CSU’s investment program. The MIP is also intended to ensure that the Board, and any parties to whom the Board delegates authority, are fulfilling their fiduciary responsibilities in the oversight of CSU investments.

The MIP is a dynamic document and will be reviewed from time to time. The MIP will be modified, if necessary, to reflect the changing nature of the CSU’s assets and investment program, organizational objectives, and economic conditions.

II. **Compliance with Law and Adherence to Policy**

CSU investments are to be managed in full compliance with all applicable laws, rules, and regulations from various local, state, federal, and international political entities that may impact the CSU’s assets, including but not limited to the provisions of the California Education Code and California Government Code applicable to the investment of CSU funds, and in accordance with the policy objectives, guidelines, and responsibilities expressed herein.

III. **Background and Investment Objectives**

The investment objectives for the investment of CSU funds have been established in conjunction with a comprehensive review of current and projected financial requirements. The Board desires to provide the Chancellor, the Chancellor’s Staff, and the IAC (as defined in Section V) with the greatest possible flexibility to maximize investment opportunities. However, as agents of the Board, the Chancellor, the Chancellor’s Staff, and the IAC must recognize the fiduciary responsibility of the Board to conserve and protect the assets of the CSU investment program, and, by prudent management, prevent exposure to undue and unnecessary risk.
The following objectives shall govern the investment of CSU funds:

1. Safeguard the principal.
2. Meet the liquidity needs of the CSU.
3. Obtain the best possible return commensurate with the degree of risk the CSU is willing to assume in obtaining such return.

The Board acknowledges that these objectives may be weighted or prioritized differently for individual Portfolios depending upon the purpose of the Portfolio.

IV. Investment Portfolios

Consistent with its investment objectives, the Board has determined that CSU funds may be invested in three investment portfolios (individually, a “Portfolio” and together, the “Portfolios”) created by the CSU, with oversight by the Chancellor, the Chancellor’s Staff, and the IAC, and each with its own investment policy.

The three Portfolios and general purpose of each Portfolio are as follows:

Liquidity Portfolio (Systemwide Investment Fund—Trust or “SWIFT”)

The purpose of this Portfolio is to provide sufficient and immediate liquidity to meet the operating needs of the CSU. The investment objectives for this Portfolio shall be safety of principal and liquidity. The existing CSU Systemwide Investment Fund—Trust (SWIFT) shall serve as the Liquidity Portfolio and shall be comprised of investments authorized pursuant to California Government Code Sections 16330 or 16430.

Intermediate Duration Portfolio (IDP)

The purpose of this Portfolio is to provide opportunity for modest, additional risk adjusted returns on CSU funds not needed for immediate liquidity. The investment objectives for this Portfolio shall be safety of principal, liquidity and return. The Intermediate Duration Portfolio shall be comprised of investments authorized pursuant to California Government Code Sections 16330 or 16430.

Total Return Portfolio (TRP)

The purpose of this Portfolio is to provide opportunity for additional risk adjusted returns on CSU funds over a full market cycle. The investment objectives for this
The Portfolio shall be to achieve a prudent total return within a moderate risk level. The Total Return Portfolio shall be comprised of investments authorized pursuant to California Government Code Sections 16330, or 16430 or California Education Code Sections 89724 or 89725.

The acceptable allocations for the Portfolios are as follows:

<table>
<thead>
<tr>
<th>Portfolio</th>
<th>Min – Target – Max</th>
</tr>
</thead>
<tbody>
<tr>
<td>Liquidity – Systemwide Investment Fund Trust (“SWIFT”)</td>
<td>5% - 20% - 100%</td>
</tr>
<tr>
<td>Intermediate Duration Portfolio (“IDP”)</td>
<td>0% - 52% - 95%</td>
</tr>
<tr>
<td>Total Return Portfolio (“TRP”)</td>
<td>0% - 28% - 30%</td>
</tr>
</tbody>
</table>

In addition, the CSU may invest any amount (from 0% to 100%), in any California State Treasury investment option, available now, or in the future, that the IAC and the Staff deem prudent, including, but not limited to:

- Surplus Money Investment Fund (SMIF)
- Local Agency Investment Fund (LAIF)

V. Roles and Responsibilities

Board of Trustees

The Board assumes fiduciary responsibility to conserve and protect the investment assets of the CSU, and by prudent management, to prevent exposure to undue and unnecessary risk. However, the Board also acknowledges investments are inherently risky with risk of loss and, as such, are viewed with a long-term time horizon.

As a fiduciary, the primary responsibilities of the Board are to:

1. Maintain and approve the MIP.

---

1 Percentage allocations to the TRP are subject to annual phase-in restrictions through June 30, 2020 per state law.
2. Ensure that CSU investments are prudently diversified in order to obtain the best possible return commensurate with the degree of risk that the CSU is willing to assume.

3. Report annually to the California state legislature and the California Department of Finance regarding the investment of CSU funds.

The Board shall have oversight responsibility for investment of the assets and has delegated investment authority to the Chancellor, the Chancellor’s Staff, and the IAC.

Chancellor and Chancellor’s Staff

As agents of the Board, the Chancellor, the Executive Vice Chancellor and Chief Financial Officer, the Assistant Vice Chancellor responsible for CSU investments, and their designees (the “Chancellor’s Staff”), recognize the fiduciary responsibility of the Board to conserve and protect the investment assets of the CSU and, by prudent management, to prevent exposure to undue and unnecessary risk.

The Chancellor and the Chancellor’s Staff are hereby authorized to establish policies and procedures to implement the provisions of this MIP, including, but not limited to, the following activities:

1. Overseeing and implementing general administrative and investment operations for the Portfolios.

2. Informing the IAC on the overall investments of the CSU and each of the Portfolios to assist the IAC in fulfilling its duties.

3. Developing and implementing policies that are suitable for achieving the strategic objectives for each Portfolio, including coordination with the IAC in developing and implementing policies for the TRP.

4. Selecting, contracting with, and monitoring third party service providers, including, but not limited to, investment advisors, investment managers, and custodians. For the TRP, such actions will be based on the recommendations of the IAC.

5. Directing the investment of funds, including the ordering of purchase and sale transactions to, from and between the Portfolios to meet investment objectives and strategic asset allocations.
6. Monitoring and reviewing the performance of the Portfolios to their stated objectives.

7. Reporting to the Board regarding the investment of CSU funds as requested, but no less than quarterly.

8. Controlling and accounting for all investment, record keeping, and administrative expenses associated with the Portfolios.

9. Identifying the need for updates, monitoring the Portfolios for legal and policy compliance, and acting on the recommendations of the IAC, as appropriate.

10. All other duties designated or delegated by the Board or the IAC.

**Investment Advisory Committee**

As required by state law, the CSU has created an Investment Advisory Committee (the “IAC”), to provide investment advice and expertise to the Board, particularly with respect to the management of the TRP.

The IAC shall be an advisory body and shall make recommendations, as appropriate, to the Board for approval or to the Chancellor and the Chancellor’s Staff for implementation. The IAC shall be responsible for overseeing all aspects of the TRP and is hereby authorized to recommend policies and procedures for the creation and implementation of the TRP, including, but not limited to, the following activities:

1. Understanding the overall investments of the CSU and each of the Portfolios as informed by the Chancellor’s Staff, investment advisors and/or investment managers.

2. Developing and approving an IAC charter to establish guidelines for operations of the IAC.

3. Developing, approving, and overseeing the implementation of an investment policy statement for the TRP.

4. Reviewing and approving target asset allocations and ranges for the TRP.

5. Monitoring and reviewing the performance of the TRP to its stated objectives.

6. Prudently reviewing, selecting, monitoring, and replacing investment management firms engaged to manage the TRP’s assets.
7. Monitoring and supervising all service vendors and fees for the TRP.

8. Any other investment or administrative duties deemed necessary to prudently oversee the investment program for the TRP.

**Prudence, Ethics and Conflict of Interest**

All participants in the investment process shall act responsibly. The standard of prudence applied by the Board, the Chancellor, the Chancellor’s Staff, and the IAC, as well as any external service providers, shall be the “prudent investor” rule. The “prudent investor” rule in part, states, “A trustee shall invest and manage trust assets as a prudent investor would, by considering the purposes, terms, distribution requirements, and other circumstances of the trust. In satisfying this standard, the trustee shall exercise reasonable care, skill and caution. A trustee’s investment and management decisions respecting individual assets must be evaluated not in isolation but in the context of the trust portfolio as a whole and as part of an overall investment strategy having risk and return objectives reasonably suited to the trust.”

Furthermore, all participants in the investment process shall use the same care, skill, prudence, and due diligence under the circumstances then prevailing that a prudent person acting in a like capacity and fully familiar with such matters would use in the conduct of an enterprise of like activities for like portfolios with like aims and in accordance and compliance and all other applicable laws, rules and regulations.

All investment personnel shall refrain from personal business activity which could create a conflict with proper execution of the investment program, or which could impair the ability to execute impartial investment decisions. All investment personnel shall disclose to the Chancellor’s Staff or the IAC any material financial interests in financial institutions which conduct business within the jurisdiction and shall disclose any material financial investment positions which could be related in a conflicting manner to the performance of the Portfolios. All investment personnel shall report any potential conflicts of interest consistent with Government Code Section 87200. Further, the Chancellor shall report to the Board in writing any issues that could reflect any conflict in the performance of the Portfolios.

**Document Acceptance of the Investment Policy Statement**

The Chancellor’s Staff shall provide a copy of this MIP, and the relevant Portfolio investment policy, to each firm retained to provide investment services to the CSU and each such firm shall acknowledge in writing receipt of the document and accept its content.
VI. **Environmental, Social and Governance Framework**

The Board acknowledges the importance of understanding the potential risks and value that environmental, social, and governance ("ESG") factors may have on CSU investments. Therefore, the Board expects that the consideration of ESG factors shall be integrated into the investment decision processes of the CSU.

Approved:

The California State University Board of Trustees
November 8, 2017