

IAC Members Attending			
Peter Taylor	IAC Chair	Irv Rothenberg	Member/ Absent
Steve Relyea	IAC Vice Chair	David Bach	Member / Absent
Robert Eaton	Member	Tim Schaefer	Member/ Absent
Leona Bridges	Member	Mike Lucki	Member
Staff / Other Attendees			
Ron Flatt	Director – Treasury Operations	Jonas Noack	Meketa – Investment Advisor
Scott August	Manager – Investments	Colleen Smiley	Meketa – Investment Advisor
Laura Wirick	Meketa – Investment Advisor		

The IAC Chair called the meeting to order and established a quorum on October 8, 2019 at 11:00 am.¹

The IAC Chair asked if there were any amendments or changes to the minutes from the August 14, 2019, meeting. Upon a motion duly made and seconded, the minutes were approved as submitted. Three members abstained.

Item II: TRP Investment Policy Annual Review – Action Item

During the August 2019 IAC meeting, Chancellor’s Staff and the CSU’s investment advisor, Meketa Investment Group (“Meketa”) presented a revised TRP Investment Policy based upon the annual review of the policy. The IAC accepted all the suggested revisions to the TRP Investment Policy and based on further discussion recommended Chancellor’s Staff and Meketa collaborate on additional suggested revisions. The additional suggested revisions related to the IAC’s recommendations regarding Passive and Active investments and to incorporate by reference the TRP Investment Beliefs Statement into the TRP Investment Policy.

Chancellor’s Staff presented the additional recommended revisions to the TRP Investment Policy made subsequent to the August 2019 IAC meeting. Upon a motion duly made and seconded, the revised TRP Investment Policy was approved.

Item III: TRP Annual Spending Dividend – Action Item

Meketa and Chancellor’s Staff reviewed the Spending Policy provisions contained within the TRP Investment Policy. Chancellor’s Staff also reported a summary detailing the following information as of June 30, 2019:

- TRP Market Value equal to approximately \$559.2 million
- Since Inception² TRP Funding Contributions equal to approximately \$525 million and
- Since Inception TRP Investment Earnings equal to approximately \$34.2 million

¹ Details on all meeting agenda items are included in the meeting materials as presented at the CSU Investment Advisory Committee (“IAC”) meeting dated October 8, 2019.

² TRP Inception Date was April 1, 2018

Based on the TRP Spending Policy, Chancellor's Staff recommend the IAC approve the Fiscal Year End 2018/2019 Annual TRP Spending Dividend of approximately \$11.2 million as calculated per the policy.

- TRP Spending Dividend as of June 30, 2019 = 2% of \$559.2 million (TRP Market Value) = approximately \$11.2 million

Chancellor's Staff also noted given Since Inception TRP investment earnings equal to approximately \$34.2 million, after the Annual TRP Spending Dividend is declared, the TRP would still have net retained investment earnings equal to approximately \$23.2 million.

The IAC discussed the option to increase the Fiscal Year End 2018/2019 Annual TRP Spending Dividend from 2% to 4% of the TRP Market Value based on the strong investment results, with the additional 2% being considered an additional one-time bonus dividend.

Chancellor's Staff clarified that the rules for the TRP Spending Policy allow for the IAC to declare additional spending amounts at its discretion.

Upon discussion, further consideration and a motion duly made and seconded, the IAC approved the Fiscal Year End 2018/2019 Annual TRP Spending Dividend as follows:

- (2% of \$559.2 million) + (2% of \$559.2 million) = \$22.4 million.

Item IV: TRP Annual Investment Report – Action Item

This item contained a draft of the CSU Annual Investment Report as of June 30, 2019, to be presented to the CSU Board of Trustees in November. The CSU Annual Investment Report will be a discussion item on the Board of Trustees agenda. Subsequent to the Board of Trustees meeting in November, the CSU Annual Investment Report will be distributed to the State Legislature and the Department of Finance per state law.

After discussion, and upon a motion duly made and seconded, the IAC approved the CSU Annual Investment Report as of June 30, 2019.

Item V: TRP Quarterly Report – Information Item

This item was an information item and is presented at each quarterly meeting. Meketa presented their Second Quarter 2019 World Markets Review, which included reviews of historical investment returns for various asset classes and sectors, relative valuations, and economic statistics. Next, Meketa presented their Capital Markets Outlook & Risk Metrics as of August 31, 2019. Finally, Meketa presented the TRP quarterly review and evaluation report as of June 30, 2019. Information in this report included the current asset allocation, an update on TRP funding contributions, overall TRP performance versus its stated benchmarks, and detailed performance and characteristics for the TRP investment managers. As of June 30, 2019, the TRP market value was \$559.2 million, an increase of \$57.4 million from the prior quarter; \$40 million from funding contributions and \$17.4 million from investment gains.

Key points:

- As of June 30, 2019, all TRP asset classes complied with the Policy Ranges outlined in the TRP Investment Policy.
- As of June 30, 2019, the TRP since inception return was +8.12% compared to +6.63% for the TRP Strategic Benchmark and +6.20% for the TRP Policy Benchmark.
- The TRP returned +3.35% for the quarter compared to +1.62% for the TRP Strategic Benchmark and +3.02% for the TRP Policy Benchmark.
- TRP Fixed Income returned +3.12% for the quarter
 - High Yield Bonds had a strong quarter, outperforming the Barclay's U.S. High Yield index by roughly 130 basis points (+3.83% vs. +2.50%), and Emerging Markets Bonds nearly matched the quarter performance of the JP Morgan EMBI Global Diversified index, returning +4.06%, versus +4.08% for the index.
- TRP Equity outperformed the MSCI ACWI IMI index for both the quarter (+3.49% vs. +3.37%) and year-to-date (+16.56 vs. 16.08%)
 - Emerging Markets Equity provided the strongest quarterly performance on a relative basis, outperforming the MSCI Emerging Markets index by nearly 170 basis points (2.35% vs. 0.61%).
 - The Vanguard Total Stock Market Index Fund (U.S. Equity) provided the strongest absolute performance for a second consecutive quarter, as domestic equities have outperformed international equities for the first half of 2019.
- TRP Real Assets composite returned +2.11% for the quarter.
 - Real Estate Investment Trusts and Infrastructure both outperformed their respective benchmarks, however Natural Resources underperformed the S&P Global Natural Resources index by roughly 100 basis points (+0.31 vs. +1.30%) for the quarter.

Item VI: Guest Speaker – Information Item

The TRP's passive index manager, Vanguard, presented.³ Vanguard's relationship manager and senior investment analyst within their Institutional Investor Group provided a firm overview and discussed the indexing process at Vanguard. The speakers also provided an economic and markets overview, discussed investment performance, and explained how Vanguard integrates ESG into their investment process.

Item VII: ESG Annual Review – Information Item

The CSU Master Investment Policy and the TRP Investment Policy both make specific reference to ESG and expect the consideration of ESG factors to be integrated into the investment process. Accordingly, an ESG Annual review will be a regular periodic item presented to the IAC. The Chair of Meketa's ESG Investment Committee presented the item.

The TRP Investment Policy states, "The IAC acknowledges the importance of understanding the potential risks and value that environmental, social, and governance ("ESG") factors may have on TRP Investments. Therefore, the IAC expects

³ The Guest Speaker only attended Item VI and did not attend any other portion of the meeting.

that the consideration of ESG factors shall be integrated into the investment decision processes for the TRP. All else being equal, the IAC will favor investment managers and service providers who are signatories to the United Nations Principles for Responsible Investment.”

Meketa discussed the following in their presentation:

- an overview of various ESG approaches taken by institutional investors, including a range of potential investment strategy and policy considerations.
- various tools and levers that institutional investors typically utilize to incorporate ESG factors into the investment process
- certain legislative constraints for the TRP that provide limitations to the degree the CSU can utilize common ESG tools
- an overview of the approach taken by Chancellor’s Staff and Meketa to analyze, understand, and monitor how investment managers integrate ESG into their investment process, including a detailed survey with related results for the TRP’s investment managers.

ESG in many ways is a relatively new and dynamic field, with limited data to analyze, and institutional investor approaches to ESG continue to evolve. The TRP has taken steps to integrate ESG into the investment process, including the TRP Investment Beliefs, the TRP Investment Policy, consideration of ESG integration during the investment manager selection process, and continuous monitoring of investment managers related to ESG integration. Chancellor’s Staff and Meketa will continue to develop and refine ESG processes and report to the IAC accordingly.

The IAC Chair indicated the next meeting, scheduled for January 30, 2020 at 11:00 am, will be held at the Office of the Chancellor.

There being no further business before the IAC, the meeting adjourned at 2:30 pm.