AGENDA

COMMITTEE ON FINANCE

Meeting: **2:15 p.m., Tuesday, September 22, 2020**
Virtually via Teleconference

Jack McGrory, Chair
Peter J. Taylor, Vice Chair
Larry L. Adamson
Jane W. Carney
Rebecca D. Eisen
Wenda Fong
Maryana Khames
Hugo N. Morales
Lateefah Simon

Consent
1. Approval of Minutes of the Meeting of July 21, 2020, *Action*
2. California State University Quarterly Investment Report, *Information*

Discussion
3. Planning for the 2021-2022 Operating Budget, *Information*

MINUTES OF THE MEETING OF THE COMMITTEE ON FINANCE

Trustees of the California State University
Office of the Chancellor
Glenn S. Dumke Auditorium*
401 Golden Shore
Long Beach, California

July 21, 2020

Members Present

Jack McGrory, Chair
Peter J. Taylor, Vice Chair
Larry L. Adamson
Jane W. Carney
Rebecca D. Eisen
Wenda Fong
Maryana Khames
Hugo N. Morales
Lateefah Simon
Lillian Kimbell, Chair of the Board
Timothy P. White, Chancellor

Trustee Jack McGrory called the meeting to order.

Public Comment

Due to the virtual format of the July 21-22, 2020 meeting, all public comment took place at the beginning of the meeting's open session prior to all committees. Related to the Committee on Finance, speakers made comments about the handling of CARES act reimbursements to students and the ongoing need for student support resources. Students expressed discontent with certain fees being charged to students while in virtual learning and asked for a reduction in fees.

Consent Agenda

The minutes of the May 12, 2020 meeting of the Committee on Finance were approved as submitted.

***PLEASE NOTE: Due to the Governor's proclamation of a State of Emergency resulting from the threat of COVID-19, and pursuant to the Governor's Executive Orders N-25-20 and N-29-20 issued on March 12, 2020 and March 17, 2020, respectively, all members of the Board of Trustees may participate in meetings remotely, either by telephonic or video conference means. Out of consideration for the health, safety and well-being of the members of the public and the Chancellor's Office staff, the July 21-22, 2020 meeting of the CSU Board of Trustees was conducted entirely virtually via Zoom teleconference.**

Item number two - California State University, Sacramento Conceptual Approval of Two Public Private Partnerships for the Development of Real Property was approved as submitted (RFIN 07-20-02).

Item number three - California State University Doctorate of Occupational Therapy Tuition was approved as submitted (RFIN 07-20-03).

Appointment of the California State University Investment Advisory Committee Chair

The Board of Trustees was informed that Trustee Jack McGrory has been appointed as chair of the California State University Investment Advisory Committee. Executive Vice Chancellor and Chief Financial Officer Steve Relyea thanked the outgoing chair, Trustee Peter J. Taylor for his leadership and contributions to the management of the CSU's investment portfolio.

2020-2021 Final Budget

Information about the state's current budget conditions and resulting impacts on funding for the CSU was shared. The CSU will employ several strategies to reduce expenses.

Following the presentation the trustees asked how the budget reduction was allocated to campuses. They were informed that half of the reduction was prorated by the campus' share of the total CSU budget. The second half of the reduction was allocated by student demographics, where campuses with students with higher financial need (i.e. using federal Pell grant student eligibility criteria) would receive a smaller portion of that cut. The trustees inquired if offering early retirement incentives for tenure faculty has been considered. Executive Vice Chancellor Relyea and Vice Chancellor Evelyn Nazario shared some of the pros and cons to offering this type of program. The trustees also asked about the status of CSU investments and reserves. They were informed that reserves for economic uncertainty are $400 million and that campuses have already been using their reserves to help mitigate the impacts of COVID-19. Detailed information about the performance of CSU investments was provided and in general remain stable. They also discussed changes in student enrollment and to federal financial aid.

The trustees further inquired about the CARES Act, how funds are being used, and if auxiliaries are also eligible to receive funds. They were informed that the first portion of CARES Act funding went directly to the campuses and can be used with some flexibility to reimburse costs and revenue losses related to COVID-19. It was also shared that limited federal funds were made available to auxiliaries in the form of federal loans. Trustee Jack McGrory added that losses to the CSU have been compounded because in addition to the loss of funding from the state, the campuses are also experiencing loss in revenue from self-supporting enterprises like housing and parking.

Trustee McGrory adjourned the meeting of the Committee on Finance.

COMMITTEE ON FINANCE

California State University Quarterly Investment Report

Presentation By

Steve Relyea
Executive Vice Chancellor and
Chief Financial Officer

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

Summary

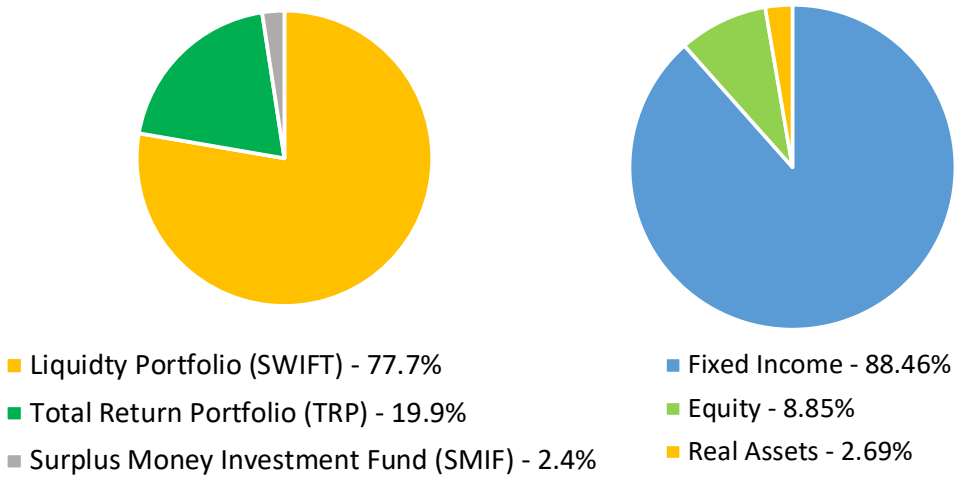
This item provides the quarterly investment report to the California State University Board of Trustees for the fiscal quarter ended March 31, 2020. The information in Attachment A provides the entire quarterly investment report regarding CSU investments as required by Education Code 89726.

Background

Pursuant to the California State University Master Investment Policy (included as Attachment B) CSU investments as of March 31, 2020 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 organization funds are included in CSU investments. In addition, this report does not include approximately $1.51 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
March 31, 2020

	Balance	% of CSU Investments	Twelve Month Returns
Liquidity Portfolio (SWIFT)	$3.764 billion	77.7%	3.42%
Total Return Portfolio (TRP)	$962.3 million	19.9%	-7.54%
Surplus Money Investment Fund (SMIF)	$117.4 million	2.4%	1.92%
CSU Investments	**$4.84 billion**	**100%**	



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, US Bancorp Asset Management and Wells Capital Management, 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:

- Investment Objectives
- Spending Policy
- Time and Investment Horizon
- Risk Tolerance
- Expected Return
- Asset Allocation
- Benchmarks
- Investment Manager Selection
- Roles & Responsibilities
- Environmental, Social and Governance Framework
- Risk Management
- Monitoring and Control Procedures

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 in order to preserve liquidity in the CSU Liquidity Portfolio in response to the COVID-19 pandemic. The investment schedule may also be adjusted by the IAC at any time depending on market conditions.

Since the TRP Inception date[1] through March 31, 2020, the TRP investment earnings were approximately negative $87.7 million. During this period, the TRP total return trailed the CSU Liquidity Portfolio (SWIFT) total return by 3.64% annualized (net of fees) or negative $120.2 million cumulative during the time period.

While the TRP saw significant declines in market value during the quarter ending March 31, 2020, these declines were consistent with broad market declines for numerous asset classes and a decline in the TRP Policy Benchmark. Subsequent to the quarter ending March 31, 2020, the TRP has recovered almost all of this decline in value. Details of the recovery in TRP market value and performance will be included in future CSU investment reports.

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, U.S. Treasuries, Commercial Paper, Corporate Bonds, and U.S. Government Agencies.

Next Steps

With oversight from the IAC, staff will continue monitoring market conditions to determine if any changes in the TRP investment schedule are warranted. Staff is also working on developing the Intermediate Duration Portfolio, consistent with the CSU Master Investment Policy, however the implementation timeline for this portfolio has been delayed due to developments related to COVID-19. The next investment report to the board is scheduled for the November 2020 meeting and will provide information on the CSU Annual Investment Report for the fiscal year ending June 30, 2020.

[1] The TRP Inception Date was April 1, 2018.

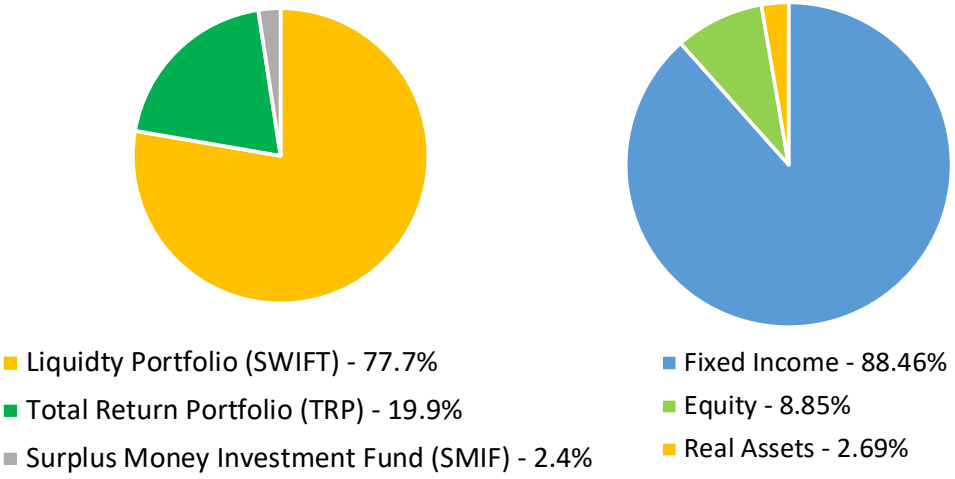
CSU Quarterly Investment Report

For the Fiscal Quarter Ended March 31, 2020

CSU investments as of March 31, 2020 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 fund nor CSU auxiliary funds are included in CSU investments. In addition, this report does not include approximately $1.51 billion in bond proceeds, which by state law are required to be held by the state and are invested in SMIF.

Balances and Allocations as of March 31, 2020

	Balance	% of CSU Investments
Liquidity Portfolio (SWIFT)	$3.764 billion	77.7%
Total Return Portfolio (TRP)	$962.3 million	19.9%
Surplus Money Investment Fund (SMIF)	$117.4 million	2.4%
CSU Investments	**$4.84 billion**	**100%**



For the quarter ended March 31, 2020, direct investment management fees[1], advisory, and custodial fees totaled just over $1.6 million, or about 0.033 percent (3.3 basis points) on CSU investments total balance as of March 31, 2020.

[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 4.

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).[2]

	CSU Consolidated Investment Portfolio
1 Year Annualized Return[3]	0.93%
3 Year Annualized Return	1.46%
5 Year Annualized Return	1.19%
10 Year Annualized Return	0.92%
Annualized Since Inception Return[4]	1.32%

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.

	CSU Liquidity Portfolio	Benchmark[5]
1 Year Annualized Return[6]	3.42%	4.65%
3 Year Annualized Return	2.22%	2.51%
5 Year Annualized Return	1.64%	1.71%
10 Year Annualized Return	1.15%	1.25%
Annualized Since Inception Return[7]	1.50%	1.82%
Yield	1.02%	0.16%
Duration (Years)	1.23	1.41
Average Credit Rating	AA-	Aaa/AA+

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

Treasuries	43.01%	CD's and Cash Equivalents	7.82%
U.S. Corporate Bonds	27.97%	Asset-Backed Securities	1.11%
U.S. Government Agencies	20.02%	Municipal Obligations	0.07%

[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] CSU Consolidated Investment Portfolio Returns reported gross of fees and as total return, including income and gains (realized and unrealized).
[4] The CSU Consolidated Investment Portfolio utilizes the July 1, 2007 inception date of the CSU Liquidity Portfolio (SWIFT).
[5] Benchmark for the CSU Liquidity Portfolio (SWIFT) is the Bank of America Merrill Lynch 0-3 Year Treasury Index.
[6] CSU Liquidity Portfolio (SWIFT) Returns reported gross of fees and as total return, including income and gains (realized and unrealized).
[7] Inception Date for the CSU Liquidity Portfolio (SWIFT) was July 1, 2007.

CSU Total Return Portfolio (TRP)

The purpose of the Total Return Portfolio 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. 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.

	CSU Total Return Portfolio	Strategic Benchmark[8]	Policy Benchmark[9]
3 Months Return	-15.61%	2.01%	-15.37%
1 Year Return	-7.54%	6.68%	-7.50%
Annualized Since Inception Return[10]	-0.68%	6.65%	-1.60%

The negative returns for the TRP as of March 31, 2020 were due largely to significant declines in the equity markets during the quarter. These negative returns resulted in underperformance compared to the Strategic Benchmark, which is not impacted by market volatility, and mixed performance compared to the TRP Policy Benchmark, which is impacted by market volatility.

Since the TRP Inception date through March 31, 2020, the TRP investment earnings were approximately negative $87.7 million. During this period, the TRP total return trailed the CSU Liquidity Portfolio (SWIFT) total return by 3.64% annualized (net of fees) or negative $120.2 million cumulative during the time period.

While the TRP saw significant declines in market value during the quarter ending March 31, 2020, these declines were consistent with broad market declines for numerous asset classes and the TRP Policy Benchmark. Subsequent to the quarter ending March 31, 2020, the TRP recovered almost all of this decline in value. Details of the recovery in TRP market value and performance will be included in future CSU investment reports.

Holdings by Asset Type (% of CSU Total Return Portfolio):

Equity Mutual Funds	44.6%	Passive Index Mutual Funds	76%
Fixed Income Mutual Funds	41.9%	Actively Managed Mutual Funds	24%[11]
Real Asset Mutual Funds	13.5%		

[8] The TRP Strategic Benchmark is Inflation (Core Consumer Price Index) plus 4.5% per annum. The long-term rate of inflation is assumed at 2.5% per annum.
[9] The TRP Policy Benchmark is a blend of passive indices whose weights match the TRP target asset allocation.
[10] TRP Inception Date was April 1, 2018.
[11] 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.

Values, Holdings & Fees (CSU Total Return Portfolio)

Asset Class	Strategy Name	Ticker	Value (millions)	% of Total Return Portfolio	TRP Fund Expense Ratio (Fee)	Universe Median Expense Ratio (Fee)
Fixed Income						
	Vanguard Total Bond Market Index Fund	VBMPX	238.9	25%	0.030%	0.450%
	Vanguard Inflation-Protected Securities Fund	VIPIX	53.6	6%	0.070%	0.455%
	Lord Abbett High Yield Fund	LHYOX	54.8	6%	0.620%	0.720%
	Pacific Funds Floating Rate Income Fund	PLFRX	29.2	3%	0.720%	0.770%
	Payden Emerging Markets Bond Fund	PYEIX	13.5	1.4%	0.690%	0.850%
	T. Rowe Emerging Markets Bond Fund	TREBX	13.3	1.4%	0.700%	0.850%
Equity						
	Vanguard Total Stock Market Index Fund	VSMPX	228.0	24%	0.020%	0.760%
	Vanguard Developed Markets Index Fund	VDIPX	112.2	12%	0.040%	0.900%
	Driehaus Emerging Markets Growth Fund	DIEMX	54.4	6%	1.180%	1.115%
	DFA Emerging Markets Value Fund	DFEVX	25.6	3%	0.510%	1.115%
	RWC Global Emerging Equity Fund	RWCEX	8.7	1%	1.250%	1.115%
Real Assets						
	Vanguard Real Estate Index Fund	VGSNX	60.7	6%	0.100%	0.895%
	Vanguard Energy Index Fund	VENAX	14.8	2%	0.100%	0.990%
	Vanguard Materials Index Fund	VMIAX	18.7	2%	0.100%	0.950%
	First State Global Listed Infrastructure Fund	FLIIX	35.9	4%	0.950%	0.970%
Cash			0.0	0%	NA	NA
Total			**962.3**	**100%**		

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.

Apportionment Annual Yield[12]	
Trailing 12 month as of 03/31/20	1.92%
Average (FYE 06/30/07 – FYE 03/31/20)	1.15%

[12] Annual Yield calculated by CSU Treasury Operations based on the quarterly apportionment yield rates published by the State Controller's Office.

The California State University
OFFICE OF THE CHANCELLOR

Master Investment Policy

For The California State University

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

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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 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:

Portfolio	**Min – Target – Max**
Liquidity – Systemwide Investment Fund Trust ("SWIFT")	**5% - 20% - 100%**
Intermediate Duration Portfolio ("IDP")	**0% - 52% - 95%**
Total Return Portfolio ("TRP")	**0% - 28% - 30%**[1]

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
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COMMITTEE ON FINANCE

Planning for the 2021-2022 Operating Budget

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Summary

The California State Constitution requires the submittal of the governor's budget proposal each year by January 10. In order to meet consequent deadlines of the Department of Finance, it is necessary to commence planning for the 2021-2022 California State University Operating Budget. The CSU Board of Trustees will be provided preliminary assumptions for purposes of preparing the 2021-2022 budget request to the governor. The final budget request will be presented to the Board of Trustees for review and approval in November 2020.

State Budget Overview

As the 2020-2021 budget year begins, and the CSU looks to the 2021-2022 fiscal year, California's state budget picture has dramatically changed. The arrival of COVID-19 in California created a swift and immediate recession. Not long ago, economic forecasts suggested modest continuous growth. For example, the governor's January 2020 state budget proposal recognized a $5.6 billion surplus for 2020-2021. COVID-19 created significant economic hardships and those forecasts have been significantly revised. COVID-19 created a $54.3 billion state multi-year budget deficit. Now, the most ominous forecasts anticipate state budget deficits every year through 2023-2024. However, there are more optimistic forecast scenarios that suggest that the budget deficit may not be as profound and that economic recovery may be more rapid.

State leaders employed a wide array of deficit-narrowing strategies to balance the 2020-2021 state budget. Examples include: (1) the use of the state's rainy-day fund, (2) reductions to existing program and agency funding, (3) reductions to civil servant compensation (non-CSU employees), (4) loans from state special funds, and (5) deferrals of expenses across fiscal years. With continued economic uncertainty for 2021-2022, it is difficult to determine if the governor and legislature will again employ similar strategies to balance the budget.

Recent Funding of the CSU

Prior to COVID-19, Governor Newsom's January 2020 budget proposal would have provided $199 million in new recurring funds. But the economic decline due to COVID-19 required a change in course with the governor and legislature removing $299.1 million recurring from the CSU budget. Combined with a decline in tuition revenue due to student behavior and enrollment patterns, the CSU's budget declined by $323.2 million yielding a total operating budget of $6.9 billion for 2020-2021. Recent changes in the CSU operating fund budget are detailed in the table below:

Fiscal Year	State General Fund	% Change	Gross Tuition & Fees	% Change	Total Operating Fund Budget	% Change
2017-2018	$3,474,230,000	-	$3,275,294,300	-	$6,749,524,300	-
2018-2019	$3,772,707,000	8.6%	$3,277,627,000	0.1%	$7,050,334,000	4.5%
2019-2020	$4,021,849,000	6.6%	$3,155,887,000	-3.7%	$7,177,736,000	1.8%
2020-2021	$3,722,806,000	-7.4%	$3,140,097,000	-0.5%	$6,862,903,000	-4.4%

The Impacts of State Funding Reductions and COVID-19 on the CSU

The state's decision to reduce funding for the university, other negative financial consequences associated with COVID-19 affecting CSU enterprise activities (e.g. parking and student housing) and auxiliaries, and CSU mitigation efforts represent a mix of CSU fiscal opportunities and challenges.

Fortunately, CSU campuses have prudently grown reserves to meet certain strategic goals, one of which has been preparation for possible economic uncertainty. The CSU has already drawn upon these reserves on a one-time basis and will continue to do so in the coming years to maintain operations in programs impacted by COVID-19. Other one-time opportunities are the use of remaining federal CARES Act funds and continued implementation of efficiencies and savings. Certainly, the early decision to primarily offer virtual modes of instruction for the Fall 2020 term enabled key decisions on operations, revenue, and cost management.

However, there are several fiscal challenges the campuses and Chancellor's Office face today.

The state's $299.1 million operating budget reduction is significant and will require ongoing, permanent reductions throughout the system. Compounding this challenge is the unprecedented impact that COVID-19 has on enterprise programs like parking and student housing. These traditionally are financially stable CSU programs that typically are not impacted by an economic downturn. But COVID-related requirements for physical distancing and virtual modalities have caused significant revenue shortfalls for these programs. Campuses are using one-time CARES

Act funding and portions of their reserves now and in the coming years to cover debt service on facilities and are managing operating costs like salaries and benefits in these self-support programs. In tandem with the use of one-time funds, campuses may have to reduce hours or consider layoffs due to lack of work or lack of funds. These unfortunate steps are consistent with long-established CSU policy, collective bargaining agreements, and state law.

There are other steps the CSU is taking because of the current circumstances. For example, there is a systemwide slow-down in hiring of new employees and campuses are deferring non-critical capital projects.

In summary, the CSU will continue to use one-time funds to bridge the path to permanent budget cuts. The CSU has been a good steward of resources and is prepared to address the real financial problems and impacts today. However, the CSU does not have the resources today to address the many aspirational investments of the university.

2021-2022 CSU Operating Budget—Preliminary Planning Approach

Over the last several weeks, Chancellor's Office staff have met with many stakeholder groups to solicit feedback on the potential contents of the 2021-2022 CSU Operating Budget Request. Based on that feedback, the preliminary 2021-2022 budget plan would provide a level of assurance to CSU students, families, and employees during these particularly uncertain times. The 2021-2022 budget request recognizes that the state continues to value the CSU and will take the opportunity to invest in the CSU if the state's economic condition were to improve more quickly than anticipated.

It is very early in the budget development process and appropriate for the Board of Trustees to begin discussion of CSU priorities for the 2021-2022 Operating Budget Request. The planning approach presented below represents funding levels that can be balanced to communicate the university's key funding needs. These estimated incremental funding amounts provide an opportunity for discussion about priorities and would add to the 2020-2021 base budget of $6.9 billion.

Preliminary Expenditure Plan Increase - $237.5 Million

Graduation Initiative 2025 (Year 4 and 5) - $150 million

The CSU will continue to invest in people, programs, technologies, and strategies that have demonstrated success in improving graduation rates, shortening time-to-degree, and eliminating equity gaps. Each campus has developed multi-year plans to reach their Graduation Initiative 2025 goals that will require multi-year investments across the system in the six pillars of the initiative:

- Academic preparation
- Enrollment management
- Financial aid
- Data-driven decision making
- Administrative barriers
- Student engagement and well-being

Graduation Initiative 2025 is the CSU's most important priority and the university is on the right path to improving student success. Students have greater access to the courses they need, the equity gap is closing, and campuses are supplying academic and student support services that foster engagement and well-being. To support Graduation Initiative 2025, the CSU originally developed a $450 million investment plan phased in over a six-year period (i.e. $75 million a year for 6 years = $450 million). From 2017-2018 through 2019-2020, $195 million in recurring funding has been invested in the initiative. The state paused its investment in 2020-2021 and with the potential for a continued pause in 2021-2022, the initiative's positive momentum and aspirational timeline are at risk. Therefore, it is important that the CSU budget plan include a significant financial commitment to Graduation Initiative 2025. Campuses could reasonably spend $150 million on their student success and completion priorities.

Mandatory Costs - $47.5 million

The governor signed Assembly Bill 1460, which requires every CSU campus to offer ethnic studies courses and every CSU student to complete a three-unit course in ethnic studies in order to graduate. Campuses that have no ethnic studies courses in the areas articulated in the law must develop them and campuses that have ethnic studies departments or courses must expand them to ensure that every student has access to an ethnic studies course in order to graduate.

As had been regularly shared with the legislature and governor as this bill made its way through the legislative process, the CSU estimates that the new law will create $16.5 million of recurring costs and just over $1.0 million in one-time costs. Per the gubernatorial administration's budget policies, it is incumbent on the administration to propose and ensure funding for all legislation signed by the governor with cost implications. It also is the duty of the legislature to do so.

Staff anticipate that other mandatory cost increases for existing university commitments will be approximately $31 million in 2021-2022. These include health care premium increases for CSU employees, increases to operations and maintenance of newly-constructed facilities and other compensation-related costs, such as state wage law changes. If operating budget requests do not include these types of mandatory cost increases, campuses must redirect resources from existing programs, services and priorities to meet those cost increases.

Facilities and Infrastructure Needs - $10 million

Since the Great Recession, the restructuring of the CSU's facilities and infrastructure debt combined with previous support from the state in one-time and recurring funds has enabled construction of $3.2 billion in new and revitalized facilities as well as a reduction in the deferred maintenance backlog. The systemwide academic facility and related critical infrastructure improvement needs total approximately $16.4 billion (excluding self-funded enterprise programs). Had Proposition 13—the education facilities general obligation bond—been approved by California voters in March 2020, it would have authorized $2 billion for CSU projects.

Agenda Item 3 of the September 20-23, 2020 meeting of the Committee on Campus Planning, Buildings and Grounds includes the preliminary Multi-Year Capital Program. The program prioritizes critical infrastructure and utility renewal projects and facility renovation to support the academic needs. Like other components of this preliminary budget plan, it is presumed that the state will have limited ability to invest new funds in these types of projects. The addition of $10 million in recurring funds would finance approximately $180 million of the most critical facility and infrastructure projects in the Multi-Year Capital Program.

Requesting $10 million recurring to pay the annual debt service on projects is an important fiscal strategy that will supplement other current CSU strategies in helping address the most pressing facility and infrastructure needs.

Restore 10 Percent of 2020-2021 General Fund Reductions - $30 million

As reported earlier in this item, the state reduced the CSU recurring appropriation by $299.1 million—a 7.4 percent reduction in state funding. As previously reported to the Board of Trustees, the CSU is utilizing a number of one-time sources to temporarily support that funding drop for 2020-2021. Examples include the use of designated balances and reserves, the federal CARES Act funding, a slowdown in hiring, and a halt on travel. Those one-time solutions, however, cannot be sustained into 2021-2022 and beyond because the $299 million recurring reduction would require permanent, ongoing cost reductions. Created in the 1800's, the CSU is a fundamental function of state government and its millions of graduates have been critical to the success of the state for well over a century. As a result, the state should look to restore or invest in the university in 2021-2022. The preliminary plan includes a $30 million dollar recurring general fund restoration, which represents a very modest 10 percent restoration of the nearly $300 million budget cut the university is experiencing right now.

Preliminary Revenue Plan

At this preliminary stage, the planning effort focuses on stating the CSU's budget priorities and needs. The preliminary plan's range of new investments would require additional new ongoing revenues from the state of $237.5 million.

Operating Fund Designated Balances and Reserves

Designated balances and reserves in CSU's operating fund are used in several ways to deal with non-recurring expenses by managing short-term obligations and commitments, providing funding for capital infrastructure repairs and maintenance, and helping to ensure that operating costs can be paid during times of catastrophic events and economic and budgetary uncertainty. Designated balances and reserves are determined and reported annually by the campuses and the system office and are published on CSU's financial transparency portal. Designated balances and reserves are not used to fund recurring expenses, such as salary increases. The use of one-time monies to pay recurring, permanent expenses can lead to structural deficits where recurring resources are insufficient to pay for recurring costs.

The CSU has prudently grown designated balances and reserves to meet certain strategic goals, one of which has been to prepare for possible economic uncertainty. The CSU has already drawn upon these reserves on a one-time basis to maintain operations in programs impacted by COVID-19. It is anticipated that a measured use of reserves over the next several years will be necessary until the economy and state budget rebound.

As of June 30, 2020, designated balances and reserves in the operating fund totaled $1.7 billion and are held for short-term obligations, capital needs, catastrophic events and economic uncertainties.

Designated Balances for Short Term Obligations

Amounts held for short-term obligations are designated for payments for open contracts and purchase orders, near-term debt service payments, financial aid obligations, and programs that are in development. Balances for short-term obligations totaled $949 million at the end of last year and cover expected needs, which are typically paid in the following fiscal year.

Designated Balances for Capital

Designated balances for capital are for new projects and to repair current buildings, as well as planning costs and equipment acquisition associated with those buildings. Balances for capital fall well short of the expected need, which is at least ten percent of the cost of academic projects approved in the most recent five-year capital plan. Capital designated balances totaled $318 million.

Designated Balances for Catastrophic Events

These designated balances are to be used in the event of a natural disaster or other catastrophic event, including annual insurance premiums or self-insured retentions and total $23 million.

Reserves for Economic Uncertainties

Reserves for economic uncertainties are designated to provide a prudent reserve to sustain operations during periods of economic uncertainty such as short-term recessionary cycles or state budget fluctuations. Operating reserves are intended to be used in the present and the future as one-time supplements to help manage the often-rapid decline in state resources, allowing time to appropriately adjust operating budgets to balance reductions and minimizing disruptions to students' education as much as possible. Designated reserves for operations set aside for economic uncertainty total $400 million and are less than one month of operating expenses, well below the need to maintain three to six months of operating expenses.

Conclusion

This is an information item presenting a preliminary framework for the 2021-2022 CSU Operating Budget Request to the governor and the Department of Finance. Using feedback provided by the Board of Trustees at the September 2020 meeting, Chancellor's Office staff will present an updated and detailed operating budget recommendation for Board of Trustees' approval in November 2020.