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and Chief Financial Officer

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November 15, 2023

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RE: CSU Annual Investment Report

This report is the CSU Annual Investment Report for the Fiscal Year Ended June 30, 2023.

We are pleased to note in this report the positive impact of CSU's Total Return Portfolio (TRP) which was created by authority granted under SB 1412 of 2016. Proceeds from this portfolio, as required by Ed Code 89726, have resulted in \$217.9 million in one-time distributions to campuses for capital outlay or maintenance needs since 2018.

The CSU Annual Investment Report is being provided to the California State Legislature and Department of Finance as required by Education Code 89726.

Should you have any questions about this report, please contact Nathan Dietrich, Assistant Vice Chancellor, Advocacy and State Relations at (916) 445-5983.

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Fresno
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Long Beach
Los Angeles
Maritime Academy

Monterey Bay
Northridge
Pomona
Sacramento
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San Diego

San Francisco
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San Luis Obispo
San Marcos
Sonoma
Stanislaus

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Sincerely,

Steven Relyea

Steve Relyea
Executive Vice Chancellor and
Chief Financial Officer

SR:dr

Full report posted to <https://www.calstate.edu/impact-of-the-csu/government/Advocacy-and-State-Relations/Pages/legislative-reports.aspx>

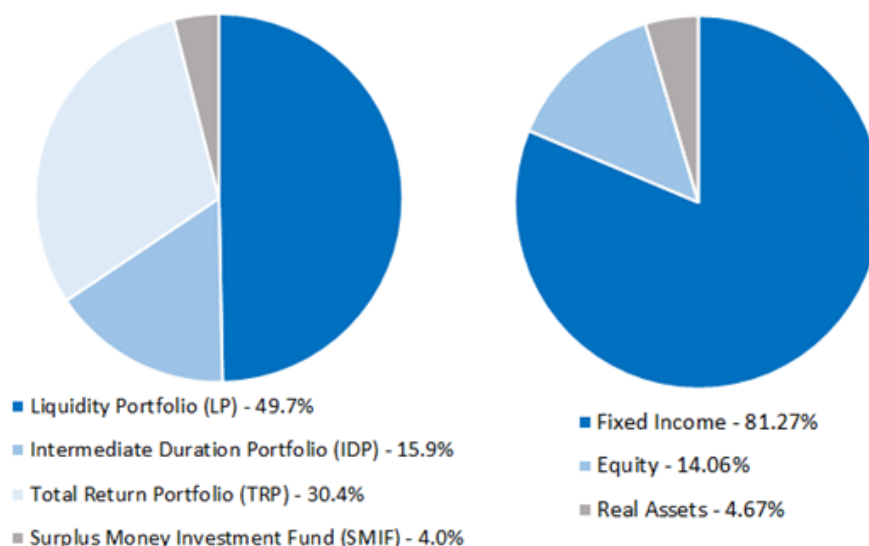
c: Members, California State Legislature
Members, Joint Legislative Budget Committee
Lisa Qing, Senior Fiscal & Policy Analyst, Legislative Analyst Office
Nathan Evans, Deputy Vice Chancellor, Academic and Student Affairs
Dilcie Perez, Deputy Vice Chancellor, Academic and Student Affairs
Nathan Dietrich, Assistant Vice Chancellor, Advocacy and State Relations
Ryan Storm, Assistant Vice Chancellor for Budget
Jeni Kitchell, Executive Budget Director
Robert Eaton, Assistant Vice Chancellor, Financing, Treasury, and Risk Management

CSU Annual Investment Report For the Fiscal Year Ended June 30, 2023

CSU investments as of June 30, 2023, consisted of investments in the CSU Liquidity Portfolio (LP), the Intermediate Duration Portfolio (IDP), 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 \$930 million 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 June 30, 2023

	Balance	% of CSU Investments
Liquidity Portfolio (LP)	\$3.920 billion	49.7%
Intermediate Duration Portfolio (IDP)	\$1.256 billion	15.9%
Total Return Portfolio (TRP)	\$2.398 billion	30.4%
Surplus Money Investment Fund (SMIF)	\$0.314 billion	4.0%
CSU Investments	\$7.89 billion	100%



For the year ending June 30, 2023, direct investment management fees¹, advisory, and custodial fees totaled just under \$4.2 million, or about 0.059 percent on CSU investments' average balance for the year ending June 30, 2023.

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 6.

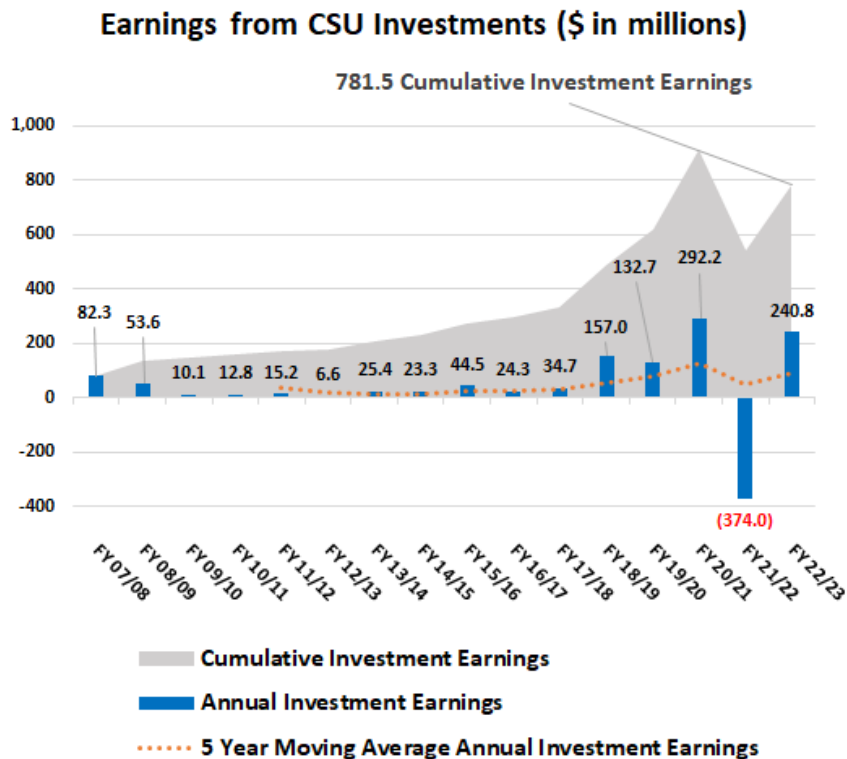
CSU Consolidated Investment Portfolio

The following table displays performance returns for the CSU Consolidated Investment Portfolio which includes the Liquidity Portfolio, IDP, and TRP.²

	CSU Consolidated Investment Portfolio	CSU Total Return Portfolio (TRP)	CSU Intermediate Duration Portfolio (IDP)	CSU Liquidity Portfolio (LP)
1 Year Return	3.76%	7.95%	0.35%	2.18%
3 Year Annualized Return	1.39%	5.88%	N/A	0.07%
5 Year Annualized Return	2.20%	5.28%	N/A	1.31%
10 Year Annualized Return	1.51%	N/A	N/A	1.07%
Since Inception Return ³	1.54%	5.61%	-4.96%	1.26%

As of June 30, 2023, the TRP since inception investment earnings were approximately \$292.8 million. During this period, the TRP total return exceeded the Liquidity Portfolio total return by 4.32 percent annualized (net of fees) or a cumulative \$244.5 million, which was about 6.1 times higher than Liquidity Portfolio investment earnings.

Investment Earnings from CSU Investments Support Campus Operations and Student Experience



² CSU Consolidated Investment Portfolio returns exclude SMIF.

³ Inception Dates for the CSU portfolios were: Consolidated Investment Portfolio, July 1, 2007; Liquidity Portfolio, July 1, 2007; IDP, October 1, 2021; and TRP, April 1, 2018. CSU Consolidated Investment Portfolio, Liquidity Portfolio, and IDP returns reported gross of fees and as total return, including income and gains (realized and unrealized).

CSU Liquidity Portfolio (LP)

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

	<u>CSU Liquidity Portfolio</u>	<u>Benchmark⁴</u>
1 Year Return ⁵	2.18%	1.16%
3 Year Annualized Return	0.07%	-0.39%
5 Year Annualized Return	1.31%	1.15%
10 Year Annualized Return	1.07%	0.86%
Annualized Since Inception Return ⁶	1.26%	1.38%
Yield	5.04%	5.10%
Duration (Years)	1.07	1.41
Average Credit Rating	AA-	Aaa/AA+

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

Treasuries	53.6%	Certificates of Deposit	3.3%
U.S. Corporate Bonds	24.5%	Cash Equivalents	2.3%
Commercial Paper	8.2%	Agency MBS	2.3%
U.S. Government Agencies	5.7%	CA Municipal Obligations	0.1%

⁴ Benchmark for the Liquidity Portfolio is the Bank of America Merrill Lynch 0-3 Year Treasury Index.

⁵ Liquidity Portfolio Returns reported gross of fees and as total return, including income and gains (realized and unrealized).

⁶ Inception Date for the Liquidity Portfolio was July 1, 2007.

CSU Intermediate Duration Portfolio (IDP)

The purpose of the Intermediate Duration Portfolio is to provide opportunity for modest, additional risk adjusted returns on CSU funds not needed for immediate liquidity. The investment objectives are safety of principal, liquidity, and return. Consistent with state law, the portfolio is restricted to high quality, fixed income securities.

	CSU Intermediate Duration Portfolio	Benchmark⁷
3 Months Return ⁸	-0.32%	-0.61%
1 Year Return	0.35%	-0.07%
Annualized Since Inception Return	-4.96%	-4.94%
Yield	5.11%	4.93%
Duration (Years)	4.77	4.64
Average Credit Rating	A+	AA-

Holdings by Asset Type (% of CSU Intermediate Duration Portfolio):

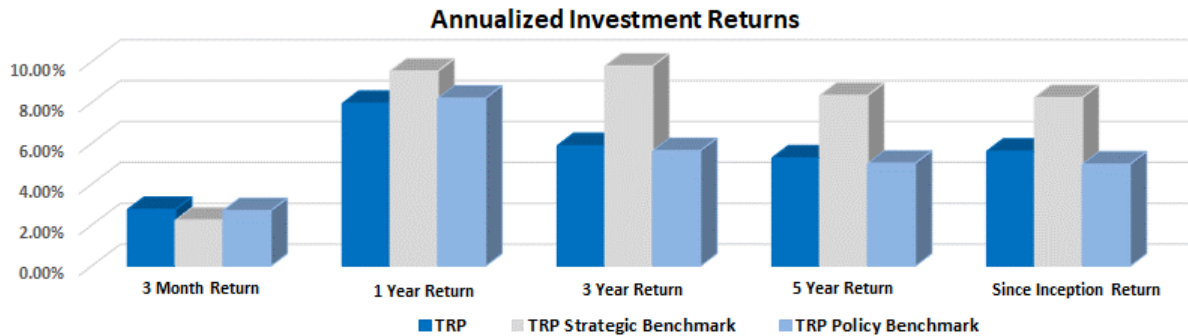
U.S. Corporate Bonds	57.4%	U.S. Government Agencies	1.6%
Agency MBS	27.5%	CA Municipal Obligations	1.4%
Treasuries	9.5%	Cash Equivalents	0.4%
Asset-Backed Securities	2.1%	Supranationals	0.1%

⁷ Benchmark for the IDP is 50% Bloomberg Barclays US Corporate 1-10 Year A or Better Ex-Yankee / 30% Bloomberg Barclays US MBS / 20% Bloomberg Barclays US Intermediate Treasury Index.

⁸ Inception Date for the IDP was October 1, 2021. IDP Returns reported gross of fees and as total return, including income and gains (realized and unrealized).

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 Benchmark⁹	Policy Benchmark¹⁰
3 Months Return	2.76%	2.24%	2.70%
1 Year Return	7.95%	9.53%	8.21%
3 Year Annualized Return	5.88%	9.78%	5.64%
5 Year Annualized Return	5.28%	8.34%	5.02%
Annualized Since Inception Return ¹¹	5.61%	8.24%	4.98%

In October 2023, the CSU Investment Advisory Committee approved the fifth annual TRP distribution to the system of approximately \$56 million, bringing total TRP distributions to the system since inception to \$218 million. TRP distributions are allocated to the campuses annually for capital outlay or maintenance. Consistent with Education Code Section § 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.

⁹ The TRP Strategic Benchmark is Inflation (Core Consumer Price Index) plus 4.5% per annum. The long-term rate of inflation is assumed at 2.6% per annum.

¹⁰ The TRP Policy Benchmark is a blend of passive indices whose weights match the TRP target asset allocation.

¹¹ TRP Inception Date was April 1, 2018.

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

Equity Mutual Funds	46.2%	Passive Index Mutual Funds	74%
Fixed Income Mutual Funds	38.4%	Actively Managed Mutual Funds	26% ¹²
Real Asset Mutual Funds	15.4%		

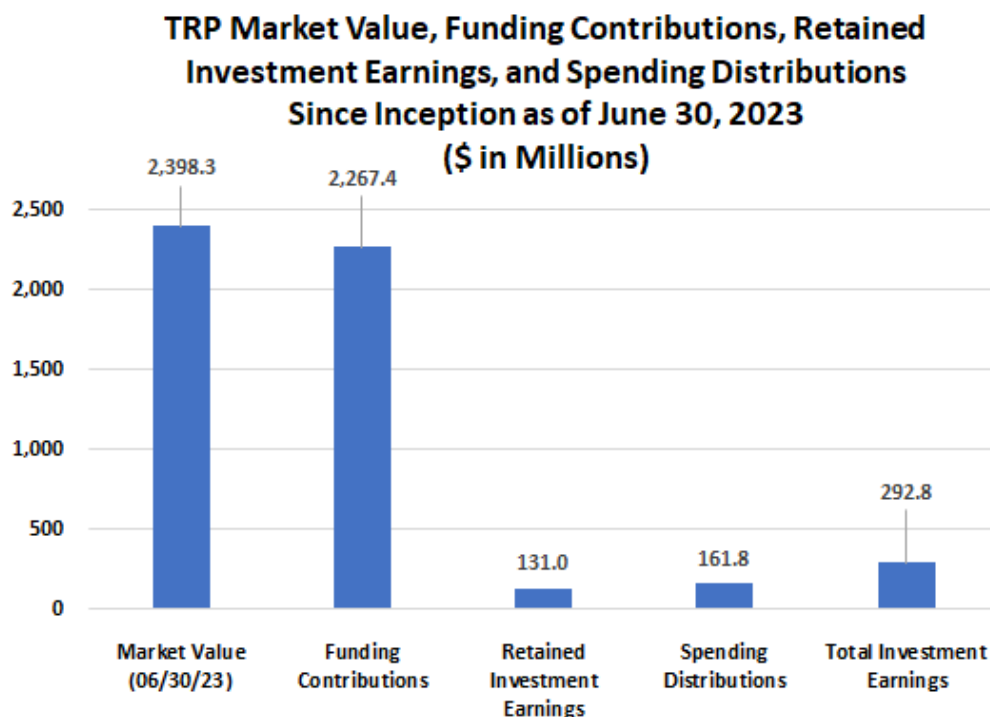
Values, Holdings & Fees (CSU Total Return Portfolio)

Asset Class	Strategy Name	Ticker	Value (millions)	% of Total Return Portfolio	TRP Fund Expense Ratio (Fee)	Median Fee Per Asset Class
Fixed Income						
	Vanguard Total Bond Market Index Fund	VBMPX	518.1	21.60%	0.03%	0.44%
	Vanguard Inflation-Protected Securities Fd	VIPIX	117.7	4.91%	0.07%	0.43%
	Lord Abbett High Yield Fund	LHYOX	143.0	5.96%	0.60%	0.69%
	Aristotle Floating Rate Income Fund	PLFRX	71.3	2.97%	0.70%	0.77%
	Payden Emerging Markets Bond Fund	PYEIX	35.6	1.48%	0.69%	0.80%
	T. Rowe Emerging Markets Bond Fund	TREBX	35.5	1.48%	0.70%	0.80%
Equity						
	Vanguard Total Stock Market Index Fund	VSMPX	581.6	24.25%	0.02%	0.75%
	Vanguard Developed Markets Index Fund	VDIPX	289.2	12.06%	0.04%	0.88%
	Driehaus Emerging Markets Growth Fund	DIEMX	142.9	5.96%	1.13%	1.01%
	DFA Emerging Markets Value Fund	DFEVX	71.6	2.98%	0.44%	1.01%
	Redwheel Global Emerging Equity Fund	RWCEX	23.7	0.99%	1.20%	1.01%
Real Assets						
	Vanguard Real Estate Index Fund	VGSNX	198.7	8.29%	0.10%	0.87%
	Vanguard Materials Index Fund	VMIAX	61.5	2.57%	0.10%	0.92%
	First Sentier Global Listed Infrastructure Fd	FLIIX	107.9	4.50%	0.95%	0.97%
Cash						
			0.0	0.00%	NA	NA
Total			2,398.3	100%	0.24%	0.73%

¹² 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. The total TRP Fund Expense Ratio and total Median Fee Per Asset Class are weighted averages using the percent of the Total Return Portfolio shown in the table for each fund and their respective asset class.

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 June 30, 2023. Total TRP investment earnings equal total TRP spending distributions plus total TRP retained investment earnings.



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 Yield¹³	
Trailing 12 month as of 06/30/23	2.13%
Average (FYE 06/30/07 – 06/30/23)	1.12%

¹³ Annual Yield calculated by CSU Treasury Operations based on the quarterly apportionment yield rates published by the State Controller’s Office.