

401 Golden Shore, 5th Floor
Long Beach, CA 90802-4210

CSU Legislative Reports Website
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Steve Relyea
Executive Vice Chancellor
and Chief Financial Officer

562-951-4600
srelyea@calstate.edu

November 23, 2022

Nancy Skinner
Joint Legislative Budget Committee
1021 O Street, Suite 8630
Sacramento, CA 95814

Gabriel Petek
Legislative Analyst Office
925 L Street, #1000
Sacramento, CA 95814

Joe Stephenshaw, Director
Department of Finance
1021 O Street, Suite 3110
Sacramento, CA 95814

Erika Contreras
Secretary of the Senate
State Capitol, Room 305
Sacramento, CA 95814

Cara L. Jenkins
Legislative Counsel
1021 O Street, Suite 3210
Sacramento, CA 95814

Sue Parker
Chief Clerk of the Assembly
State Capitol, Room 3196
Sacramento, CA 95814

RE: CSU Annual Investment Report

This is the CSU Annual Investment Report for the fiscal year ended June 30, 2022.

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 Senate Bill 1412 of 2016. Proceeds from this portfolio, as required by Education Code 89726, have resulted in \$161.8 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 Eric Bakke, Interim Assistant Vice Chancellor, Advocacy and State Relations at (916) 445-5983.

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November 23, 2022

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Sincerely,


Steve Relyea (Nov 28, 2022 06:58 PST)

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>

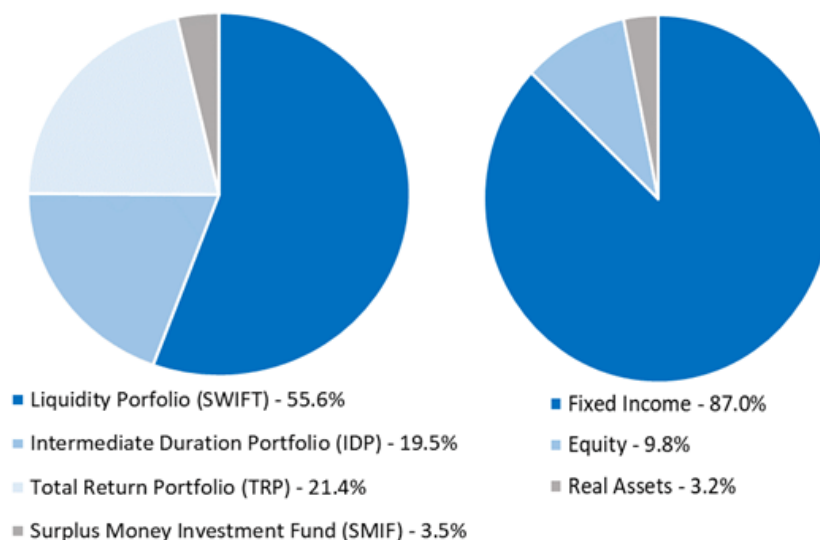
- c: Members, California State Legislature
Members, Joint Legislative Budget Committee
Lisa Qing, Senior Fiscal & Policy Analyst, Legislative Analyst Office
Jolene Koester, Interim Chancellor, California State University
Sylvia A. Alva, Executive Vice Chancellor, Academic and Student Affairs
Eric Bakke, Interim 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, 2022

CSU investments as of June 30, 2022 consisted of investments in the CSU Liquidity Portfolio (Systemwide Investment Fund Trust or SWIFT), 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 \$1.40 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 June 30, 2022

	<u>Balance</u>	<u>% of CSU Investments</u>
Liquidity Portfolio (SWIFT)	\$3.575 billion	55.6%
Intermediate Duration Portfolio (IDP)	\$1.251 billion	19.5%
Total Return Portfolio (TRP)	\$1.374 billion	21.4%
Surplus Money Investment Fund (SMIF)	\$0.228 billion	3.5%
CSU Investments	\$6.43 billion	100%



For the year ending June 30, 2022, direct investment management fees¹, advisory, and custodial fees totaled just under \$3.4 million, or about 0.056 percent (5.6 basis points) on CSU investments' average balance for the quarter ending June 30, 2022.

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.

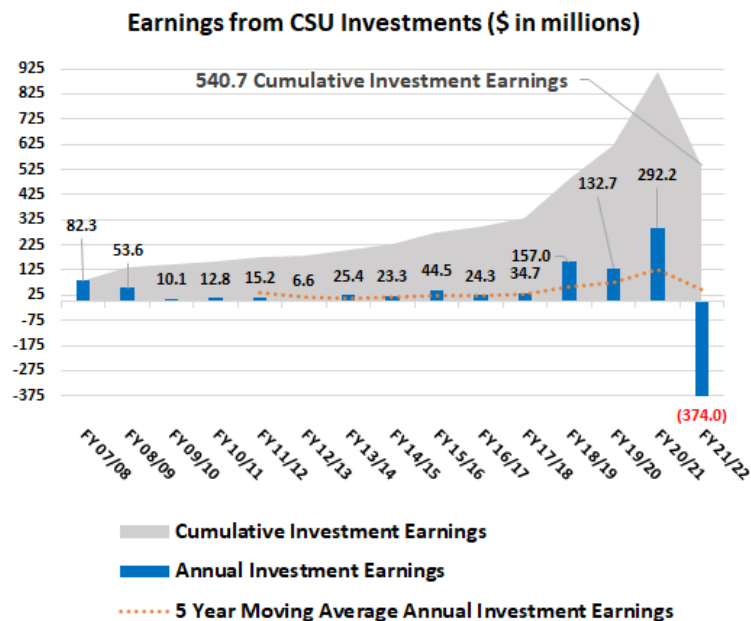
CSU Consolidated Investment Portfolio

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

	CSU Consolidated Investment Portfolio	CSU Total Return Portfolio (TRP)	CSU Intermediate Duration Portfolio (IDP)	CSU Liquidity Portfolio (SWIFT)
1 Year Return	-5.52%	-12.62%	N/A	-2.22%
3 Year Annualized Return	1.23%	3.82%	N/A	0.43%
5 Year Annualized Return	1.62%	N/A	N/A	1.04%
10 Year Annualized Return	1.18%	N/A	N/A	0.89%
Since Inception Return ³	1.39%	5.07%	-8.84%	1.20%

As of June 30, 2022, the TRP since inception investment earnings were approximately \$145.0 million. During this period, the TRP total return exceeded the Liquidity Portfolio (SWIFT) total return by 3.97 percent annualized (net of fees) or a cumulative \$128.4 million, which was about 8.7 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; SWIFT, July 1, 2007; IDP, October 1, 2021; and TRP, April 1, 2018. CSU Consolidated Investment Portfolio, SWIFT, and IDP returns reported gross of fees and as total return, including income and gains (realized and unrealized).

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 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	-2.22%	-2.39%
3 Year Annualized Return	0.43%	0.37%
5 Year Annualized Return	1.04%	1.11%
10 Year Annualized Return	0.89%	0.77%
Annualized Since Inception Return ⁶	1.20%	1.40%
Yield	2.78%	2.76%
Duration (Years)	1.25	1.41
Average Credit Rating	AA-	Aaa/AA+

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

Treasuries	46.10%	Commercial Paper	1.91%
U.S. Corporate Bonds	29.64%	Agency MBS	1.85%
U.S. Government Agencies	8.79%	Supranationals	0.42%
Certificates of Deposit	7.17%	CA Municipal Obligations	0.39%
Cash Equivalents	3.73%		

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

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

⁶ Inception Date for SWIFT 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.

	<u>CSU Intermediate Duration Portfolio</u>	<u>Benchmark⁷</u>
Since Inception Return ⁸	-8.84%	-8.40%
Yield	3.83%	3.79%
Duration (Years)	4.88	4.68
Average Credit Rating	A+	AA-

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

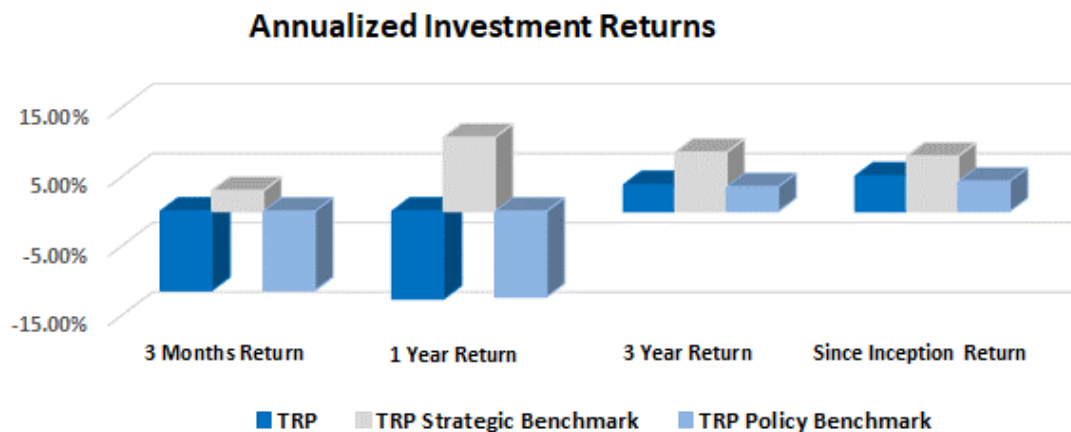
U.S. Corporate Bonds	58.70%	CA Municipal Obligations	1.16%
Agency MBS	21.10%	Asset-Backed Securities	0.88%
Treasuries	15.73%	Cash Equivalents	0.86%
U.S. Government Agencies	1.49%	Supranationals	0.08%

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	-11.39%	2.98%	-11.40%
1 Year Return	-12.62%	10.66%	-12.34%
3 Year Annualized Return	3.82%	8.50%	3.53%
Annualized Since Inception Return ¹¹	5.07%	7.94%	4.32%

In October 2022, the CSU Investment Advisory Committee approved the fourth annual TRP distribution to the system of approximately \$48.8 million, bringing total TRP distributions to the system since inception to \$161.8 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 2.5% 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	45.7%	Passive Index Mutual Funds	74%
Fixed Income Mutual Funds	39.3%	Actively Managed Mutual Funds	26% ¹²
Real Asset Mutual Funds	15.0%		

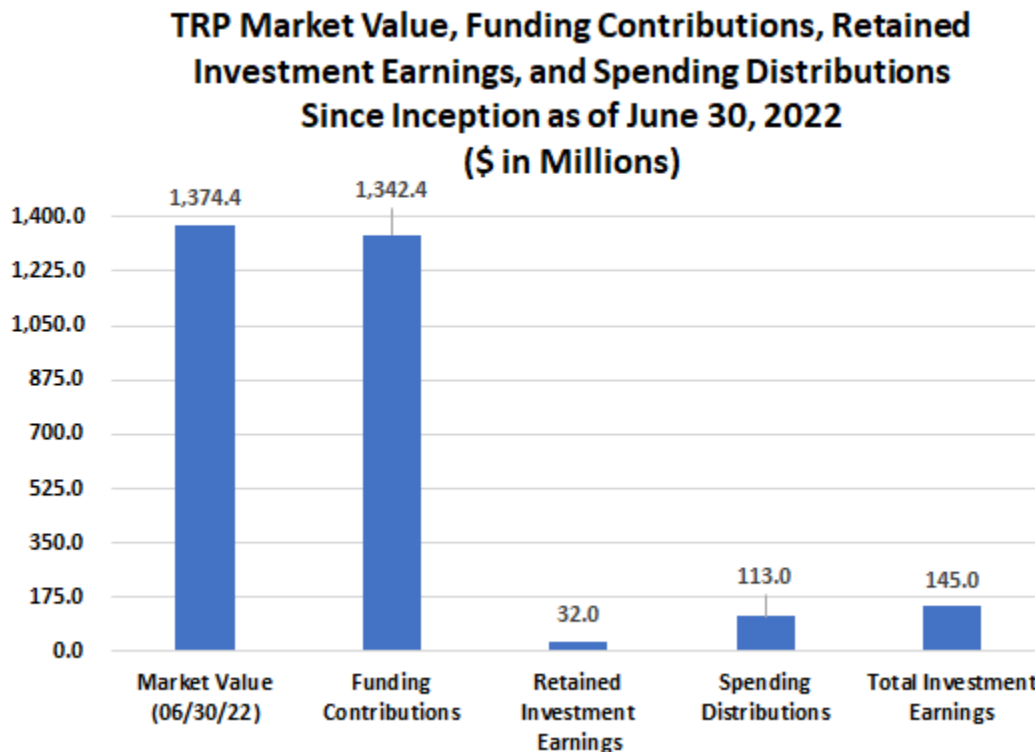
Values, Holdings & Fees (CSU Total Return Portfolio)

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	308.0	22.41%	0.03%	0.44%
	Vanguard Inflation-Protected Securities Fd	VIPIX	67.3	4.89%	0.07%	0.37%
	Lord Abbett High Yield Fund	LHYOX	82.5	6.00%	0.59%	0.69%
	Pacific Funds Floating Rate Income Fund	PLFRX	41.2	3.00%	0.75%	0.75%
	Payden Emerging Markets Bond Fund	PYEIX	20.6	1.50%	0.69%	0.81%
	T. Rowe Emerging Markets Bond Fund	TREBX	20.5	1.49%	0.70%	0.81%
Equity						
	Vanguard Total Stock Market Index Fund	VSMPX	328.4	23.89%	0.02%	0.75%
	Vanguard Developed Markets Index Fund	VDIPX	163.6	11.90%	0.04%	0.89%
	Driehaus Emerging Markets Growth Fund	DIEMX	82.0	5.96%	1.07%	1.04%
	DFA Emerging Markets Value Fund	DFEVX	41.0	2.99%	0.45%	1.04%
	RWC Global Emerging Equity Fund	RWCEX	13.6	0.99%	1.20%	1.04%
Real Assets						
	Vanguard Real Estate Index Fund	VGSNX	109.7	7.98%	0.10%	0.88%
	Vanguard Materials Index Fund	VMIAX	33.9	2.46%	0.10%	0.95%
	First Sentier Global Listed Infrastructure Fd	FLIIX	62.2	4.52%	0.95%	0.97%
Cash			0.0	0.00%	NA	NA
Total			1,374.4	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 Universe Median Expense Ratio are weighted averages using the percent of the Total Return Portfolio shown in the table for each fund and their respective universe.

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, 2022. 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 6/30/22	0.35%
Average (FYE 06/30/07 – 6/30/22)	1.10%

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