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Steve Relyea
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and Chief Financial Officer

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November 20, 2020

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Joint Legislative Budget Committee
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Sacramento, CA 95814

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Sacramento, CA 95814

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State Capitol, Room 3021
Sacramento, CA 95814

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

RE: CSU Annual Investment Report

This report is the CSU Annual Investment Report for the Fiscal Year Ended June 30, 2020.

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 Nichole Muñoz-Murillo, Assistant Vice Chancellor, Advocacy and State Relations at (916) 445-5983.

CSU Campuses
Bakersfield
Channel Islands
Chico
Dominguez Hills
East Bay

Fresno
Fullerton
Humboldt
Long Beach
Los Angeles
Maritime Academy

Monterey Bay
Northridge
Pomona
Sacramento
San Bernardino
San Diego

San Francisco
San José
San Luis Obispo
San Marcos
Sonoma
Stanislaus

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November 20, 2020

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Sincerely,


Steven Relyea (Nov 20, 2020 08:22 PST)

Steve Relyea
Executive Vice Chancellor and
Chief Financial Officer

SR:dr

Full report posted to <https://www.calstate.edu/legislativereports/>

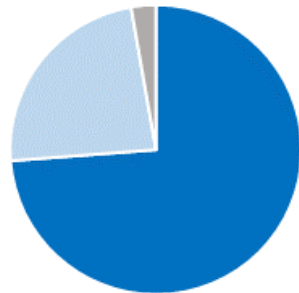
- c: Members, California State Legislature
Members, Joint Legislative Budget Committee
Lisa Qing, Senior Fiscal & Policy Analyst, Legislative Analyst Office
Timothy P. White, Chancellor, California State University
Loren J. Blanchard, Executive Vice Chancellor, Academic and Student Affairs
Garrett Ashley, Vice Chancellor, University Relations and Advancement
Nichole Muñoz-Murillo, Assistant Vice Chancellor, Advocacy and State Relations
Ryan Storm, Assistant Vice Chancellor for Budget
Robert Eaton, Assistant Vice Chancellor, Financing, Treasury, and Risk Management

**CSU Annual Investment Report
For the Fiscal Year Ended June 30, 2020**

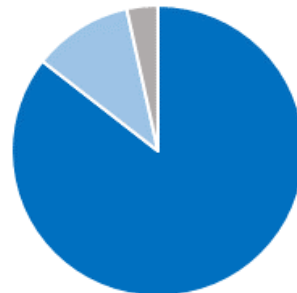
CSU investments as of June 30, 2020 consisted of investments in the CSU Liquidity Portfolio (Systemwide Investment Fund Trust or SWIFT), the Total Return Portfolio (TRP), and the State of California Surplus Money Investment Fund (SMIF). All CSU investments (except for funds invested in SMIF) are held 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 \$1.29 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, 2020

	<u>Balance</u>	<u>% of CSU Investments</u>
Liquidity Portfolio (SWIFT)	\$3.489 billion	73.8%
Total Return Portfolio (TRP)	\$1.110 billion	23.5%
Surplus Money Investment Fund (SMIF)	\$129.2 million	2.7%
CSU Investments	\$4.73 billion	100%



- Liquidity Portfolio (SWIFT) - 73.8%
- Total Return Portfolio (TRP) - 23.5%
- Surplus Money Investment Fund (SMIF) - 2.7%



- Fixed Income - 85.57%
- Equity - 11.01%
- Real Assets - 3.42%

For the twelve months ended June 30, 2020, direct investment management fees¹, advisory, and custodial fees totaled just under \$2.2 million, or about 0.046 percent (4.6 basis points) on CSU investments total balance as of June 30, 2020.

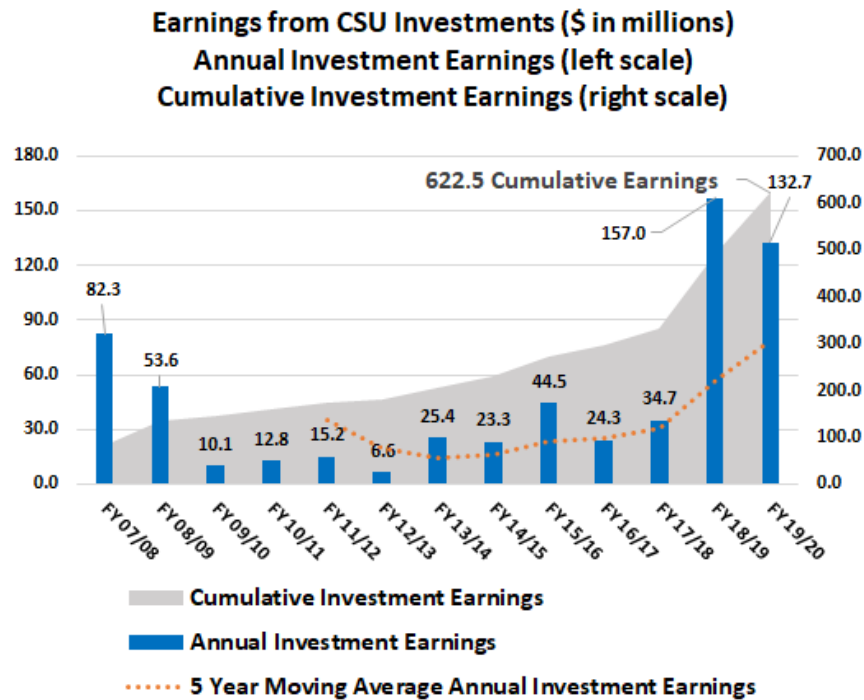
¹ Direct investment management fees exclude TRP mutual fund investment management fees. TRP mutual fund investment management fees are included as mutual fund expenses and reported as a percent of total fund assets. See TRP Fund Expense Ratio (Fee) in the table on page 5.

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).²

	CSU Consolidated Investment Portfolio
1 Year Annualized Return ³	3.26%
3 Year Annualized Return	2.41%
5 Year Annualized Return	1.88%
10 Year Annualized Return	1.26%

Investment Earnings from CSU Investments Supports Campus Operations and Student Experience



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).

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.

	<u>CSU Liquidity Portfolio</u>	<u>Benchmark⁴</u>
1 Year Annualized Return ⁵	3.28%	3.48%
3 Year Annualized Return	2.41%	2.48%
5 Year Annualized Return	1.79%	1.71%
10 Year Annualized Return	1.22%	1.18%
Annualized Since Inception Return ⁶	1.53%	1.79%
Yield	0.31%	0.18%
Duration (Years)	1.14	1.46
Average Credit Rating	AA-	Aaa/AA+

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

Treasuries	44.72%	CD's and Cash Equivalents	9.79%
U.S. Corporate Bonds	25.08%	Asset-Backed Securities	0.41%
U.S. Government Agencies	19.93%	Municipal Obligations	0.07%

CSU Total Return Portfolio (TRP)

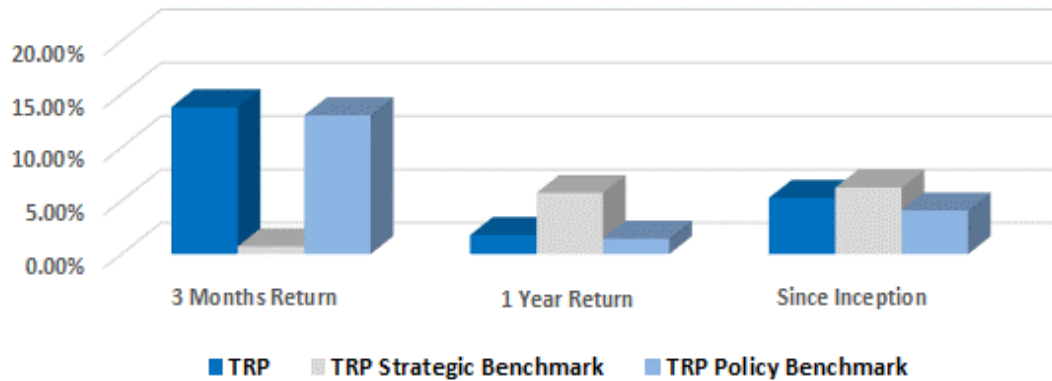
The purpose of the Total Return Portfolio is to provide opportunity for additional risk adjusted returns on CSU funds over a full market cycle. The investment objective is to achieve a prudent return within a moderate risk level. Consistent with state law, the TRP is invested in mutual funds subject 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.

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

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

⁶ Inception Date for the CSU Liquidity Portfolio (SWIFT) was July 1, 2007.

Annualized Investment Returns



	CSU Total Return Portfolio	Strategic Benchmark⁷	Policy Benchmark⁸
3 Months Return	13.78%	0.73%	13.02%
1 Year Return	1.79%	5.74%	1.45%
Annualized Since Inception Return ⁹	5.26%	6.23%	4.09%

Since the TRP inception date through June 30, 2020, the TRP investment earnings were approximately \$45.2 million. During this period, the TRP total return exceeded the Liquidity Portfolio (SWIFT) total return by 2.26 percent annualized (net of fees), or a cumulative \$3.8 million.

In October 2020, the CSU Investment Advisory Committee approved the second annual TRP distribution to the system of approximately \$35 million, bringing total TRP distributions to the system since inception to \$57.4 million. TRP distributions are allocated to the campuses annually for capital outlay or maintenance. Consistent with state law, specifically 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.

⁷ 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.

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):

Equity Mutual Funds	46.9%	Passive Index Mutual Funds	75%
Fixed Income Mutual Funds	38.6%	Actively Managed Mutual Funds	25% ¹⁰
Real Asset Mutual Funds	14.5%		

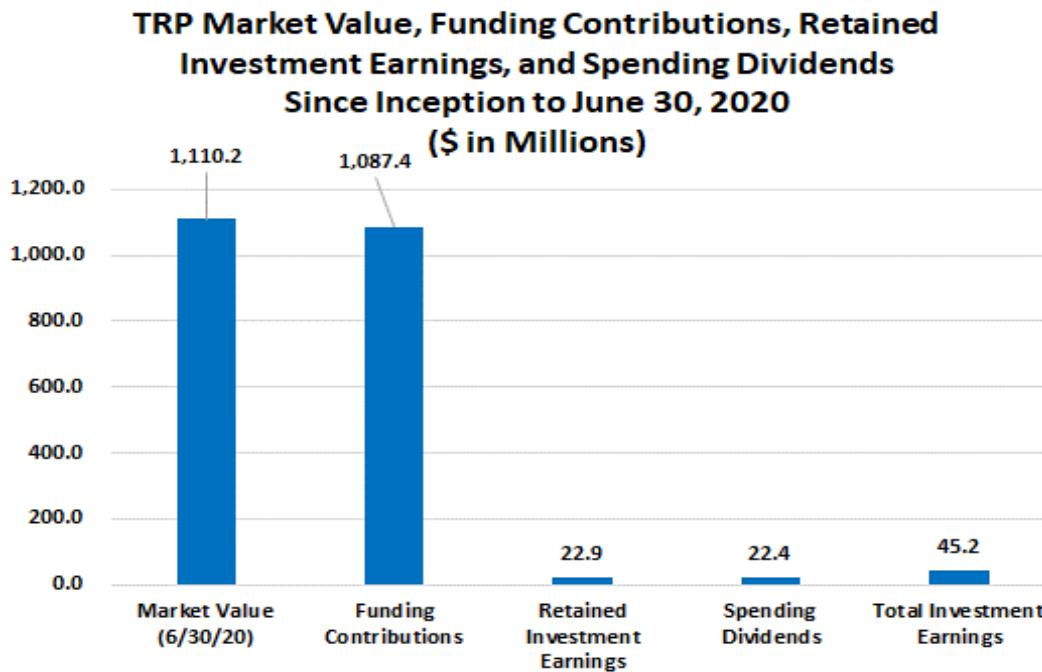
Values, Holdings & Fees (CSU Total Return Portfolio)

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	246.0	22.16%	0.030%	0.450%
	Vanguard Inflation-Protected Securities Fund	VIPIX	55.8	5.03%	0.070%	0.425%
	Lord Abbett High Yield Fund	LHYOX	62.5	5.63%	0.620%	0.720%
	Pacific Funds Floating Rate Income Fund	PLFRX	31.2	2.81%	0.720%	0.765%
	Payden Emerging Markets Bond Fund	PYEIX	16.4	1.48%	0.690%	0.850%
	T. Rowe Emerging Markets Bond Fund	TREBX	16.1	1.45%	0.700%	0.850%
Equity						
	Vanguard Total Stock Market Index Fund	VSMPX	278.3	25.07%	0.020%	0.750%
	Vanguard Developed Markets Index Fund	VDIPX	131.8	11.87%	0.040%	0.890%
	Driehaus Emerging Markets Growth Fund	DIEMX	67.2	6.05%	1.220%	1.110%
	DFA Emerging Markets Value Fund	DFEVX	32.0	2.88%	0.510%	1.110%
	RWC Global Emerging Equity Fund	RWCX	11.4	1.02%	1.250%	1.110%
Real Assets						
	Vanguard Real Estate Index Fund	VGSNX	75.0	6.76%	0.100%	0.890%
	Vanguard Energy Index Fund	VENAX	21.2	1.91%	0.100%	0.960%
	Vanguard Materials Index Fund	VMIAX	23.6	2.13%	0.100%	0.930%
	First State Global Listed Infrastructure Fund	FLIIX	41.7	3.75%	0.950%	0.970%
Cash			0.0	0.00%	NA	NA
Total			1,110.2	100%		

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

TRP Annual Spending Dividends 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 Dividends, and total investment earnings since inception on June 30, 2020. Total TRP Investment Earnings equal total TRP Spending Dividends 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 Yield¹¹

Trailing 12 month as of 06/30/20	1.70%
Average (FYE 06/30/07 – FYE 06/30/20)	1.15%

¹¹ Annual Yield calculated by CSU Treasury Operations based on the quarterly apportionment yield rates published by the State Controller’s Office.