

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

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Steve Relyea
Executive Vice Chancellor
and Chief Financial Officer

562-951-4600
srelyea@calstate.edu

December 1, 2021

Nancy Skinner
Joint Legislative Budget Committee
State Capitol, Room 5094
Sacramento, CA 95814

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

Keely Bosler, Director
Department of Finance
State Capitol, Room 1145
Sacramento, CA 95814

Erika Contreras
Secretary of the Senate
State Capitol, Room 3044
Sacramento, CA 95814

Cara L. Jenkins
Legislative Counsel
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, 2021.

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

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 \$113 million in one-time distributions to campuses for capital outlay or maintenance needs since 2018.

Should you have any questions about this report, please contact Nichole Muñoz-Murillo,

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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December 1, 2021

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

Sincerely,



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
Joseph I. Castro, Chancellor, California State University
Sylvia A. Alva, Executive Vice Chancellor, Academic and Student Affairs
Larry Salinas, Interim Vice Chancellor, University Relations and Advancement
Nichole Muñoz-Murillo, 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

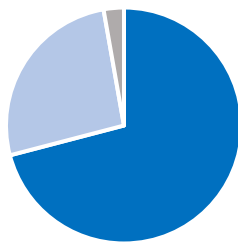
CSU Annual Investment Report

For the Fiscal Year Ended June 30, 2021

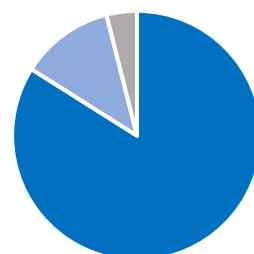
CSU investments as of June 30, 2021 consisted of investments in the CSU Liquidity Portfolio (Systemwide Investment Fund Trust or SWIFT), the Total Return Portfolio (TRP), and the State of California Surplus Money Investment Fund (SMIF). All CSU investments (except for funds invested in SMIF) are held 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 \$1.22 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, 2021

	<u>Balance</u>	<u>% of CSU Investments</u>
Liquidity Portfolio (SWIFT)	\$3.675 billion	70.9%
Total Return Portfolio (TRP)	\$1.362 billion	26.3%
Surplus Money Investment Fund (SMIF)	\$144.0 million	2.8%
CSU Investments	\$5.18 billion	100%



- Liquidity Portfolio (SWIFT) - 70.9%
- Total Return Portfolio (TRP) - 26.3%
- Surplus Money Investment Fund (SMIF) - 2.8%



- Fixed Income - 84.0%
- Equity - 12.1%
- Real Assets - 3.9%

For the year ending June 30, 2021, direct investment management fees¹, advisory, and custodial fees totaled just under \$2.2 million, or about 0.044 percent (4.4 basis points) on CSU investments average balance for the year ending June 30, 2021.

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 performance returns below are for the CSU Consolidated Investment Portfolio which includes the Liquidity Portfolio (SWIFT) and the Total Return Portfolio (TRP).² The table also displays the separate portfolio returns of the TRP and the Liquidity Portfolio.

	CSU Consolidated Investment Portfolio	CSU Total Return Portfolio (TRP)	CSU Liquidity Portfolio (SWIFT)
1 Year Return	6.32%	25.84%	0.30%
3 Year Annualized Return	4.37%	11.09%	2.22%
5 Year Annualized Return	2.89%	N/A	1.61%
10 Year Annualized Return	1.83%	N/A	1.20%
Since Inception Return ³	1.90%	11.21%	1.45%

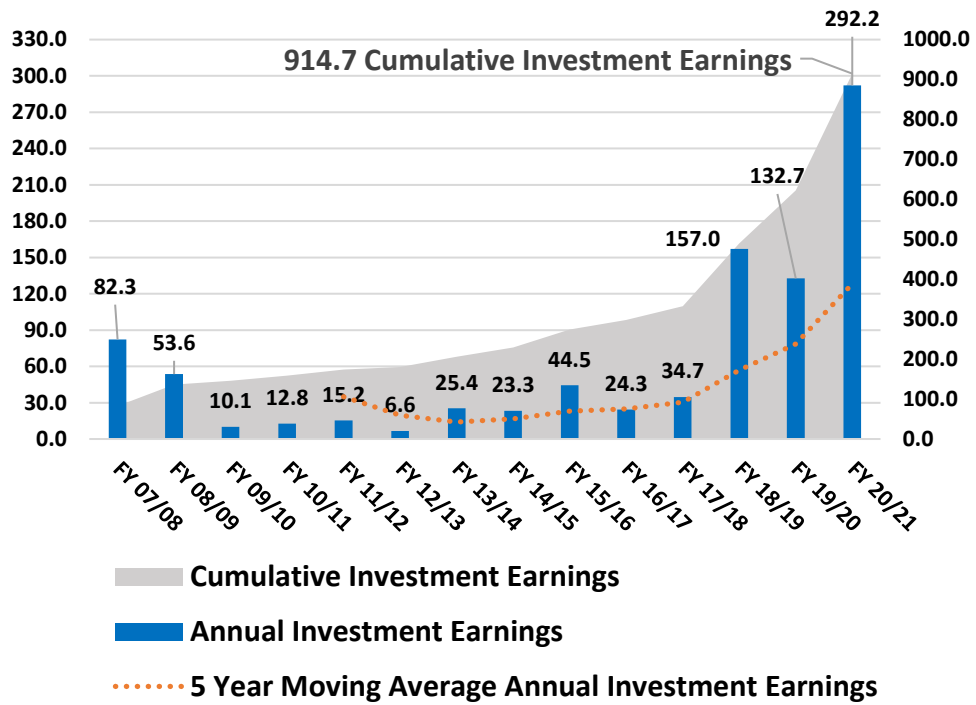
Since the TRP Inception date through June 30, 2021, the TRP investment earnings were approximately \$326.8 million. During this period, the TRP total return exceeded the Liquidity Portfolio (SWIFT) total return by 9.06 percent annualized (net of fees) or a cumulative \$282.4 million.

² CSU Consolidated Investment Portfolio returns will also include the Intermediate Duration Portfolio (IDP) once this portfolio is inception. CSU Consolidated Investment Portfolio returns exclude SMIF.

³ Inception Date for the CSU Consolidated Investment Portfolio was July 1, 2007. Inception Date for the CSU Liquidity Portfolio (SWIFT) was July 1, 2007. TRP Inception Date was April 1, 2018. CSU Consolidated Investment Portfolio and CSU Liquidity Portfolio Returns reported gross of fees and as total return, including income and gains (realized and unrealized).

*Investment Earnings from CSU Investments Supports
Campus Operations and Student Experience*

Earnings from CSU Investments (\$ in millions)
Annual Investment Earnings (left scale)
Cumulative Investment Earnings (right scale)



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	Benchmark³
1 Year Return ⁴	0.30%	0.10%
3 Year Annualized Return	2.22%	2.36%
5 Year Annualized Return	1.61%	1.52%
10 Year Annualized Return	1.20%	1.07%
Annualized Since Inception Return ⁵	1.45%	1.67%
Yield	0.23%	0.20%
Duration (Years)	1.26	1.48
Average Credit Rating	AA-	Aaa/AA+

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

Treasuries	32.4%	Cash Equivalents	10.6%
U.S. Corporate Bonds	25.4%	Certificates of Deposit	6.7%
U.S. Government Agencies	24.5%	Municipal Obligations	0.4%

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

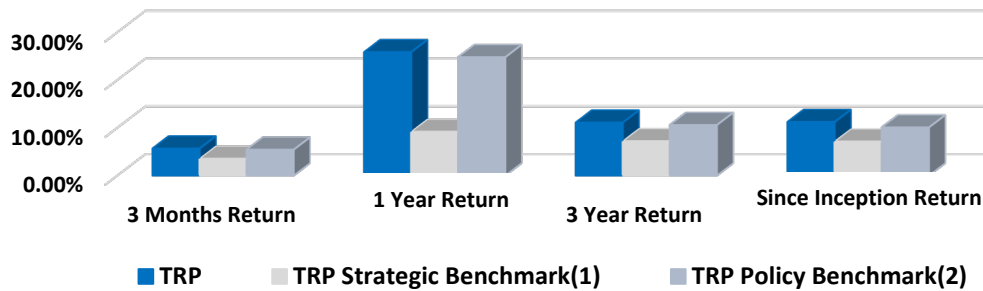
⁴ CSU Liquidity Portfolio (SWIFT) Returns reported gross of fees and as total return, including income and gains (realized and unrealized).

⁵ 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.

Annualized Investment Returns



	CSU Total Return Portfolio	Strategic Benchmark⁶	Policy Benchmark⁷
3 Months Return	5.66%	3.52%	5.40%
1 Year Return	25.84%	9.16%	24.77%
3 Year Annualized Return	11.09%	7.19%	10.57%
Annualized Since Inception Return ⁸	11.21%	7.12%	10.06%

In October 2021, the CSU Investment Advisory Committee approved the third annual TRP distribution to the system of approximately \$55.6 million, bringing total TRP distributions to the system since inception to approximately \$113 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.

⁶ 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.

⁷ The TRP Policy Benchmark is a blend of passive indices whose weights match the TRP target asset allocation.

⁸ TRP Inception Date was April 1, 2018.

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

Equity Mutual Funds	46.07%	Passive Index Mutual Funds	74%
Fixed Income Mutual Funds	38.96%	Actively Managed Mutual Funds	26% ⁹
Real Asset Mutual Funds	14.97%		

Values, Holdings & Fees (CSU Total Return Portfolio)

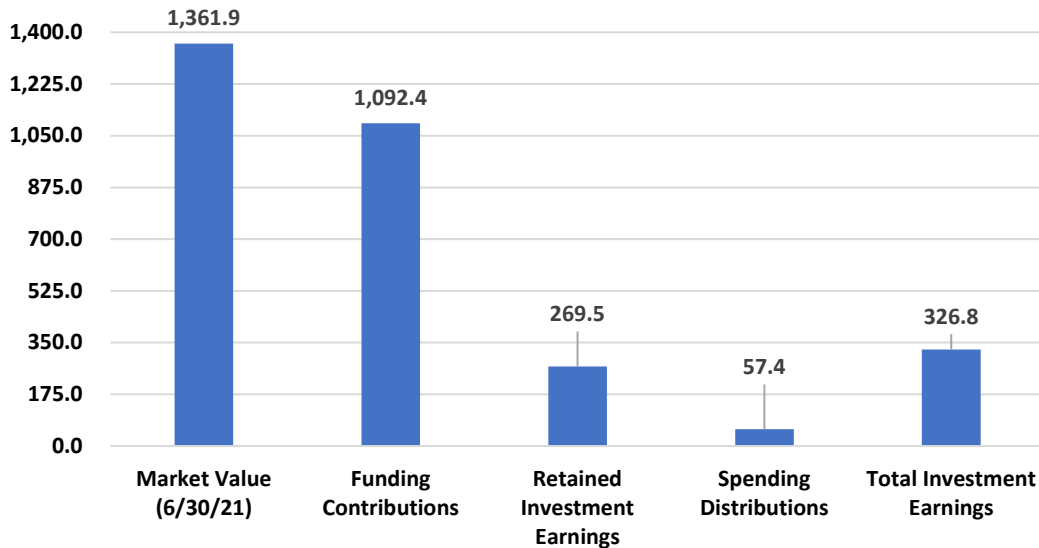
Asset Class	Strategy Name	Ticker	Value (millions)	% of Total Return Portfolio	TRP Fund Expense Ratio (Fee)	Universe Median Expense Ratio (Fee)
Fixed Income						
	Vanguard Total Bond Market Index Fund	VBMPX	299.1	21.97%	0.030%	0.435%
	Vanguard Inflation-Protected Securities Fund	VIPIX	67.8	4.98%	0.070%	0.370%
	Lord Abbett High Yield Fund	LHYOX	82.3	6.04%	0.610%	0.710%
	Pacific Funds Floating Rate Income Fund	PLFRX	40.7	2.99%	0.730%	0.755%
	Payden Emerging Markets Bond Fund	PYEIX	20.3	1.49%	0.690%	0.850%
	T. Rowe Emerging Markets Bond Fund	TREBX	20.4	1.50%	0.700%	0.850%
Equity						
	Vanguard Total Stock Market Index Fund	VSMPX	331.6	24.35%	0.020%	0.760%
	Vanguard Developed Markets Index Fund	VDIPX	159.8	11.74%	0.040%	0.890%
	Driehaus Emerging Markets Growth Fund	DIEMX	82.0	6.02%	1.190%	1.080%
	DFA Emerging Markets Value Fund	DFEVX	40.5	2.97%	0.410%	1.080%
	RWC Global Emerging Equity Fund	RWCEX	13.4	0.99%	1.250%	1.080%
Real Assets						
	Vanguard Real Estate Index Fund	VGSNX	96.9	7.11%	0.100%	0.880%
	Vanguard Energy Index Fund	VENAX	28.4	2.09%	0.100%	0.940%
	Vanguard Materials Index Fund	VMIAX	25.6	1.88%	0.100%	0.950%
	First State Global Listed Infrastructure Fund	FLIIX	52.9	3.89%	0.950%	0.980%
Cash			0.0	0.00%	NA	NA
Total			1,361.9	100%		

⁹ 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.

***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, 2021. Total TRP investment earnings equal total TRP spending distributions plus total TRP retained investment earnings.

TRP Market Value, Funding Contributions, Retained Investment Earnings, and Spending Distributions Since Inception as of June 30, 2021 (\$ in Millions)



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 Yield¹⁰

Trailing 12 month as of 06/30/21	0.46%
Average (FYE 06/30/07 – FYE 06/30/21)	1.10%

¹⁰ Annual Yield calculated by CSU Treasury Operations based on the quarterly apportionment yield rates published by the State Controller’s Office.