

IAC Members Attending			
Peter Taylor	IAC Chair	Irv Rothenberg	Member
Steve Relyea	IAC Vice Chair	David Bach	Member
Robert Eaton	Member	Tim Schaefer	Member/ Absent
Leona Bridges	Member	Mike Lucki	Member
Staff / Other Attendees			
Ron Flatt	Director – Treasury Operations	Laura Wirick	Meketa – Investment Advisor
Scott August	Manager – Investments	Jonas Noack	Meketa – Investment Advisor

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 Order N-25-20 issued on March 12, 2020, attending members of the IAC participated in this meeting 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, there was no physical location for the meeting and a physical location was not open to the public during the meeting. No IAC members or staff were present at a physical location. Members of the public were still able to participate via the meeting dial in information noted on the agenda and offer public comment pursuant to appropriate public meeting protocol. Furthermore, due to a systemwide CSU restriction on all nonessential travel until July 1, 2021, all upcoming IAC meetings scheduled until July 1, 2021, will be held via video teleconference only with no physical meeting location.

The IAC Chair called the meeting to order and established a quorum on April 7, 2020, at 11:00 am.¹

Item I: Guest Speakers – Information Item²

Item I was an information item and contained two different Guest Speakers.

The first guest speaker was the Chief Investment Officer and Vice President of Investments for the University of California Office of the President. There was a robust discussion that included aspects of the Covid-19 pandemic, including balancing proper liquidity management with long-term investment opportunities.

The second guest speaker was the TRP’s corporate bank debt strategy manager Pacific Asset Management. Attendees from Pacific Asset Management included the two senior portfolio managers for the corporate bank debt strategy and the Relationship Manager. The team provided an overview of the firm, along with its investment philosophy and process. The team also discussed economic and market conditions for Bank Loan Strategy and investment performance. In particular, the committee’s discussion with Pacific Asset Management centered around investment research and

¹ Details on all meeting agenda items are included in the meeting materials as presented at the CSU Investment Advisory Committee (“IAC”) meeting dated April 7, 2020.

² The Guest Speakers only attended Item I and did not attend any other portion of the meeting.

portfolio management strategies to address industries and credits that might be impacted by the Covid-19 pandemic and the associated economic environment.

Item II: Approval of Minutes – Action Item

The IAC Chair asked if there were any amendments or changes to the minutes from the January 30, 2020 meeting. Upon a motion duly made and seconded, the minutes were approved as submitted.

Item III: 2020 Annual Asset Allocation Update – Information Item

The purpose of Item III was to provide an annual update for the 2020 CSU TRP Asset Allocation Expectations. The 2020 CSU TRP Asset Allocation Expectations are based on Meketa’s 2020 Annual Asset Study. Meketa’s 2020 Annual Asset Study uses valuations as of December 31, 2019.

Meketa provided an overview of the updated asset allocation review and risk analysis given the TRP’s Expected Average Annualized Return of Inflation + 4.5%.³

The long-term (20-year) annualized expected return for the TRP decreased from 7.7% based on the 2019 study to 6.9% based on the 2020 study. The TRP’s expected standard deviation remained the same YOY at 12.2% based on the 2020 study. Given the strong performance across most asset classes in 2019, as of December 31, 2019, valuations have increased and long-term returns across the spectrum of asset classes have decreased relative to a year ago.

Meketa and Chancellor’s Staff recommended no changes to the TRP asset allocation based on the updated expectations in Meketa’s 2020 Annual Asset Study, however given developments related to Covid-19 and changes in asset prices of many asset classes, including fixed income, equities, and real assets, Meketa will provide a revision to the 2020 Annual Asset Study at the next IAC meeting scheduled for August 11th, 2020.

Item IV: TRP Investment Policy Amendment – Action Item

At the previous IAC meeting, the IAC recommended additional language be added to the TRP Investment Policy related to Chancellor’s Staff monitoring the TRP market value to ensure the TRP does not exceed 30% of the CSU Portfolio⁴ and to address any necessary steps that might need to be taken to prevent this occurrence.

In this item, Chancellor’s Staff presented a revised investment policy with proposed language to address the IAC’s recommendation.

Upon a motion duly made and seconded, the revised TRP Investment Policy was approved.

³ The long-term rate of inflation is assumed to be 2.5% per annum.

⁴ “CSU Portfolio” means the CSU’s invested assets, accounts and funds held for the benefit of the CSU as further described in the MIP and pursuant to California Government Code 89274 and 89725, but excluding investments held by Auxiliaries.

Item V: TRP Quarterly Report – Information Item

Item V was an information item and is presented at each quarterly meeting. Meketa presented a Coronavirus Update First Quarter 2020, which included updates on the progression of the disease, financial market impacts, economic impacts, an overview of global fiscal and monetary stimulus measures, an outlook, and recommended guidelines for investors. Meketa also presented their Fourth Quarter 2019 World Markets Review, which included reviews of historical investment returns for various asset classes and sectors, relative valuations, and economic statistics. Finally, Meketa presented the TRP quarterly review and evaluation report as of December 31, 2019. Information in this report included the current TRP asset allocation, an update on TRP funding contributions, overall TRP performance versus its stated benchmarks, and detailed performance and characteristics for the TRP investment managers. Additional investment manager details are provided in the resource center on Diligent each quarter. As of December 31, 2019, the TRP market value was \$985.1 million, an increase of \$193.7 million from the prior quarter; \$150 million from funding contributions, and \$43.7 million from investment gains.

Given that the meeting occurred on April 7th, Chancellor's Staff also provided the IAC with an update on TRP Market Value and performance as of April 6th.

Key points:

- As of December 31, 2019, all TRP asset classes complied with the Policy Ranges outlined in the TRP Investment Policy.
- As of December 31, 2019, the TRP since inception return was +9.32% compared to +8.00% for the TRP Policy Benchmark and +6.42% for the TRP Strategic Benchmark. The TRP since inception return of +9.32% as of December 31, 2019 ranks in the 5th percentile of all Endowments in excess of \$250 million reporting to InvMetrics.⁵
- The TRP returned +4.91% for the quarter compared to +5.14% for the TRP Policy Benchmark and +1.26% for the TRP Strategic Benchmark.
- TRP Fixed Income returned +0.84% for the quarter.
 - Investment Grade Bonds and TIPS both returned +0.03% and +0.52%, both underperforming their benchmarks by 15 and 27 basis points respectively. High Yield Bonds returned +2.79% and outperformed the BBgBarc U.S. High Yield index by roughly 20 basis points. Bank Loans increased +1.40% for the quarter, compared to the benchmark of +1.73. Finally, Emerging Markets Bonds was the top performer from the Credit composite, returning +2.85% and outperforming the JP Morgan EMBI Global Diversified Index by roughly 100 basis points.
- TRP Equity outperformed the MSCI ACWI IMI index for the quarter (+9.25% vs. +9.05%) and outperformed for the calendar year-to-date (+26.63% vs. 26.35%). Within Equity, the Emerging Markets Equity composite provided the strongest performance for the quarter, returning +10.94% and US Equity composite provided the best absolute performance in 2019 returning +30.82%.
 - The Vanguard Total Stock Market Index Fund (U.S. Equity) was a top performer for both the quarter and calendar year. The fund return +9.00% for the fourth quarter, and +30.82% for the 2019 calendar year, ranking in the 34th and 29th percentile of the peer universe, respectively.
 - Driehaus Emerging Markets Growth Fund had a strong quarter of performance. The Fund returned +11.52% for the quarter but underperformed the MSCI Emerging Markets Equity index by roughly 30 basis points.

⁵ There are 40 Endowments in the InvMetrics All Endowment > \$250 million peer universe.

- TRP Real Assets composite returned +2.75% for the quarter.
 - Real Estate Investment Trusts outperformed the NAREIT Equity index by roughly 90 basis points (+0.63 vs. -0.76%) for the quarter.
 - Both Natural Resources and Infrastructure slightly trailed their composite benchmarks for the quarter.
 - The Vanguard Real Estate Index Fund (REITs) provided the best performance relative to peers in the quarter. The Fund returned +0.63% for the quarter, outperforming the peer median by 40 basis points and ranking in the 28th percentile of its peer universe.

Item VI: TRP Funding Schedule Update – Action Item

Item VI was an action item. Chancellor’s Staff and Meketa updated the IAC on the current status of the TRP Funding Schedule. Actual TRP funding contributions as of March 31, 2020 were consistent with the approved TRP Funding Schedule.

Chancellor’s Staff and Meketa presented analysis on expected seasonal cash flow for the CSU based on historical trends and expected overall CSU Investment values. Given the current TRP value and the expected overall value of CSU Investments, Chancellor’s Staff and Meketa presented information proposing \$225 million of additional TRP funding contributions could be made, while still likely maintaining the TRP below the 30% statutory limit. Chancellor’s Staff and Meketa also presented information related to the Covid-19 pandemic, the potential for a prolonged economic recession, and potential downside risk for risk-bearing assets; proposing that it may be prudent to extend the TRP Funding Schedule for an additional 12 months. Finally, Chancellor’s Staff shared additional information with the IAC regarding the likely potential for reduced revenue at the CSU Campuses as a result of the Covid-19 pandemic, and discussed the option of suspending TRP funding contributions at this time to preserve liquidity for the CSU.

The IAC had a robust discussion about the issues and circumstances. While the April 7th meeting was held at the early stages of the Covid-19 pandemic, upon a motion duly made and seconded, the IAC approved the motion to significantly reduce TRP funding contributions to a total of \$20 million (\$5 million per month from April to July, 2020) with the objective of preserving liquidity for the CSU while also still investing some TRP funds at more attractive long-term valuations. The IAC agreed to re-assess the TRP Funding Schedule at the next IAC meeting scheduled for October 6, 2020.

Item VII: Calendar 2021 Meeting Dates – Information Item

Item VII was an information item. The 2021 Proposed IAC meeting dates were provided to the IAC as follows:

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| • January 28, 2021 | Chancellor’s Office, Long Beach, CA |
| • April 7, 2021 | CSU Campus, Campus TBD |
| • August 10, 2021 | Chancellor’s Office, Long Beach, CA |
| • October 6, 2021 | CSU Campus, Campus TBD |

As stated earlier in the minutes due to the Covid-19 pandemic, the Governor’s Executive Order N-25-20 issued on March 12, 2020, and the CSU restriction on all non-essential travel until July 1, 2021, the meetings above scheduled for January 28, 2021 and April 7, 2021 will now be via video teleconference only with no physical meeting location.

Item VIII: Consideration of New Investment Structure Update – Information Item

Item VIII was an information item. At the January 30, 2020 IAC meeting, the IAC discussed the possibility of increasing the long-term risk/return profile of the TRP given the defensive and conservative nature of the fixed income investments that would typically be held in both the Liquidity Portfolio and the Intermediate Duration Portfolio per state law. The IAC requested Chancellor’s Staff and Meketa provide the IAC with a presentation at the April 7, 2020 meeting addressing potential implications of such a change, including opportunities, risks, and governance issues.

For item VIII Chancellor’s Staff and Meketa presented the IAC with two potential asset allocation models that would serve to increase the TRP’s long-term target annualized return from its current level of Inflation plus 4.5% to either Inflation plus 5.5% or Inflation plus 5.75%. The analysis presented both expected return and risk levels, as well as historical scenario analysis (both positive and negative) for each asset allocation model for the TRP as well as the impact on aggregate CSU Investments. The presentation also examined the impact of stress testing related to various market risk factors for both asset allocation models, and the impact on the TRP as well as aggregate CSU Investments.

Chancellor’s Staff and Meketa also recommended the IAC consider other options that may have a considerably greater financial impact for CSU Investments on the CSU system rather than (or prior to) increasing the TRP risk/return level and changing the TRP’s asset allocation model. Finally the presentation discussed recommended modifications to governance should the IAC wish to pursue a new investment structure for the TRP.

The IAC held a robust discussion regarding this item and decided to continue the discussion at future IAC meetings with no actions taken.

The next meeting, scheduled for August 11, 2020, at 11:00 am, will be video teleconference only with no physical meeting location.

There being no further business before the IAC, the meeting adjourned at 2:30 pm.