

IAC Members Attending			
Jack McGrory	IAC Chair	Irv Rothenberg	Member
Steve Relyea	IAC Vice Chair	David Bach	Member
Robert Eaton/ Absent	Member	Tim Schaefer	Member
Leona Bridges	Member	Mike Lucki	Member
Staff / Other Attendees			
Ron Flatt	Director – Treasury Operations	Laura Wirick	Meketa – Investment Advisor
Scott August	Chief Investment Manager	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 August 11, 2020, at 11:00 am.¹

Item I: IAC Member Update – Information

Item I was an information item. The first part of item I involved the transition of the IAC Chair. Opportunity was provided for the IAC members to thank the departing IAC Chair for his three years of service as the inaugural IAC Chair. The departing IAC Chair also made some parting comments for the IAC. Next the new and current IAC Chair was introduced to the IAC. Finally, Chancellor’s Staff updated the IAC on the two-year term renewals for members Rothenberg and Bach.

Item II: Approval of Minutes – Action Item

The IAC Chair asked if there were any amendments or changes to the minutes from the April 7, 2020 meeting. Upon a motion duly made and seconded, the minutes were approved as submitted.

Item III: Annual Fiduciary Training – Information Item

The purpose of Item III was to provide annual fiduciary training to the IAC members. Meketa introduced the item by defining a fiduciary as someone having legal authority for managing another person’s or organization’s money. The

¹ Details on all meeting agenda items are included in the meeting materials as presented at the CSU Investment Advisory Committee (“IAC”) meeting dated August 11, 2020.

primary duty of the fiduciary is to manage a prudent investment process without which the components of an investment plan cannot be defined, implemented, or evaluated. Certain standards of conduct in fulfilling their responsibilities as IAC members should be met; duty of care, duty of loyalty, and duty of obedience. Meketa also covered other key aspects including Fund Governance, Asset Allocation Policy and Operational Needs.

Item IV: 2020 Annual Asset Allocation Update – Information Item

The purpose of Item IV was to provide an annual update for the 2020 CSU TRP Asset Allocation Expectations. Typically, the TRP Asset Allocation Expectations are updated annually based on Meketa’s Annual Asset Study which uses valuations as of calendar year end. However, given the significant changes in market prices and expected returns as a result of the Covid-19 pandemic, particularly in global fixed income markets, Meketa provided an interim update to the 2020 Annual Asset Study based on valuations as of June 30, 2020.

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%.²

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 original 2020 study using valuations as of December 31, 2019. The TRP long-term expected return further decreased to 6.4% based on the interim 2020 study using valuations as of June 30, 2020. The TRP’s expected standard deviation remained the same YOY at 12.2% based on the interim 2020 study. Given the strong performance across most asset classes in 2019, as of June 30, 2020, valuations have increased and long-term returns across the spectrum of asset classes have decreased relative to a year ago. Additionally, due to lowered interest rates and expectations of a low rate environment for the foreseeable future, asset class return expectations were further depressed based on the interim 2020 assumptions.

However, with inflation still below historical levels and assumed to be 2.2% over the long-term, the current TRP’s expected long-term average return of 6.4% is relatively in line with the TRP Investment Policy’s Strategic return goal of inflation (2.2%) plus a 4.5% premium, or 6.7%.

Meketa and Chancellor’s Staff recommended no changes to the TRP asset allocation based on the updated expectations in Meketa’s Interim 2020 Annual Asset Study and will reassess in early 2021 when the annual capital market expectations are available.

Item V: TRP Investment Policy – Annual Review & Proposed Amendment – Action Item

At the previous IAC meeting, the IAC approved a revised TRP Investment Policy where additional language was added related to Chancellor’s Staff monitoring the TRP market value to ensure the TRP does not exceed 30% of the CSU Portfolio³, as required per state law, and to address any necessary steps that might need to be taken to prevent this occurrence.

² The long-term rate of inflation is assumed to be 2.2% per annum.

³ “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.

In this item, Chancellor's Staff presented a further revised TRP Investment Policy with additional proposed language to best address this issue.

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

Item VI: TRP Quarterly Report – Information Item

Item VI was an information item and is presented at each quarterly meeting. Meketa presented an Economic and Market Update as of June 30, 2020, which included updates on the Covid-19 pandemic, financial market and economic impacts, an overview of global fiscal and monetary stimulus measures, and recommended guidelines for investors. Meketa also presented their Second Quarter 2020 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 March 31, 2020. 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 March 31, 2020, the TRP market value was \$962.3 million, a decrease of -\$22.9 million from the beginning of the quarter; \$150 million from funding contributions and -\$172.9 million from investment declines.

Given that the meeting occurred on August 11th, Chancellor's Staff also provided the IAC with an update on TRP Market Value and performance as of August 10th noting that almost all of the decline in market value for the TRP since the Covid-19 pandemic began had been recovered as of August 10th.

Key points:

- As of March 31, 2020, all TRP asset classes complied with the Policy Ranges outlined in the TRP Investment Policy.
- As of March 31, 2020, the TRP since inception return was -0.68% compared to -1.60% for the TRP Policy Benchmark and +6.65% for the TRP Strategic Benchmark.
- The TRP since inception return as of March 31, 2020 ranks in the 32nd percentile of all Endowments in excess of \$250 million reporting to InvMetrics.⁴
- The TRP returned -15.61% for the first quarter, compared to -15.37% for the TRP Policy Benchmark and +2.01% for the TRP Strategic Benchmark.
- DFA has underperformed for the three-year and five-year periods, as well as for five of the six trailing quarters. Chancellor's Staff and Meketa will continue to monitor DFA's investment team, philosophy and process closely, and do not recommend any changes at this time.
- Meketa and Chancellor's Staff also discussed T. Rowe Price's transition plan for the lead portfolio manager of the Emerging Markets Debt strategy. Management for the strategy will transition from the current lead portfolio manager Michael Conelius to the current co-portfolio manager Samy Muaddi over the next nine months with Mr. Muaddi assuming the role of lead portfolio manager on June 30, 2021. Mr. Conelius, who has led the strategy since 2006 will step away to focus on distressed opportunities within Emerging Markets Debt for T. Rowe Price. Chancellor's Staff and Meketa will be gathering additional details related to the personnel changes at the firm and will provide a recommendation to the IAC pending the result of further due diligence on this matter.

⁴ There were 34 Endowments in the InvMetrics All Endowment > \$250 million peer universe as of March 31, 2020.

Item VII & VIII: Guest Speakers – Information Item⁵

Item VII and VIII were both information items and featured two different Guest Speakers.

The first guest speaker was an Investment Specialist, Capital Markets from T. Rowe Price. There was a robust discussion that included aspects of the Covid-19 pandemic, sudden shocks to the global economy, and unprecedented amounts of global stimulus. Discussion also included related long-term investment opportunities and trends related to current economic and investment environment.

The second guest speaker featured one of the TRP's Emerging Markets Debt portfolio managers. Attendees from T. Rowe Price included the two senior portfolio managers and the client service executive. The team provided an overview of emerging markets debt developments and drivers, along with the strategy's investment philosophy and process. The team also discussed the market outlook along with fiscal and monetary stimulus measures enacted by both developed and emerging economies in response to Covid-19.

Item IX: TRP Funding Schedule Update – Action Item

Item IX was an action item.

At the April 7th, 2020 meeting, the IAC decided to modify the TRP Funding Schedule with an aim towards preserving CSU liquidity while also still investing some TRP funds at more attractive long-term valuations. The IAC agreed to re-assess the TRP Funding Schedule at today's meeting.

Chancellor's Staff and Meketa updated the IAC on the current status of the TRP Funding Schedule. Actual TRP funding contributions as of June 30, 2020 were consistent with the approved TRP Funding Schedule. Chancellor's Staff and Meketa also presented information related to the Covid-19 pandemic and its impact on both the TRP market value and the CSU (academic and financial). Chancellor's Staff and Meketa also presented certain risk factors, both positive and negative, related to the future course of the Covid-19 pandemic.

Given ongoing uncertainty related to the Covid-19 pandemic and in an effort to both preserve liquidity for the CSU, while also maintaining the TRP below the 30% required statutory limit, Chancellor's Staff and Meketa recommended the IAC approve reducing TRP Funding Contributions to zero at this time.

After a robust discussion and a motion duly made and seconded, the IAC agreed to suspend funding to the TRP. Staff and Meketa will continue to monitor current circumstances and will provide updates to the IAC regarding the TRP Funding Schedule as appropriate.

The next meeting, scheduled for October 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.

⁵ The Guest Speakers only attended Item VII, VIII, and did not attend any other portion of the meeting.