

IAC Members Attending			
Jack McGrory (<i>Absent</i>)	IAC Chair	Irv Rothenberg	Member
Steve Relyea	IAC Vice Chair	David Bach	Member
Robert Eaton (<i>Absent</i>)	Member	Patrick Henning (<i>Absent</i>)	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	Jason Josephiac	Meketa – Investment Advisor
Cal Dickman	Assistant Manager, Investments		

The IAC Vice Chair called the meeting to order and established a quorum on August 09, 2023, at 11:00 am.¹

Item I: Welcome, Public Comment, Housekeeping & Approval of Minutes – Action Item

The IAC Chair asked if there were any amendments or changes to the minutes from the April 5, 2023, meeting. Upon a motion duly made and seconded, the minutes were approved as submitted. There was no public comment.

Item II: IAC Member Update – Renewals – Information Item

During Item II, Chancellor’s Staff updated the IAC on the two-year term renewals for members Bridges and Lucki.

Item III: Guest Speaker – BlackRock – Macro Review and Liquidity Portfolio Update – Information Item

Guest speakers included the head of Blackrock’s Customized Multi-Sector Portfolios and BlackRock’s Managing Director of Endowments and Foundations, Western United States. Blackrock manages half of the CSU Liquidity Portfolio. BlackRock discussed economic and market conditions for the global economy and in particular for U.S. fixed income markets. BlackRock also discussed investment performance, risk levels, and portfolio positioning for the CSU Liquidity Portfolio.

The IAC, Meketa, and Chancellor’s Staff engaged in further discussion with Blackrock regarding fixed income markets and the CSU Liquidity Portfolio account managed by BlackRock.

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 9, 2023.

Item IV: Risk Mitigating Strategies (RMS) Overview – Information Item

Meketa and Chancellor's Staff provided additional information regarding the potential role of Risk Mitigating Strategies (RMS) in the TRP, which was first introduced to the IAC at the April 5th meeting. Assisting with the presentation on RMS was Meketa's Senior Vice President/Research Consultant covering marketable alternatives, particularly defensive oriented Risk Mitigating Strategies. Meketa and Chancellor's Staff explained to the IAC that RMS is intended to mitigate, or lessen, downside risk during equity market downturns, while maintaining a low correlation to growth assets in the portfolio. RMS strategies are typically, but not always, implemented through hedge fund structures and are permitted in the TRP so long as they are institutional comingled funds, however liquidity for these funds may be limited to monthly or quarterly. Meketa and Chancellor's Staff further explained the role of RMS by segmenting RMS into three categories based on their primary role as part of a potential allocation to RMS within the context of the broader CSU Total Return Portfolio:

- First Responders which are expected to provide immediate portfolio protection in the event of a sharp and sudden equity market downturn.
- Second Responders, which are trend following strategies and are designed to provide portfolio protection during an extended equity market downturn.
- Diversifiers which may provide return streams that are uncorrelated with traditional market returns and can also help to offset the impact of potential negative returns from 1st and 2nd responders during positive equity market environments.

The IAC, Meketa, and Chancellor's Staff engaged in further discussion regarding the potential role of RMS in the CSU Total Return Portfolio and further discussion of RMS continued after the break during Item VI below in the context of the TRP's Asset Allocation model.

Item V: Break

Item VI: Annual Asset Allocation Update – Action Item

The purpose of Item VI was to provide an annual update for the 2023 CSU TRP Asset Allocation Expectations. The Annual Asset Allocation Update was first presented to the IAC at the April 5th IAC meeting and the IAC decided to continue the discussion to the August 9th IAC meeting. The Asset Allocation Update included analysis and discussion regarding possible changes to the TRP's asset allocation designed to increase the risk/return profile for the TRP. The IAC, Meketa, and Chancellor's Staff discussed that the reason to consider increasing the TRP's risk/return profile is based on the fact that, per state law, at least 35% of overall CSU Investments (*those assets invested outside of the TRP*) must be invested in high quality U.S. only fixed income securities, and therefore, when viewing risk levels holistically for overall CSU Investments, the TRP may be able to potentially assume a higher risk/return profile. Meketa and Chancellor's Staff explained to the IAC, that if the IAC decided to change the TRP's asset allocation model, any changes would not be implemented immediately, but rather Meketa and Chancellor's Staff would come back to the IAC in the near future with a recommended implementation plan which may also include revisions to the CSU Master Investment Policy and revisions to the TRP Investment Policy.

Meketa and Chancellor's Staff presented three potential asset allocation models for the IAC to consider for the TRP. The first asset allocation model (Current Allocation) was substantially similar to the TRP's current asset allocation model. The only recommended change to the Current Allocation was returning the Real Assets allocation to the TRP's original target allocation for Real Assets (*7% Real Estate Investment Trusts, 4% Natural Resources (Materials), and 4% Global*

Listed Infrastructure).² However the other two asset allocation models increased the risk/return profile for the TRP by eliminating investment grade bonds and increasing the allocation to equities, credit, and/or Risk Mitigating Strategies (RMS). Option A proposed increasing the allocation to equities by 20% and increasing the allocation to credit by 7%, while eliminating the allocation to investment grade bonds. Option B proposed increasing the allocation to equities by 17% and establishing a new 10% allocation to Risk Mitigating Strategies (RMS), while also eliminating the allocation to investment grade bonds.

Following discussion of the three options, the IAC voted in favor of establishing Option B in the near future, subject to review and approval of the aforementioned implementation plan, deciding to increase the risk/return profile of the TRP while also establishing a 10% allocation to RMS designed to retain some downside protection given the elimination of the allocation to investment grade bonds in the TRP.

At the conclusion of the item a motion was made, seconded, and approved as follows:

- The Current Asset Allocation model for the TRP will remain in effect at this time, however the Real Assets allocation will be modified per the glide path referenced in the meeting materials. The TRP Investment Policy will be revised immediately to match the Real Assets glide path referenced in the meeting materials for both the TRP target allocation and the TRP Policy Benchmark.
- Chancellor's Staff and Meketa will present an implementation plan to the IAC at the upcoming October or January IAC meeting regarding the changes and timeline recommended to implement Option B for the TRP Asset Allocation model.

Item VII: TRP Funding Schedule – Action Item

Item VII was an Action Item related to the TRP Funding Schedule. At the January 2023 IAC meeting, the IAC approved \$1.25 billion of funding to the TRP from January to December of 2023. Chancellor's Staff and Meketa reviewed the historical TRP Funding Schedule and provided the IAC with an update on the current status of the funding; noting that \$625 million, or half of the required \$1.25 billion had been funded to the TRP as of the meeting date. Chancellor's Staff and Meketa also presented certain risk factors related to current economic and market conditions, as well as the impact on CSU Investment balances due to recent state appropriation increases for one-time funds.

Meketa and Chancellor's Staff presented a recommendation to extend the remaining \$625 million of TRP Funding from August of 2023 to July of 2024, while also maintaining some flexibility to accelerate or decelerate TRP funding in response to market conditions.

After a robust discussion and a motion duly made and seconded, the IAC approved a new TRP Funding Schedule which would fund \$325 million to the TRP from August of 2023 to December of 2024, while reserving \$300 million to fund Risk Mitigating Strategies (RMS) upon their approval as previously discussed above during Item VI.

Chancellor's Staff and Meketa will continue to monitor CSU investment balances and market conditions, and will update the IAC as appropriate regarding the TRP Funding Schedule.

² The August 9th, 2023, IAC meeting materials contained a glide path for the referenced changes to the Real Assets allocation contained within Item VI.

Item VIII: TRP Quarterly Report as of March 31, 2023 – Information Item

Item VIII was an information item and is presented at each quarterly meeting. Meketa presented an Economic and Market Update as of June 30, 2023, which included updates on global economic information and financial markets, reviews of historical investment return for various asset classes and sectors, relative valuations, and economic statistics. Meketa then presented the TRP quarterly review and evaluation report as of March 31, 2023. 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, 2023, the TRP market value was \$2.02 billion, an increase of approximately \$394.7 million from the beginning of the quarter. The TRP had net cash inflows of approximately \$312.5 million for the quarter and investment gains of \$82.2 million for the quarter.

Given that the meeting occurred on August 9th, Chancellor's Staff also provided the IAC with an update on the TRP Market Value and performance as of August 7th.

Key points:

- As of March 31, 2023, all TRP asset classes complied with the Policy Ranges outlined in the TRP Investment Policy.
- As of March 31, 2023, the TRP since inception return was +5.33% compared to +4.67% for the TRP Policy Benchmark and +8.19% for the TRP Strategic Benchmark.
- The TRP since inception return as of March 31, 2023, ranks in the 60th percentile of all Endowments in excess of \$250 million reporting to InvMetrics.³
- The TRP returned +4.77% for the first quarter 2023, compared to +4.81% for the TRP Policy Benchmark and +2.91% for the TRP Strategic Benchmark.

Chancellor's Staff also presented a draft of the CSU Quarterly Investment Report to be presented to the CSU Board of Trustees at the September 2023 meeting.

The IAC, Meketa, and Chancellor's Staff also engaged in further discussion surrounding the TRP Quarterly Report, economic conditions, and market conditions.

The next meeting is scheduled for October 20th, 2023, at 11:00 am at San Diego State University.

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

³ There were 55 Endowments in the InvMetrics All Endowment > \$250 million peer universe as of March 31, 2023.