

IAC Members Attending			
Peter Taylor	IAC Chair	Tim Schaefer	Member
Steve Relyea	IAC Vice Chair	Leona Bridges	Member
David Bach	Member	Mike Lucki	Member
Irv Rothenberg	Member	Robert Eaton	Member
Staff / Other Attendees			
Ron Flatt	Director – Treasury Operations		
Scott August	Assistant Manager, Investment Operations		
Laura Wirick	Meketa – CSU Investment Advisor		
Ted Benedict	Meketa – CSU Investment Advisor		
Perry Opel	Meketa – CSU Investment Advisor		

The IAC Chair called the meeting of the CSU Investment Advisory Committee (“IAC”) to order and established a quorum on January 18, 2018, at 11:00 am.

The IAC Chair introduced the team from Meketa Investment Group (“Meketa”), the new CSU Investment Advisor. Meketa was selected after a comprehensive RFP process.

Information Item

Review of Fiduciary Responsibilities

Meketa introduced the fiduciary responsibilities by defining a fiduciary as someone having legal authority for managing another person’s or organization’s money. The primary duty of a 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 fiduciary responsibilities should be met; duty of care, duty of loyalty, and duty of obedience.

Meketa noted that the adoption of an Investment Beliefs Statement is recommended and would provide a framework for investments. A beliefs statement would serve to define the IAC’s investment philosophy. The IAC agreed to consider a draft of an Investment Beliefs Statement for approval at its next meeting.

Action Items

CSU Investment Advisory Committee Charter

Chancellor's Staff presented the CSU Investment Advisory Committee Charter (the "Charter"). Meketa had previously reviewed the Charter and recommended its approval. A clean draft version and a markup version (with changes made to the previous version) of the Charter were included with the meeting materials.

The IAC recommended two additional changes to the Charter as shown below:

- Standard of Care section revised by changing the language
- Qualifications and Ideal Attributes for Members section revised by striking a bullet.

The IAC approved the CSU Investment Advisory Committee Charter subject to the two proposed revisions. The Charter signature page was circulated and executed by the IAC members during the meeting.

Investment Objectives & Target Return

Chancellor's Staff and Meketa presented an asset allocation and risk analysis study for the CSU Total Return Portfolio (TRP) that displayed four efficient portfolios for four different target return levels. Chancellor's Staff and Meketa presented expected portfolio returns and risk (volatility), both downside and upside, over a long investment horizon for each efficient portfolio. Chancellor's Staff and Meketa requested the IAC discuss and take action to establish the optimal target return for the TRP to be folded into the TRP Investment Policy that will be presented at the March meeting.

The IAC approved a long-term annualized Target Return for the CSU Total Return Portfolio of Inflation plus 4.5%.¹

Spending Policy

Chancellor's Staff and Meketa presented the role of a spending policy within the TRP Investment Policy, including the pros and cons of the four different spending models to be considered. Chancellor's Staff and Meketa also presented certain assumptions or rules to be included in the TRP Spending Policy regardless of which model is used. Chancellor's Staff and Meketa requested the IAC discuss and take action in establishing the principles and model for the optimal TRP Spending Policy.

The IAC approved the principles for a spending model, which will be folded into the TRP Investment Policy. The assumptions and rules were approved as presented. The IAC approved a TRP Spending Policy based on a Hybrid Model (50% Inflation-based and 50% Moving Average) with a 4% annual spend rate in the first year. The Moving Average value for the calculation will be set at \$0 for the 6/30/19 and 6/30/20 spend calculation. On 6/30/21, the TRP will have a 3-year history and the Moving Average values will be incorporated into the Hybrid model.

¹ 20 Year Inflation forecast of 2.5% based on Meketa Investment Group's 2017 Annual Asset Study

Environment, Social, and Governance (ESG) Policy

Meketa presented options for the TRP Environmental, Social, and Governance (or ESG) policy. Meketa presented investment considerations for ESG in the investment process and the pros and cons of three different examples of ESG frameworks for the IAC to consider - a flexible policy, a moderate policy, and a strict policy. Chancellor's Staff and Meketa requested the IAC discuss and take action for establishing a framework regarding the TRP ESG policy.

The IAC approved the TRP ESG policy as recommended by Meketa – “The IAC acknowledges the importance of understanding the potential risks and value that environmental, social, and governance (“ESG”) factors may have on TRP investments. Therefore, the IAC expects that the consideration of ESG factors shall be integrated into the investment decision processes for the TRP. All else being equal, the IAC will favor investment managers and service providers who are signatories to the United Nations Principles for Responsible Investment.”

Active vs. Passive Management

Chancellor's Staff and Meketa presented the differences between active and passive investment management (including a discussion of the pros and cons), efficient and inefficient asset classes, and three different approaches for the IAC to consider regarding passive and active investment management. The approaches discussed were using only passive strategies, a Core (Efficient)/Satellite (Inefficient) approach, or using only active strategies. Chancellor's Staff and Meketa recommended the IAC adopt a Core (Efficient) / Satellite (Inefficient) approach for the TRP. Moreover, Chancellor's Staff and Meketa recommended a largely all passive Phase I implementation for the TRP until active managers can be transitioned into the TRP during Phase II for inefficient asset classes. Chancellor's Staff and Meketa requested the IAC discuss and take action for establishing a framework regarding Active and Passive Investment Management.

Option 2 (*as presented*), a Core (Efficient)/Satellite (Inefficient) approach was approved for the TRP. Additionally, the IAC approved an all-passive approach for the TRP Phase I Implementation, except for those asset classes without viable passive investment options.

The IAC Chair indicated the next meeting is scheduled for March 22, 2018, at 11:00 am. There being no further business before the IAC, the meeting adjourned at 3:30 pm.