

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

The IAC Chair called the meeting to order and established a quorum on January 30, 2019, at 11:00 am.¹

The IAC Chair asked if there were any amendments or changes to the minutes from the June 6, 2018 meeting. Upon a motion duly made and seconded, the minutes were approved as submitted.

Before the IAC began on the set agenda, Chancellor’s Staff informed the IAC of a minor necessary revision to the Total Return Portfolio (“TRP”) Investment Policy. Chancellor’s Staff noted the signature page of the TRP Investment Policy was incorrectly dated March 22, 2017. The IAC Chair signed a revised signature page with the correct date of March 22, 2018. Chancellor’s Staff will deliver the revised TRP Investment Policy with the correct signature page as part of an updated version of the Governance and Reference Guide for the CSU Total Return Portfolio at the next meeting.

Item II: CSU Annual Investment Report – Information Item

Chancellor’s Staff’s duties include informing the IAC on all CSU Investments which are discussed in the CSU Annual Investment Report as of June 30, 2018. Prior to presenting the report to the Board of Trustees in November 2018, Staff sent a draft version of the report to the members for review and comments. Subsequent to the presentation to the Board of Trustees, Chancellor’s Staff submitted the report to the State Legislature per state law. Chancellor’s Staff will include a draft version of the annual investment report at the October (fall) IAC meeting each year, prior to presenting the final version to the CSU Board of Trustees during their November (fall) meeting each year.

The IAC discussed adding to the annual report information that would demonstrate differences in the investment return between the Liquidity Portfolio (SWIFT) and the TRP. The purpose of this would be to show (over time) the additional investment returns that may be achieved in comparison to what would be achieved had the State Legislature not granted the CSU new investment authority. The IAC agreed this addition to the annual report will provide a clear picture to the long-term return differential between the Liquidity Portfolio (SWIFT) and the TRP.

¹ Details on all meeting agenda items are included in the meeting materials as presented at the CSU Investment Advisory Committee (“IAC”) meeting dated January 30th, 2019.

Item III: TRP Quarterly Report – Information Item

This item was an information item that will be presented at each quarterly meeting. The CSU's investment advisor, Meteka Investment Group ("Meketa"), presented their Fourth Quarter 2018 Capital Markets Review that included reviews of historical investment returns for various asset classes and sectors, relative valuations, economic statistics, and Meketa's long-term outlook based on Meketa's 2018 Annual Asset Study. Meketa discussed how investors are faced with two primary issues in the near-term: first, the return of market volatility and second, the ongoing transition into a rising rate environment. Meketa's long-term outlook, based on the 2018 Annual Asset Study, expects only a handful of asset classes to produce returns above 7% per year. Meketa expressed the importance to be aware that many capital market asset classes incorporate a high degree of volatility.

Meketa also presented an analysis comparing recent announcements from Fidelity regarding reduced fees for passive index funds in comparison to the current TRP investments in Vanguard index funds. While switching to Fidelity may offer marginal cost savings, Meketa and Chancellor's Staff discussed other benefits of continuing to invest in Vanguard index funds. The IAC discussed the analysis, concluding to continue to invest in Vanguard index funds, but to also monitor this issue going forward.

In the second section for this item, Meketa presented the September 30, 2018 quarterly review and evaluation report for the TRP. Information in this report included the current asset allocation, an update on funding contributions, overall TRP performance versus its stated benchmarks, and detailed performance and characteristics for the TRP investment managers. As of September 30, 2018, the TRP market value was \$248.3 million, an increase of \$122.3 million from the prior quarter; \$120 million from funding contributions and \$2.3 million from investment gains.

Key points:

- As of September 30, 2018, all TRP asset classes were in compliance with the Policy Ranges outlined in the TRP Investment Policy.
- As of September 30, 2018, the TRP since inception return was +5.03% compared to +2.95% for the TRP Strategic Benchmark and +3.11% for the TRP Policy Benchmark.
- The TRP returned +1.96% for the quarter compared to +1.39% for the TRP Strategic Benchmark and +2.07% for the TRP Policy Benchmark.
- TRP Fixed Income returned +0.57% for the quarter
 - 3 out of 5 TRP fixed income investment managers provided returns that were in the top quartile of peer rankings
- TRP Equity had a strong absolute return of +3.55% for the quarter
 - All three TRP equity funds outperformed their respective strategy benchmarks.
- TRP Real Assets had a down quarter -0.075% with all three sub-asset classes trailing their benchmarks at the composite level.

Finally, the last section in this item contained a draft of the TRP Quarterly Investment Report as of September 30, 2018 to be presented to the CSU Board of Trustees in March. The quarterly report is identical in format to that of the Annual Investment Report. The TRP Quarterly Investment Report will be a consent item on the Board of Trustees agenda.

Item IV: Funding Schedule – Amendment – Action Item

The purpose of Item IV was to approve an amendment to the TRP Funding Schedule that was originally approved by the IAC at the March 2018 meeting.

First, Meketa and Chancellor’s Staff presented information showing the benefits achieved by the TRP Funding Schedule resulting in the ability to “buy low” at reduced asset prices during the fourth quarter of 2018. Overall TRP value was not as negatively impacted during the fourth quarter of 2018 as compared to broad global markets.

Next, Meketa and Chancellor’s Staff recommended the IAC approve an amendment to the TRP funding schedule. Given the recent market volatility, the amendment provides an opportunity to initiate TRP funding contributions on a more frequent basis than planned, at what could be attractive long-term entry points.

The item requested both clarification and a minor amendment for the TRP Funding Schedule as follows:

The IAC approves granting Chancellor’s Staff, with the concurrence of the Investment Advisor, the ability to alter the monthly amounts listed in the funding schedule by plus or minus 100% of the scheduled amount per their discretion. However, actual aggregate TRP funding contributions in any given quarter shall not be less nor exceed the aggregate proposed amounts per quarter in the original TRP funding schedule.

For clarification, Chancellor’s Staff and the Investment Advisor currently understand they have the flexibility to break up the timing of the proposed monthly TRP funding contributions per the TRP Funding Schedule into smaller incremental amounts within any given month.

The IAC members discussed the proposed amendment to the Funding Schedule, concluding that the recommended amendment be approved. Upon a motion duly made and seconded, the proposed amendment was approved.

Item V: Manager Searches – Emerging Market Equity & Debt – Action Item

The IAC previously approved the TRP Investment Policy. The TRP Asset Allocation has a ten percent (10%) target allocation to Emerging Market Equity and a three percent (3%) target allocation to Emerging Market Debt.

There were two parts to item V. The first part discussed the asset class overview and outlook for Emerging Market Equity followed by Meketa and Chancellor’s Staff’s recommendation to the IAC for approval for emerging market equity investment managers. The second part discussed the asset class overview and outlook for Emerging Market Debt followed by Meketa and Chancellor’s Staff’s recommendation to the IAC for approval for emerging market debt investment managers. Based on the Asset Class Study presented to the IAC at the June 2018 meeting, Chancellor’s Staff and Meketa recommended to the IAC active management for both Emerging Market Equity and Emerging Market Debt. Chancellor’s Staff and Meketa recommended replacing the current Vanguard passive index funds for each asset class with the recommended active investment managers.

Chancellor’s Staff and Meketa conducted two separate rounds of due diligence meetings over several months with the investment teams from each investment manager candidate. The first round was held at the Office of the Chancellor with seven emerging market equity managers and five emerging market debt managers. Chancellor’s Staff and Meketa collaborated to narrow the list to five equity managers and two debt managers. Chancellor’s Staff met with the finalist candidates on-site at the investment managers’ respective offices to further evaluate the investment management teams

and supporting resources. Chancellor's Staff and Meketa discussed in depth the merits of each investment manager to collaborate on the final recommendations.

The Meketa team presented the results of the searches and a detailed comparison of the recommended investment managers for each asset class to the IAC members. David Hetzer (telephonically from Chicago) and David Smith (in person) presented emerging market equity, while Colleen Smiley (in person) presented emerging market debt. Chancellor's Staff also provided comparative information on each investment manager candidate.

Upon motion duly made and seconded, the following investment managers were selected and approved by the IAC with the target allocations listed below:

Emerging Market Equity

- Driehaus Emerging Markets Growth Fund (DIEMX) (60% of Emerging Market Equity; 6% of the TRP)
- DFA Emerging Markets Value Portfolio (DFEVX) (30% of Emerging Market Equity; 3% of the TRP)
- RWC Global Emerging Equity Fund (RWCEX) (10% of Emerging Market Equity; 1% of the TRP)

Emerging Market Debt

- Payden Emerging Markets Bond Fund (PYEIX) (50% of Emerging Market Debt; 1.5% of the TRP)
- T. Rowe Price Emerging Markets Bond Fund (TREBX) (50% of Emerging Market Debt; 1.5% of the TRP)

Item VI: Conflict of Interest – Annual Statement – Information Item

Chancellor's Staff notified the IAC members that the Form 700 – Conflict of Interest Annual Statement is due to the Chancellor's Staff with wet signature by March 20, 2019. Chancellor's Staff will deliver the Form 700 to the members prior to February 28th, 2019.

Item VII: Electronic Board Books – Update – Information Item

Chancellor's Staff is planning to move forward with an Electronic Board Books solution provided by Diligent, a leader in the industry. Diligent Boardbooks will provide solid functionality to the IAC for controls over their meeting documents, including note taking, historical searchability of all documents, and provides the user the feel of a physical boardbook.

The IAC Chair indicated the next meeting, scheduled for April 10, 2019, at 11:00 am will be held at the Office of the Chancellor.

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