

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

The IAC Chair called the meeting to order and established a quorum on March 22, 2018, at 11:00 am.¹

The IAC Chair asked if there were any amendments or changes to the minutes from the January 18, 2018 meeting. The IAC requested future meeting minutes contain additional/specific details relating to each of the agenda items discussed.

Upon a motion duly made and seconded, the minutes were approved as submitted.

Item II: CSU Total Return Portfolio (“TRP”) Investment Beliefs – Action Item

Chancellor’s Staff and Meketa presented for approval a proposed version of the CSU Total Return Portfolio (“TRP”) Investment Beliefs statement. The TRP Investment Beliefs statement summarizes the guiding principles that the members have all agreed upon for the TRP and serves as a reference in guiding the IAC to assist with decisions. During times of volatility or when dealing with contentious or difficult issues, the IAC members can reference these principles to assist in guiding the IAC.

The IAC discussed adding a provision to the TRP Investment Beliefs relating to liquidity. Given that the Liquidity Portfolio (SWIFT) and the Intermediate Duration Portfolio (IDP) (*once established*) are both highly liquid, the IAC agreed liquidity requirements of the CSU should be met by these sources. Chancellor’s Staff and Meketa recommended an additional principle be added to the TRP Investment Beliefs regarding liquidity, specifically:

- The TRP is not expected to be used for the CSU’s short-term liquidity needs. However, the TRP is expected to be highly liquid, as TRP investments must be held in SEC-registered mutual funds or U.S. registered REITS, most of which have daily liquidity.

The IAC also discussed and reviewed the statement related to Environmental, Social, and Governance (“ESG”). Chancellor’s Staff and Meketa called attention to the statement as being consistent with the CSU Master Investment Policy. The IAC concluded no changes to the statement on ESG were needed at this time.

¹ Details on all meeting agenda items are included in the meeting materials as presented at the CSU Investment Advisory Committee (“IAC”) meeting dated March 22nd, 2018.

Upon motion duly made and seconded, the proposed CSU Total Return Portfolio Investment Beliefs statement, incorporating the recommended language regarding liquidity, was adopted.

Item III: Update - Asset Allocation Review and Risk Analysis – Information Item

At the IAC meeting held on January 18, 2018, Meketa presented an Asset Allocation and Risk Analysis that included efficient portfolios for four potential target returns. The IAC selected an Inflation + 4.5% target return, which was not presented, but rather was the midpoint of Inflation + 4% and Inflation + 5%. The purpose of this item is to refresh the Asset Allocation Review and Risk Analysis based on the adopted target return of Inflation + 4.5%, and also to bring the analysis current with Meketa's 2018 Asset Class Study of forecasted returns and risk, as the allocations presented at the last meeting were based on Meketa's 2017 Asset Class Study.

Meketa provided an overview of the updated asset allocation review and risk analysis for the Inflation + 4.5% target return and compared the changes in the twenty year forecasted asset class return expectations as contained in the 2018 Asset Class Study versus the 2017 Asset Class Study.

The IAC discussed concerns with the Inflation + 4.5% target annualized return given current economic conditions and recent developments regarding trade wars and tariff issues. The IAC also had a robust discussion regarding the twenty year forecasted return and risk expectations for the various asset classes, and the proposed asset allocation for the Inflation + 4.5% target return, specifically whether the proposed allocations to low and high risk assets were optimal in attempting to achieve the target annualized return. The IAC agreed that the adopted asset allocation for the TRP and its target return of Inflation + 4.5% is appropriate and should produce an efficient portfolio based on a long-term investment horizon, incorporating asset class assumptions for return, risk and correlation over a forward looking twenty-year period, while also adhering to the TRP's appropriate risk level. The IAC also discussed interest-rate risk and duration, given the current and expected rate hikes by the Federal Reserve, as a consideration for the TRP, and concluded not to attempt to time fixed income markets by tactically adjusting the duration of the TRP at this time.

Item IV: Total Return Portfolio ("TRP") Investment Policy – Action Item

The TRP Investment Policy provides a framework for the investment of portfolio funds in the TRP. Chancellor's Staff submitted a proposed draft of the TRP Investment Policy for approval. Chancellor's Staff presented to the IAC an overview of the key elements as further described in the TRP Investment Policy. The IAC had robust discussions regarding several different sections of the TRP Investment Policy with Chancellor's Staff and Meketa answering questions and clarifying issues for the IAC.

The IAC proposed the following revisions to the TRP Investment Policy during the meeting.

Spending Policy

Page 4. The initial TRP Spending Dividend will be calculated as of June 30, 2019, changed from March 31, 2019. The March 31, 2019 date was a typo in the draft policy presented at the meeting.

Page 5. Item 5. For any given fiscal year, the amount of TRP Withdrawals in excess of TRP Additions between July 1 and June 30 shall be taken into consideration by the IAC when determining the ~~deducted from the calculated annual TRP Spending Dividend per the above formulas to determine the actual~~ annual TRP Spending Dividend.

Upon motion duly made and seconded, the proposed TRP Investment Policy as revised above was adopted.

Item V: Initial Implementation – Manager Searches – Action Item

There were three parts to agenda item V. The first part discussed the investment manager due diligence and search process, generally, as conducted by Meketa. The second part presented Meketa and Chancellor’s Staff’s recommendation to the IAC for approval for the initial passive implementation of the TRP utilizing Vanguard index funds. The final part presented Meketa and Chancellor’s Staff’s recommendations for approval to select active investment managers for three asset classes where viable passive options do not exist. These assets classes are bank loans, high yield bonds, and global listed infrastructure.

The IAC Chair stepped out of the room during the conversation and vote for the recommended investment manager for bank loans only, as the IAC Chair also sits on the board of directors for one of the recommended bank loan investment managers. The IAC Chair did not participate in the IAC vote for the selected bank loan investment manager and returned to the room only after the bank loan discussion and motion for the selected bank loan investment manager was complete.

Meketa reviewed its due diligence process and the key elements used to evaluate investment managers. Meketa presented the results of its investment manager searches and a detailed comparison of the recommended investment managers for each asset class. Tim Atkinson, Meketa’s Investment Manager Research Analyst for Credit strategies (bank loans and high yield bonds) participated telephonically from London, and assisted the IAC and commented on both the Bank Loan and High Yield bond manager searches.

Meketa and Chancellor’s Staff recommended the following investment managers:

Index Investment Manager ²	Vanguard Group
Bank Loans	Pacific Asset Management – Pacific Funds Floating Rate Income Fund Voya Financial – Voya Floating Rate Fund
High Yield Bonds	Hotchkis & Wiley – Hotchkis & Wiley High Yield Fund Lord Abbett – Lord Abbett High Yield Fund Nomura Holdings – American Century (Nomura) High Income Fund
Infrastructure	First State Investments – First State Global Listed Infrastructure Fund Nuveen Asset Management – Nuveen Global Infrastructure Fund

Chancellor’s Staff informed the IAC that Chancellor’s Staff also met with each proposed investment manager in person and conducted due diligence meetings with each of the recommended investment managers with the exception of Vanguard Group. Chancellor’s Staff presented overviews and comments on each recommended investment manager. The IAC discussed in depth the merits of each recommended investment manager presented by Meketa and Chancellor’s Staff.

² Various index funds provided by the Index Investment Manager were recommended and approved for initial implementation for all asset classes except Bank Loans, High Yield Bonds, and Infrastructure for which viable passive investment options do not exist. Subsequent stages of implementation will include active investment manager searches per the adopted Core/Satellite approach for the TRP.

Upon motion duly made and seconded, the following investment managers were selected and approved by the IAC in the respective asset classes:

Index Mutual Funds –

Vanguard was approved as the Index Investment Manager for the index funds as presented in the meeting materials.

Active Mutual Funds

Bank Loans –

Pacific Funds Floating Rate Income Fund (PLFRX) was approved as the investment manager for bank loans.³

High Yield –

Lord Abbett High Yield Fund (LHYOX) was approved as the investment manager for high yield bonds.

Infrastructure –

First State Global Listed Infrastructure Fund (FLIIX) was approved as the investment manager for infrastructure.

Item VI: Funding Schedule – Action Item

The purpose of Item VI was to approve the proposed Funding Schedule (including a Beta Test investment) for the TRP. The proposed TRP funding schedule recommended a dollar-cost averaging approach of regular quarterly contributions to the TRP, with the goal of reaching the \$600 million statutory limit in the first half of 2019. After June 2019, the funding schedule would be reevaluated by the IAC and Chancellor's Staff, as the TRP can be increased to as much as 30% of CSU investments. The proposed funding schedule may also be adjusted by the IAC at any time depending on market conditions.

The initial launch of the TRP (Beta Test) recommended a \$33.5 million investment to a portfolio consisting of three broad asset classes (Fixed Income, Equity, and Real Assets), consistent with the TRP asset allocation model. The purpose of the Beta Test is to ensure transaction execution, asset allocation monitoring, performance reporting, custodial issues, and systemwide financial reporting requirements are all functioning properly prior to the launching the full TRP portfolio at the end of June, 2018.

Meketa and Staff recommended the IAC approve a dollar-cost-averaging funding schedule for the TRP investments through quarterly funding contributions ranging from \$91.5 million to \$125 million per quarter through June 28, 2019, at which time the total investment of \$600 million will be achieved. The IAC would then reevaluate the Funding Schedule as of July 1, 2019.

The IAC members discussed the proposed Funding Schedule concluding that a change be proposed. The IAC agreed that the Funding Schedule should be revised to monthly instead of quarterly contributions.

³ As referenced on page 3 of these minutes, the IAC Chair was not present during the discussion and motion for the recommended bank loan investment manager as the IAC Chair sits on the board of directors for one of the recommended bank loan investment managers. The IAC Chair was present for the discussion and motions for all other investment managers excluding bank loans.

Upon motion duly made and seconded, a revised Funding Schedule as shown below was approved as agreed to in the meeting. The initial proposed Beta Test was approved as presented in the original meeting materials.

2Q18:	\$33.5 million in March (Beta Test) and \$91.5 million in June
3Q18:	\$40 million monthly in July, August, and September
4Q18:	\$40 million in October; \$60 million in November
1Q19:	\$60 million in January; \$40 million monthly in February and March
2Q19:	\$40 million monthly in April and May; \$35 million in June

The total TRP value at June 30, 2019 is estimated to be approximately \$600 million (plus or minus any investment gains or losses)

The IAC Chair indicated the next meeting, scheduled for June 6, 2018, at 11:00 am will be held at the Crowne Plaza San Francisco Airport Hotel.

There being no further business before the IAC, the meeting adjourned at 3:30 pm.