

## AGENDA

### COMMITTEE ON FINANCE

**Meeting:** 10:45 a.m., Thursday, November 21, 2024  
Glenn S. Dumke Auditorium

Julia I. Lopez, Chair  
Jonathan Molina Mancio, Vice Chair  
Larry L. Adamson  
Douglas Faigin  
Mark Ghilarducci  
Leslie Gilbert-Lurie  
Jack McGrory  
Anna Ortiz-Morfit  
Christopher Steinhauser  
Darlene Yee-Melichar

- Consent**
1. Approval of Minutes, *Action*
  2. Approval to Issue Debt for an Affordable Student Housing Project at California State University, Long Beach, *Action*
  3. Approval to Issue Debt for an Affordable Student Housing Project at California State University, Fresno, *Action*
- Discussion**
4. California State University Annual Investment Report, *Information*

**MINUTES OF THE MEETING OF THE  
COMMITTEE ON FINANCE**

**Trustees of the California State University  
Office of the Chancellor  
Glenn S. Dumke Auditorium  
401 Golden Shore  
Long Beach, California**

**September 24, 2024**

**Members Present**

Julia Lopez, Chair  
Jonathan Molina Mancio, Vice Chair  
Larry L. Adamson  
Douglas Faigin  
Mark Ghilarducci  
Leslie Gilbert-Lurie  
Jack McGrory  
Anna Ortiz-Morfit  
Christopher Steinhauser  
Darlene Yee-Melichar

Jack B. Clarke, Jr., Chair of the Board  
Mildred García, Chancellor

Trustee Julia Lopez chaired and called the meeting to order.

**Public Comment**

Public comment occurred at the beginning of the meeting's open session prior to all committees.

**Consent Agenda**

The minutes of the July 24, 2024, meeting of the Committee on Finance were approved as submitted.

Item 2, California Polytechnic State University, San Luis Obispo Approval to Issue Debt for an Auxiliary Acquisition of a Housing Project was approved as submitted (RFIN 09-24-08).

**Discussion Agenda**

The committee had two items on the discussion agenda.

FIN

Agenda Item 1

November 20-21, 2024

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#### **Item 4, Approval of the 2025-2026 Operating Budget Request, Action**

The State of California intends to cut funding to the CSU by \$397 million in 2025-2026 and delay \$252.3 million in compact funding during the same year. It was reported that these cuts will significantly underfund the CSU's essential priorities and unavoidable expenditures for 2025-2026. The 2025-2026 CSU Operating Budget Request was presented for approval and totals \$593 million. It includes \$164 million for unavoidable costs and \$429 million for essential priorities as outlined on Attachment A to this item. Together with the state budget cut and delay of compact funding this will create a budget gap of approximately \$800 million for the CSU in 2025-2026.

The presentation also focused on the significant and negative consequences of these cuts on CSU programs, services, and the students we serve. Presidents Ellen Neufeldt of CSU San Marcos and Cynthia Teniente-Matson of San José State University shared some of the ways their respective universities are planning to further cut back on expenditures as well as some of the strategies they will use to manage through these challenges. President Teniente-Matson shared some of the rationale that university presidents consider when prioritizing their budgets and determining which programs and services to fund, as well as considering where to pull funds from to meet these essential priorities. Both presidents agreed that effective advocacy and outreach by all CSU constituents and supporters will be critical to visibly demonstrate to the State that a budget reduction of this size will have serious negative impacts on our students, the support we provide them, and the quality of their education.

Following the presentation President Tomás Morales of CSU San Bernardino and President Vanya Quiñones of CSU Monterey Bay also provided examples of how their universities have adjusted their budgets and services to cover funding gaps over the last few years and explained how they will be extremely challenged to continue to reduce budgets further. Chancellor Mildred García spoke about the social and economic impact of the CSU on the State of California and its diverse workforce. She called upon all CSU constituents to help in advocating for investment in, and full funding of the CSU budget request.

Several trustees stressed the importance of effective and concerted advocacy efforts. They shared their support for more aggressive marketing strategies to help convey to the legislature how budget cuts are affecting students, faculty, and staff and also to highlight the benefits and value of investing in the CSU. It was suggested that one strategy be to quantify the effects of budget cuts on CSU operations year over year, such as cuts to personnel, academic programs, and courses. The need for the state to fulfill its compact funding agreement was raised, in particular for the CSU to be able to deliver salary increases that were supported and approved during the last bargaining cycle contingent on funding from the compact. The trustees acknowledged that faculty, staff, and students are already being impacted by ongoing reductions in funding and hiring freezes. Other concerns raised included how cuts will impact enrollment growth, faculty retention, program offerings, and mental health support.

The committee recommended approval of the proposed resolution (RFIN 09-24-09).

### **Item 5, Overview of California State University Debt and Impact on Operating Budget, Information**

Background information on how the CSU received authority from the State to finance its self-support and academic facilities was reviewed, including a summary of legislation in 2014 that shifted responsibility for the financing of academic facilities to the Board of Trustees and granted additional authorities to fulfill that responsibility, such as the authority to pledge operating revenues to secure the repayment of CSU debt, including student tuition revenues. Details of the process for reviewing and evaluating issuance of new debt were also shared. It was reported that ongoing operating funds committed to debt service for the 2024-2025 fiscal year are approximately \$440 million, or 5.2% of the CSU's total \$8.5 billion operating budget.

Following the presentation Trustee Jack McGrory commended the Financing and Treasury team for delivering outstanding financing with low interest rates and for their management of the CSU's investments portfolio. He also asked about the difference between the \$440 million and \$514 million referenced in the agenda item. It was clarified that the \$514 million includes self-support, while the \$440 million focuses on the core operating budget being reported on. Other trustees asked about the CSU's capacity to issue more debt and were advised that technically there is capacity to issue more debt, however it would require reallocating funds from other areas to cover those debt payments. Trustee Yee-Melichar asked how rising interest rates will affect the CSU's borrowing. She was informed that interest rates are one variable considered when deciding on borrowing, but higher rates can put pressure on projects and Financing and Treasury staff is mindful of these variables when considering structuring debt.

Staff committed to continue to keep the Board of Trustees updated on the impact of university debt on the CSU operating budget by adding this information to the annual debt report presented every year in March.

Trustee Lopez concluded the business of the Committee on Finance.

## **COMMITTEE ON FINANCE**

### **Approval to Issue Debt for an Affordable Student Housing Project at California State University, Long Beach**

#### **Presentation By**

Steve Relyea  
Executive Vice Chancellor and  
Chief Financial Officer

Robert Eaton  
Assistant Vice Chancellor  
Financing, Treasury and Risk Management

#### **Summary**

This item requests that the California State University Board of Trustees authorize the issuance of long-term Systemwide Revenue Bond (SRB) financing and related debt instruments, including shorter term and variable rate debt, floating and fixed rate loans placed directly with banks, and bond anticipation notes (BANs) to support interim financing under the CSU commercial paper (CP) program, in an aggregate principal amount not-to-exceed \$57,720,000 to provide financing for a campus capital project:

### **California State University, Long Beach Hillside North Student Housing**

#### **Background**

The SRB program provides capital financing for projects of the CSU – student housing, parking, student union, health center, continuing education facilities, certain auxiliary projects, and other projects, including academic facilities, approved by the Board of Trustees. Revenues from these programs and other revenues approved by the Board of Trustees, including CSU operating funds, are used to meet operational requirements for the projects and pay debt service on the bonds issued to finance the projects. The consolidated pledge of gross revenues to the bondholders strengthens the SRB program and has resulted in strong credit ratings and low borrowing costs for the CSU. Prior to issuance of bonds, some projects are funded through BANs issued by the CSU in support of its CP program. The BANs are provided to the CSU Institute, a recognized systemwide auxiliary organization, to secure the CSU Institute's issuance of CP used to finance the projects. CP notes provide greater financing flexibility and lower short-term borrowing costs during project construction than long-term bond financing. Proceeds from the issuance of bonds are then used to retire outstanding CP and finance any additional costs not previously covered by CP.

## California State University, Long Beach Hillside North Student Housing

The California State University, Long Beach Hillside North Student Housing project (the “Project”) was approved for schematics during the September 2023, Board of Trustees meeting of the Committee on Campus Planning, Buildings and Grounds. The Project, (building #103A-C) also referred to as La Playa Residence Hall, will consist of 412 affordable student beds and 12 resident advisor beds, totaling 108,760 gross square feet across three five-story buildings. The Project will be located northeast of the existing Hillside Village student housing complex. A typical residence floor will include dormitory rooms, restrooms, showers, lounges, and study rooms. The ground floor will provide shared kitchens, a multi-purpose room, community laundry room, and small music practice rooms. The Project will also house a Counseling and Psychological Services satellite office, student housing administrative offices, and three housing staff apartments.

The not-to-exceed principal amount of the proposed bonds is \$57,720,000, based on a total project budget of \$122,221,000 with additional funding of \$53.3 million from the State’s Higher Education Student Housing Grant Program and \$15 million from housing program reserves. Additional net financing costs, such as capitalized interest and costs of issuance (estimated at \$3,799,000), are expected to be funded from bond proceeds. The Project is scheduled to start construction in February 2025 with completion expected in August 2026.

The funding from the State’s Higher Education Student Housing Grant Program was initially expected to be in the form of a one-time cash grant, which was awarded in the 2022-2023 fiscal year. However, the 2023-2024 state budget for the CSU clawed back the cash grants for all previously awarded projects in the program and replaced them with an increase in CSU’s annual support appropriation, which will allow CSU to replace the cash grants with a like amount of additional SRB net proceeds. This additional SRB funding in the amount of \$53.3 million for the Project was approved by the Board of Trustees during its July 2023 meeting. This related debt shall be issued under the SRB program and will be repaid from the additional support appropriation from the state (rather than campus resources).

The following table summarizes key information about this financing transaction.

|                                                                  |                                                |
|------------------------------------------------------------------|------------------------------------------------|
| Not-to-exceed principal amount                                   | \$57,720,000                                   |
| Amortization                                                     | Approximately level debt service over 30 years |
| Projected maximum annual debt service                            | \$3,999,772                                    |
| Projected debt service coverage ratio including the new project: |                                                |
| Net revenue – Long Beach pledged programs: <sup>1</sup>          | 3.31                                           |
| Net revenue – Projected campus housing program:                  | 1.80                                           |

1. Combines projected 2027-2028 information for all campus pledged revenue programs with 2027-2028 information for the project.

The not-to-exceed principal amount for the Project, the maximum annual debt service, and the financial ratios above are based on an estimated all-in true interest cost of 5.70%, which includes a cushion for changing financial market conditions that could occur before the permanent financing bonds are sold. The financial plan assumes level amortization of debt service, which is the CSU program standard. The campus financial plan projects a housing program net revenue debt service coverage of 1.80 in fiscal year 2027-2028, the first year of operations with full debt service, which is better than the CSU benchmark of 1.10 for the program. When combining the Project with information for all campus pledged revenue programs, the campus's overall net revenue debt service coverage in 2027-2028, the first year of operations with full debt service, is projected to be 3.31, which is better than the CSU benchmark of 1.35 for a campus.

In coordination with CSU's Office of General Counsel, Orrick, Herrington & Sutcliffe LLP, as outside bond counsel, is preparing resolutions to be distributed to the Board of Trustees prior to this meeting that authorize interim and permanent financing for the Project described in this agenda. The proposed resolutions will achieve the following:

1. Authorize the sale and issuance of the Trustees of the California State University Systemwide Revenue Bonds, and/or the sale and issuance of related Systemwide Revenue Bond Anticipation Notes, and/or the issuance of related debt instruments, including shorter term debt, variable rate debt, floating rate loans placed directly with banks, or fixed rate loans placed directly with banks, in an aggregate principal amount not-to-exceed \$57,720,000 and certain actions relating thereto.
2. Provide a delegation to the chancellor; the executive vice chancellor and chief financial officer; the assistant vice chancellor, Financial Services; and the assistant vice chancellor, Financing, Treasury, and Risk Management; and their designees to take any and all necessary actions to execute documents for the sale and issuance of the bond anticipation notes, the revenue bonds, and the related debt instruments.

Approval of the financing resolutions for this project as described in this Agenda Item 2 of the Committee on Finance at the November 20-21, 2024, meeting of the CSU Board of Trustees is recommended for:

**California State University, Long Beach Hillside North Student Housing**

## **COMMITTEE ON FINANCE**

### **Approval to Issue Debt for an Affordable Student Housing Project at California State University, Fresno**

#### **Presentation By**

Steve Relyea  
Executive Vice Chancellor and  
Chief Financial Officer

Robert Eaton  
Assistant Vice Chancellor  
Financing, Treasury and Risk Management

#### **Summary**

This item requests that the California State University Board of Trustees authorize the issuance of long-term Systemwide Revenue Bond (SRB) financing and related debt instruments, including shorter term and variable rate debt, floating and fixed rate loans placed directly with banks, and bond anticipation notes (BANs) to support interim financing under the CSU commercial paper (CP) program, in an aggregate principal amount not-to-exceed \$19,770,000 to provide financing for a campus capital project:

#### **California State University, Fresno Affordable Student Housing Project**

#### **Background**

The SRB program provides capital financing for projects of the CSU – student housing, parking, student union, health center, continuing education facilities, certain auxiliary projects, and other projects, including academic facilities, approved by the Board of Trustees. Revenues from these programs and other revenues approved by the Board of Trustees, including CSU operating funds, are used to meet operational requirements for the projects and pay debt service on the bonds issued to finance the projects. The consolidated pledge of gross revenues to the bondholders strengthens the SRB program and has resulted in strong credit ratings and low borrowing costs for the CSU. Prior to issuance of bonds, some projects are funded through BANs issued by the CSU in support of its CP program. The BANs are provided to the CSU Institute, a recognized systemwide auxiliary organization, to secure the CSU Institute's issuance of CP used to finance the projects. CP notes provide greater financing flexibility and lower short-term borrowing costs during project construction than long-term bond financing. Proceeds from the issuance of bonds are then used to retire outstanding CP and finance any additional costs not previously covered by CP.

### **California State University, Fresno Affordable Student Housing Project**

The California State University, Fresno Affordable Student Housing project (the “Project”) was approved for schematics during the November 2023, Board of Trustees meeting of the Committee on Campus Planning, Buildings and Grounds. The Project (building #89) will consist of a four-story residence hall of approximately 82,838 gross square feet to be located on the southern portion of existing Parking Lot 27, at the southwest corner of the campus (corner of Cedar Avenue and Shaw Avenue). The Project will include approximately 228 new apartment-style beds including units for resident advisors and six units for students with children. The first floor will provide learning community and recreational spaces, as well as accessible housing units. The three upper residence floors are identical, which will include student housing units, shared study/gathering spaces, laundry facilities, and space for a resident advisor on each floor. The outdoor hardscape and landscape areas will provide additional space for studying and recreation.

The not-to-exceed principal amount of the proposed bonds is \$19,770,000, based on a total project budget of \$52,179,000 with additional funding of \$33,750,000 from the State’s Higher Education Student Housing Grant Program. Additional net financing costs, such as capitalized interest and cost of issuance (estimated at \$1,341,000), are expected to be funded from bond proceeds. The Project is scheduled to start construction in December 2024 with completion expected in May 2026.

The funding from the State’s Higher Education Student Housing Grant Program was initially expected to be in the form of a one-time cash grant, which was awarded in the 2022-2023 fiscal year. However, the 2023-2024 state budget for the CSU clawed back the cash grants for all previously awarded projects in the program and replaced them with an increase in CSU’s annual support appropriation which will allow CSU to replace the cash grants with a like amount of additional SRB net proceeds. This additional SRB funding in the amount of \$33,750,000 for the Project was approved by the Board of Trustees during its July 2023 meeting (\$31,050,000 as listed directly for the project and an additional \$2.7 million project augmentation from the \$157 million of pending approvals). This related debt shall be issued under the SRB program and will be repaid from the additional support appropriation from the state (rather than campus resources).

The following table summarizes key information about this financing transaction.

|                                                                  |                                                |
|------------------------------------------------------------------|------------------------------------------------|
| Not-to-exceed principal amount                                   | \$19,770,000                                   |
| Amortization                                                     | Approximately level debt service over 30 years |
| Projected maximum annual debt service                            | \$1,371,198                                    |
| Projected debt service coverage ratio including the new project: |                                                |
| Net revenue – Fresno pledged programs: <sup>1</sup>              | 1.61                                           |
| Net revenue – Projected campus housing program                   | 2.17                                           |

1. Combines projected 2027-2028 information for all campus pledged revenue programs with 2027-2028 information for the project.

The not-to-exceed principal amount for the Project, the maximum annual debt service, and the financial ratios above are based on an estimated all-in true interest cost of 5.70%, which includes a cushion for changing financial market conditions that could occur before the permanent financing bonds are sold. The financial plan assumes level amortization of debt service, which is the CSU program standard. The campus financial plan projects a housing program net revenue debt service coverage of 2.17 in fiscal year 2027-2028, the first year of operations with full debt service, which is better than the CSU benchmark of 1.10 for the program. When combining the Project with information for all campus pledged revenue programs, the campus' overall net revenue debt service coverage for fiscal year 2027-2028, the first year of operations with full debt service, is projected to be 1.61, which is better than the CSU benchmark of 1.35 for a campus.

In coordination with CSU's Office of General Counsel, Orrick, Herrington & Sutcliffe LLP, as outside bond counsel, is preparing resolutions to be distributed to the Board prior to this meeting that authorize interim and permanent financing for the Project described in this agenda. The proposed resolutions will achieve the following:

1. Authorize the sale and issuance of the Trustees of the California State University Systemwide Revenue Bonds, and/or the sale and issuance of related Systemwide Revenue Bond Anticipation Notes, and/or the issuance of related debt instruments, including shorter term debt, variable rate debt, floating rate loans placed directly with banks, or fixed rate loans placed directly with banks, in an aggregate principal amount not-to-exceed \$19,770,000 and certain actions relating thereto.
2. Provide a delegation to the chancellor; the executive vice chancellor and chief financial officer; the assistant vice chancellor, Financial Services; and the assistant vice chancellor, Financing, Treasury, and Risk Management; and their designees to take any and all necessary actions to execute documents for the sale and issuance of the bond anticipation notes, the revenue bonds, and the related debt instruments.

FIN

Agenda Item 3

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Approval of the financing resolutions for this project as described in this Agenda Item 3 of the Committee on Finance at the November 20-21, 2024, meeting of the CSU Board of Trustees is recommended for:

**California State University, Fresno Affordable Student Housing Project**

## **COMMITTEE ON FINANCE**

### **California State University Annual Investment Report**

#### **Presentation By**

Steve Relyea  
Executive Vice Chancellor and  
Chief Financial Officer

Robert Eaton  
Assistant Vice Chancellor  
Financing, Treasury, and Risk Management

#### **Summary**

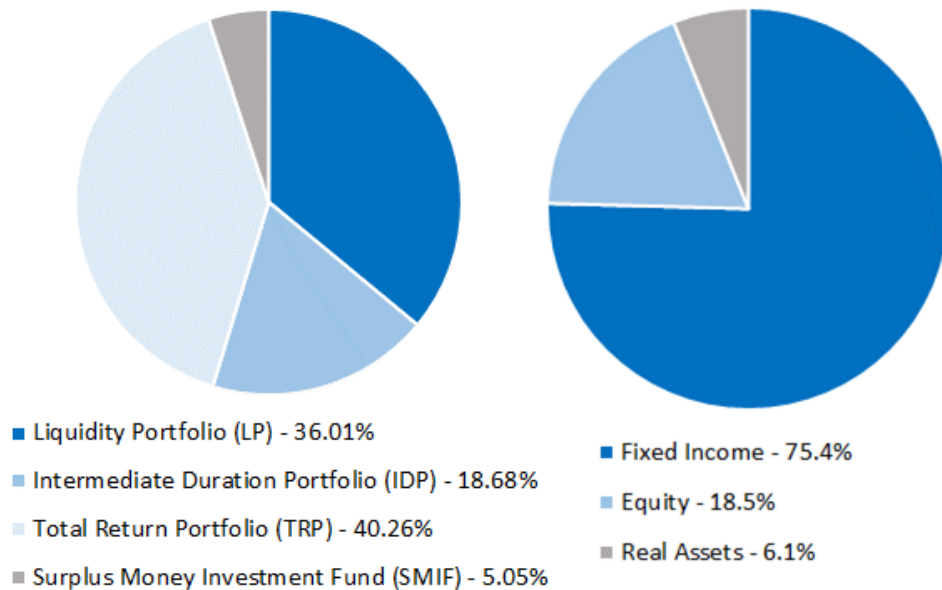
This item provides the annual investment report to the California State University Board of Trustees for the year ended June 30, 2024. The information in Attachment A provides the entire annual investment report regarding CSU investments as required by Education Code § 89726.

#### **Background**

The California State University Master Investment Policy is posted publicly to: <https://calstate.policystat.com/policy/11691689/latest>. Pursuant to the CSU Master Investment Policy, CSU investments as of June 30, 2024, consisted of investments in the Liquidity Portfolio (LP), the Intermediate Duration Portfolio (IDP), the Total Return Portfolio (TRP), and the State of California Surplus Money Investment Fund (SMIF). Except for amounts held at the state in SMIF, all CSU investments are held by US Bank, the custodian bank for the CSU. Neither state general fund nor CSU auxiliary funds are included in the figures reported. In addition, this report does not include approximately \$1.26 billion in bond proceeds, which by state law are required to be held by the state and are invested in SMIF.

**CSU Investments – Balances, Allocations, and Returns  
June 30, 2024**

|                                       | <b>Balance</b>         | <b>% of CSU Investments</b> | <b>Twelve Month Returns</b> |
|---------------------------------------|------------------------|-----------------------------|-----------------------------|
| Liquidity Portfolio (LP)              | \$2.523 billion        | 36.01%                      | 5.42%                       |
| Intermediate Duration Portfolio (IDP) | \$1.308 billion        | 18.68%                      | 4.20%                       |
| <u>Total Return Portfolio (TRP)</u>   | <u>\$2.820 billion</u> | 40.26%                      | 11.00%                      |
| <b>CSU Investment Portfolios</b>      | <b>\$6.65 billion</b>  |                             |                             |
| Surplus Money Investment Fund (SMIF)  | \$0.354 billion        | 5.05%                       | 3.83%                       |
| <b>Total CSU Investments</b>          | <b>\$7.00 billion</b>  | <b>100%</b>                 |                             |



**CSU Investment Performance**

For detailed information on the investment performance and characteristics of the CSU investment portfolios and funds invested in SMIF please see Attachment A.

### **CSU Liquidity Portfolio (LP)**

The purpose of the LP is to provide sufficient and immediate liquidity to meet the operating needs of the CSU. The investment objectives are safety of principal and liquidity.

The LP is managed through contracts with two investment management firms, BlackRock Financial Management and Payden & Rygel, each of whom provides investment management services for the program. While the custodian, US Bank, holds the funds invested in the LP for investment management purposes, additions to the portfolio are split evenly between the investment managers and invested according to permitted investments outlined in the Government Code of the state and the LP investment policy. Consistent with state law, the LP is restricted to high quality, fixed income securities.

### **CSU Intermediate Duration Portfolio (IDP)**

The purpose of the IDP is to provide opportunity for modest, additional risk adjusted returns on CSU funds not needed for immediate liquidity. The investment objectives are safety of principal, liquidity, and return. The IDP is managed through contracts with three investment management firms, Western Asset Management Company, PGIM Fixed Income, and Income Research & Management, each of whom provides investment management services for the program. While the custodian, US Bank, holds the funds invested in the IDP, for investment management purposes, additions to the portfolio are split evenly between the investment managers and invested according to permitted investments outlined in the Government Code of the state and the IDP investment policy. Consistent with state law, the IDP is restricted to high quality, fixed income securities.

### **CSU Total Return Portfolio (TRP)**

The purpose of the TRP is to provide the opportunity for additional risk adjusted returns on CSU funds over a full market cycle. The investment objective is to achieve a prudent return within a moderate risk level.

Under State law, investment of funds in the TRP is subject to the CSU meeting certain conditions regarding investment oversight, reporting, and use of earnings, and may not be more than 65% of eligible CSU investments. The CSU Investment Advisory Committee (IAC), established by the Board of Trustees in September 2017, oversees the TRP and focuses on key issues such as investment policy, asset allocation, investment manager oversight, and investment performance.

The TRP investment policy provides a framework for the investment of portfolio funds in the TRP and includes the following key elements as further described in the TRP Investment Policy:

|                             |                                      |
|-----------------------------|--------------------------------------|
| Investment Objectives       | Investment Manager Selection         |
| Spending Policy             | Roles & Responsibilities             |
| Time and Investment Horizon | Environmental, Social and Governance |
| Risk Tolerance              | Framework                            |
| Expected Return             | Risk Management                      |
| Asset Allocation            | Monitoring and Control Procedures    |
| Benchmarks                  |                                      |

With the passage of AB 2422, effective January 1, 2023, up to 65% of CSU investments may be invested in the TRP and the TRP may additionally invest in commingled funds and exchange-traded funds. Considering these legislative changes, in January of 2023 the IAC took two actions and in March of 2023 the Board of Trustees took one action. First, the IAC approved a recommendation to the Board of Trustees to revise the CSU Master Investment Policy. These recommended revisions were presented to and approved by the Board of Trustees at the March 2023 meeting. The IAC also approved a revised funding schedule for the TRP calling for an additional \$1.25 billion to be invested in the TRP from January of 2023 to December of 2024. At present, \$892.7 million of the additional \$1.25 billion has been invested in the TRP. The investment schedule may also be adjusted by the IAC at any time depending on market conditions and staff will ensure the TRP does not exceed its statutory limit as a percent of CSU investments.

Since the TRP Inception date<sup>1</sup> through June 30, 2024, the TRP investment earnings were approximately \$560.5 million. During this period, the TRP total return exceeded the LP total return by 4.52% annualized (net of fees) or a cumulative \$391.8 million, which was about 3.3 times higher than LP investment earnings.

### **Surplus Money Investment Fund (SMIF)**

The State Treasurer also provides investment vehicles that may be used for CSU funds. The Surplus Money Investment Fund (SMIF) is used by the State Treasurer to invest state funds, or funds held by the state on behalf of state agencies, in a short-term pool. To facilitate certain expenditures, the CSU maintains modest amounts of funds with the state. Consistent with state law, the portfolio is restricted to high quality, fixed income securities.

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<sup>1</sup> The TRP Inception Date was April 1, 2018.

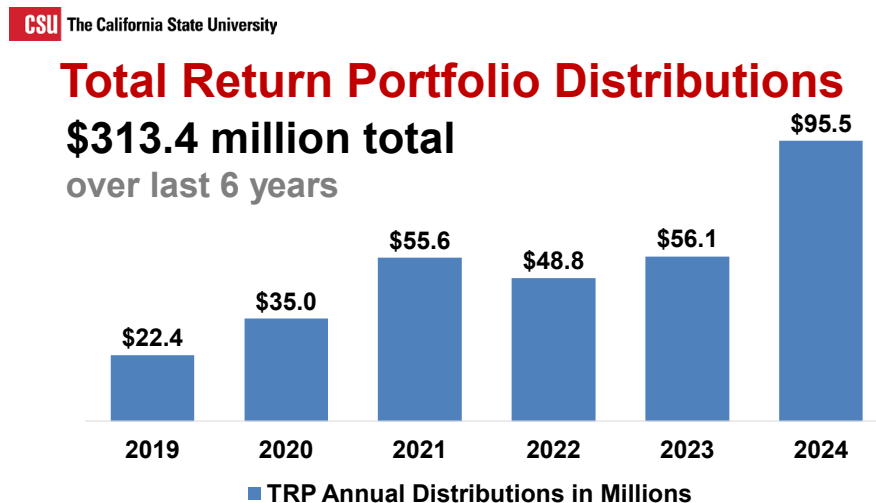
## Reporting Requirements

California Education Code § 89726 requires quarterly investment reports to the Board of Trustees and an annual report to the State Legislature and the Department of Finance.

## Recent Actions/Next Steps

In April 2024, the CSU returned \$1.029 billion to the State of California because of the State's action in the 2023-2024 budget to change funding for certain capital projects from one-time funds to CSU debt financing supported by an increase in ongoing state appropriation. The Liquidity Portfolio was reduced by this amount accordingly when the funds were returned to the State.

In October 2024, the IAC approved the sixth annual TRP distribution to the system of approximately \$95.5 million, bringing total TRP distributions to the system since inception to \$313.4 million. TRP distributions are allocated to the campuses annually for capital outlay or maintenance. Consistent with state law, specifically Education Code § 89726, earnings from the TRP shall be used only for capital outlay or maintenance and shall not be used for ongoing operations.



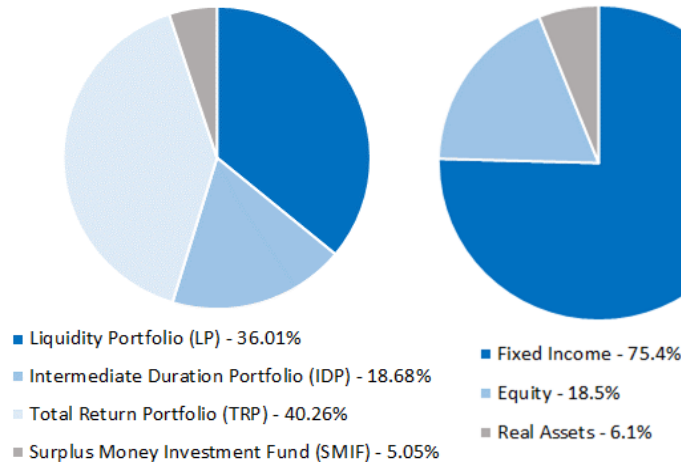
The next investment report to the Board of Trustees is scheduled for the March 2025 meeting and will provide information on the CSU Quarterly Investment Report for the fiscal quarter ending September 30, 2024.

## CSU Annual Investment Report For the Fiscal Year Ended June 30, 2024

California State University investments as of June 30, 2024, consisted of investments in the CSU Liquidity Portfolio (LP), the Intermediate Duration Portfolio (IDP), the Total Return Portfolio (TRP), and the State of California Surplus Money Investment Fund (SMIF). All CSU investments (except for funds invested in SMIF) are held by US Bank, the custodian bank for the CSU. Neither state general fund nor CSU auxiliary funds are included in CSU investments. In addition, this report does not include approximately \$1.26 billion in bond proceeds, which by state law are required to be held by the state and are invested in SMIF.

### Balances and Allocations as of June 30, 2024

|                                       | <u>Balance</u>        | <u>% of CSU Investments</u> |
|---------------------------------------|-----------------------|-----------------------------|
| Liquidity Portfolio (LP)              | \$2.523 billion       | 36.01%                      |
| Intermediate Duration Portfolio (IDP) | \$1.308 billion       | 18.68%                      |
| Total Return Portfolio (TRP)          | \$2.820 billion       | 40.26%                      |
| Surplus Money Investment Fund (SMIF)  | \$0.354 billion       | 5.05%                       |
| <b>CSU Investments</b>                | <b>\$7.00 billion</b> | <b>100%</b>                 |



For the twelve months ending June 30, 2024, direct investment management fees<sup>1</sup>, advisory, and custodial fees totaled just over \$4.2 million, or about 0.054% on CSU investments' average balance for the twelve months ending June 30, 2024.

<sup>1</sup> Direct investment management fees exclude TRP mutual fund investment management fees. TRP mutual fund investment management fees are included as mutual fund expenses and reported as a percent of total fund assets. See TRP Fund Expense Ratio (Fee) in the table on page 6.

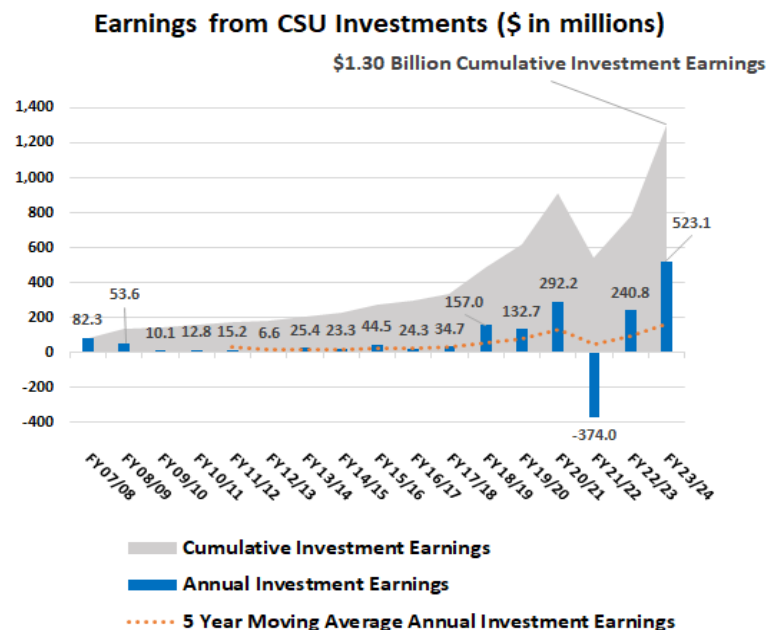
## CSU Consolidated Investment Portfolio

The following table displays performance returns for the CSU Consolidated Investment Portfolio which includes the LP, IDP, and TRP.<sup>2</sup>

|                                     | CSU Consolidated<br>Investment<br>Portfolio | CSU Total<br>Return Portfolio<br>(TRP) | CSU Intermediate<br>Duration Portfolio<br>(IDP) | CSU Liquidity<br>Portfolio<br>(LP) |
|-------------------------------------|---------------------------------------------|----------------------------------------|-------------------------------------------------|------------------------------------|
| 1 Year Return                       | 7.21%                                       | 11.00%                                 | 4.20%                                           | 5.42%                              |
| 3 Year Annualized Return            | 1.67%                                       | 1.54%                                  | N/A                                             | 1.74%                              |
| 5 Year Annualized Return            | 2.90%                                       | 6.04%                                  | N/A                                             | 1.76%                              |
| 10 Year Annualized Return           | 2.13%                                       | N/A                                    | N/A                                             | 1.52%                              |
| Since Inception Return <sup>3</sup> | 1.86%                                       | 6.46%                                  | -1.73%                                          | 1.50%                              |

As of June 30, 2024, the TRP since inception investment earnings were approximately \$560.5 million. During this period, the TRP total return exceeded the LP total return by 4.52% annualized (net of fees) or a cumulative \$391.8 million, which was about 3.3 times higher than LP investment earnings.

### *Investment Earnings from CSU Investments Support Campus Operations and Student Experience*



<sup>2</sup> CSU Consolidated Investment Portfolio returns exclude SMIF.

<sup>3</sup> Inception Dates for the CSU portfolios were: Consolidated Investment Portfolio, July 1, 2007; LP, July 1, 2007; IDP, October 1, 2021; and TRP, April 1, 2018. CSU Consolidated Investment Portfolio, LP, and IDP returns reported gross of fees and as total return, including income and gains (realized and unrealized).

### CSU Liquidity Portfolio (LP)

The purpose of the LP is to provide sufficient and immediate liquidity to meet the operating needs of the CSU. The investment objectives are safety of principal and liquidity. Consistent with state law, the portfolio is restricted to high quality, fixed income securities.

|                                                | <u>CSU Liquidity Portfolio</u> | <u>Benchmark<sup>4</sup></u> |
|------------------------------------------------|--------------------------------|------------------------------|
| 1 Year Return <sup>5</sup>                     | 5.42%                          | 4.81%                        |
| 3 Year Annualized Return                       | 1.74%                          | 1.15%                        |
| 5 Year Annualized Return                       | 1.76%                          | 1.40%                        |
| 10 Year Annualized Return                      | 1.52%                          | 1.27%                        |
| Annualized Since Inception Return <sup>6</sup> | 1.50%                          | 1.58%                        |
| Yield                                          | 4.95%                          | 4.97%                        |
| Duration (Years)                               | 1.18                           | 1.38                         |
| Average Credit Rating                          | AA-                            | AA+                          |

### Holdings by Asset Type (% of CSU Liquidity Portfolio):

|                      |        |                          |       |
|----------------------|--------|--------------------------|-------|
| Treasuries           | 55.27% | Agency MBS               | 2.29% |
| U.S. Corporate Bonds | 29.37% | U.S. Government Agencies | 0.69% |
| Commercial Paper     | 10.00% | CA Municipal Obligations | 0.09% |
| Cash Equivalents     | 2.29%  |                          |       |

<sup>4</sup> Benchmark for the LP is the Bank of America Merrill Lynch 0-3 Year Treasury Index.

<sup>5</sup> LP Returns reported gross of fees and as total return, including income and gains (realized and unrealized).

<sup>6</sup> Inception Date for the LP was July 1, 2007.

### CSU Intermediate Duration Portfolio (IDP)

The purpose of the IDP is to provide opportunity for modest, additional risk adjusted returns on CSU funds not needed for immediate liquidity. The investment objectives are safety of principal, liquidity, and return. Consistent with state law, the portfolio is restricted to high quality, fixed income securities.

|                                                | <b>CSU Intermediate<br/>Duration Portfolio</b> | <b>Benchmark<sup>7</sup></b> |
|------------------------------------------------|------------------------------------------------|------------------------------|
| 3 Months Return <sup>8</sup>                   | 0.61%                                          | 0.48%                        |
| 1 Year Return                                  | 4.20%                                          | 3.86%                        |
| Annualized Since Inception Return <sup>9</sup> | -1.73%                                         | -1.83%                       |
| Yield                                          | 5.21%                                          | 5.07%                        |
| Duration (Years)                               | 4.60                                           | 4.59                         |
| Average Credit Rating                          | A+                                             | AA-                          |

### Holdings by Asset Type (% of CSU Intermediate Duration Portfolio):

|                      |       |                          |      |
|----------------------|-------|--------------------------|------|
| U.S. Corporate Bonds | 53.6% | CA Municipal Obligations | 1.2% |
| Agency MBS           | 31.0% | Cash Equivalents         | 0.7% |
| Treasuries           | 10.2% | U.S. Government Agencies | 0.6% |
| Agency ABS           | 2.6%  | Supranationals           | 0.1% |

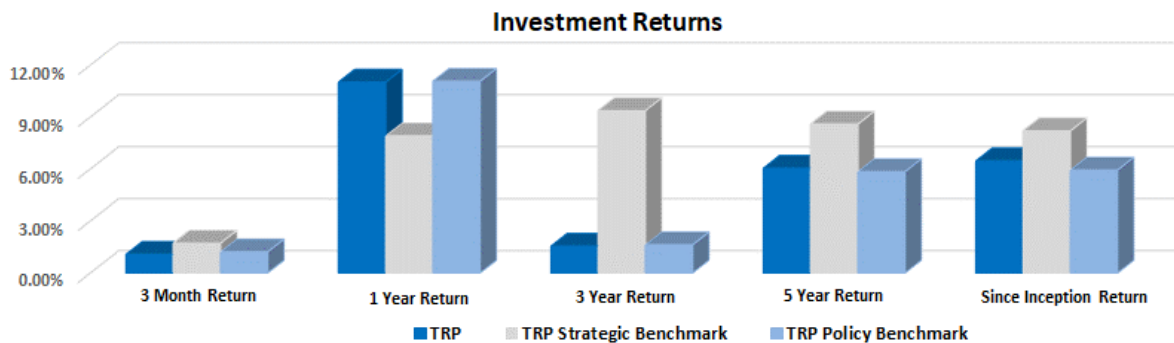
<sup>7</sup> Benchmark for the IDP is 50% Bloomberg Barclays US Corporate 1-10 Year A or Better Ex-Yankee / 30% Bloomberg Barclays US MBS / 20% Bloomberg Barclays US Intermediate Treasury Index.

<sup>8</sup> IDP Returns reported gross of fees and as total return, including income and gains (realized and unrealized).

<sup>9</sup> Inception Date for the IDP was October 1, 2021.

## CSU Total Return Portfolio (TRP)

The purpose of the TRP is to provide opportunity for additional risk adjusted returns on CSU funds over a full market cycle. The investment objective is to achieve a prudent return within a moderate risk level. Consistent with state law, the TRP is invested in mutual funds subject to registration by, and under the regulatory authority of, the United States Securities and Exchange Commission or in United States registered real estate investment trusts.



|                                                 | CSU Total<br>Return<br>Portfolio | Strategic<br>Benchmark <sup>10</sup> | Policy<br>Benchmark <sup>11</sup> |
|-------------------------------------------------|----------------------------------|--------------------------------------|-----------------------------------|
| 3 Months Return                                 | 1.07%                            | 1.71%                                | 1.21%                             |
| 1 Year Return                                   | 11.00%                           | 7.90%                                | 11.05%                            |
| 3 Year Annualized Return                        | 1.54%                            | 9.36%                                | 1.62%                             |
| 5 Year Annualized Return                        | 6.04%                            | 8.58%                                | 5.84%                             |
| Annualized Since Inception Return <sup>12</sup> | 6.46%                            | 8.19%                                | 5.93%                             |

In October 2024, the CSU Investment Advisory Committee approved the sixth annual TRP distribution to the system of approximately \$95.5 million, bringing total TRP distributions to the system since inception to \$313.4 million. TRP distributions are allocated to the campuses annually for capital outlay or maintenance. Consistent with Education Code Section § 89726, additional moneys earned through investments in the TRP shall be used only for capital outlay or maintenance and shall not be used for ongoing operations.

<sup>10</sup> The TRP Strategic Benchmark is inflation (Core Consumer Price Index) plus 4.5% per annum. The long-term rate of inflation is assumed at 2.8% per annum.

<sup>11</sup> The TRP Policy Benchmark is a blend of passive indices whose weights match the TRP target asset allocation.

<sup>12</sup> TRP Inception Date was April 1, 2018.

**Holdings by Asset Type (% of CSU Total Return Portfolio):**

|                           |        |                               |                   |
|---------------------------|--------|-------------------------------|-------------------|
| Equity Mutual Funds       | 45.95% | Passive Index Mutual Funds    | 74%               |
| Fixed Income Mutual Funds | 38.96% | Actively Managed Mutual Funds | 26% <sup>13</sup> |
| Real Asset Mutual Funds   | 15.09% |                               |                   |

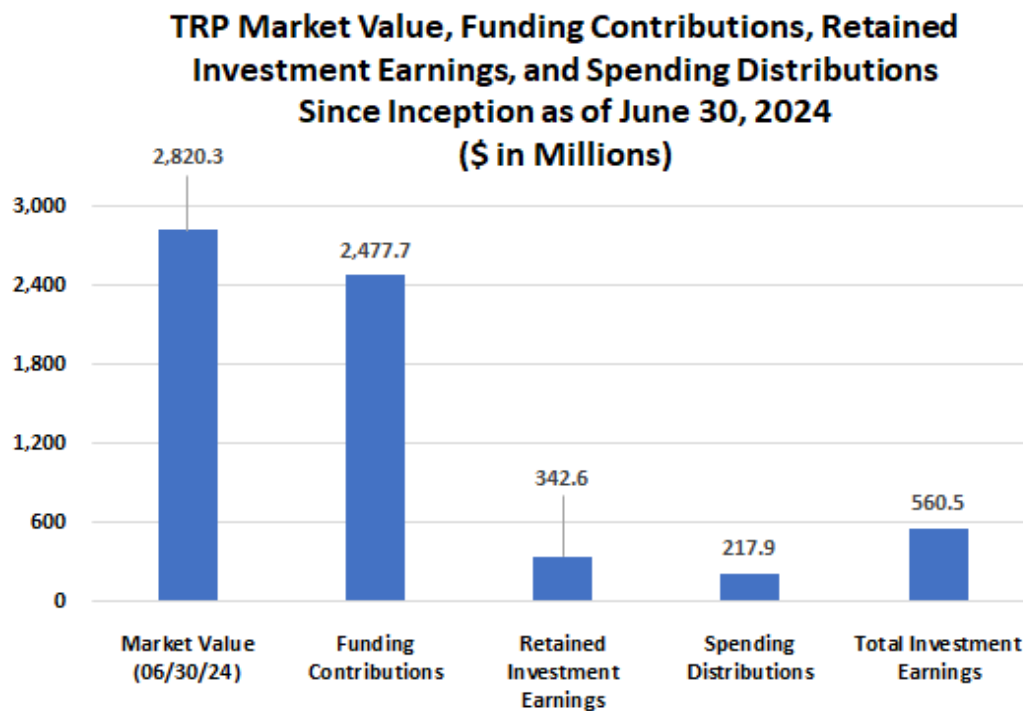
**Values, Holdings & Fees (CSU Total Return Portfolio)**

| Asset Class         | Strategy Name                                 | Ticker | Value (millions) |             |              | Median Fee Per Asset Class |
|---------------------|-----------------------------------------------|--------|------------------|-------------|--------------|----------------------------|
| <b>Fixed Income</b> |                                               |        |                  |             |              |                            |
|                     | Vanguard Total Bond Market Index Fund         | VBMPX  | 618.5            | 21.93%      | 0.03%        | 0.44%                      |
|                     | Vanguard Inflation-Protected Securities Fd    | VIPIX  | 140.7            | 4.99%       | 0.07%        | 0.44%                      |
|                     | American Century High Income Fund             | NPHIX  | 152.9            | 5.42%       | 0.58%        | 0.78%                      |
|                     | Polen Opportunistic High Yield                | DDJIX  | 16.9             | 0.60%       | 0.79%        | 0.78%                      |
|                     | Aristotle Floating Rate Income Fund           | PLFRX  | 85.2             | 3.02%       | 0.70%        | 0.76%                      |
|                     | Payden Emerging Markets Bond Fund             | PYEIX  | 42.2             | 1.50%       | 0.69%        | 0.80%                      |
|                     | T. Rowe Emerging Markets Bond Fund            | TREBX  | 42.3             | 1.50%       | 0.70%        | 0.80%                      |
| <b>Equity</b>       |                                               |        |                  |             |              |                            |
|                     | Vanguard Total Stock Market Index Fund        | VSMPX  | 675.3            | 23.95%      | 0.02%        | 0.75%                      |
|                     | Vanguard Developed Markets Index Fund         | VDIPX  | 338.3            | 12.00%      | 0.04%        | 0.89%                      |
|                     | Driehaus Emerging Markets Growth Fund         | DIEMX  | 169.6            | 6.01%       | 1.13%        | 1.01%                      |
|                     | DFA Emerging Markets Value Fund               | DFEVX  | 84.9             | 3.01%       | 0.44%        | 1.01%                      |
|                     | Redwheel Global Emerging Equity Fund          | RWCEX  | 27.9             | 0.99%       | 1.20%        | 1.01%                      |
| <b>Real Assets</b>  |                                               |        |                  |             |              |                            |
|                     | Vanguard Real Estate Index Fund               | VGSNX  | 200.0            | 7.09%       | 0.10%        | 0.87%                      |
|                     | Vanguard Materials Index Fund                 | VMIAX  | 112.8            | 4.00%       | 0.10%        | 0.92%                      |
|                     | First Sentier Global Listed Infrastructure Fd | FLIIX  | 112.6            | 3.99%       | 0.95%        | 0.97%                      |
| <b>Cash</b>         |                                               |        | 0.0              | 0.00%       | NA           | NA                         |
| <b>Total</b>        |                                               |        | <b>2,820.3</b>   | <b>100%</b> | <b>0.24%</b> | <b>0.74%</b>               |

<sup>13</sup> The percent of Actively Managed Mutual Funds is likely to increase in the future while the percent of Passive Index Mutual Funds would decrease consistent with the TRP implementation plan. The total TRP Fund Expense Ratio and total Median Fee Per Asset Class are weighted averages using the percent of the TRP shown in the table for each fund and their respective asset class.

***TRP Annual Spending Distributions Assist Campuses to Meet Deferred Maintenance & Capital Outlay Needs***

The following chart shows the TRP market value, total funded contributions, total retained investment earnings, total spending distributions, and total investment earnings since inception as of June 30, 2024. Total TRP investment earnings equal total TRP spending distributions plus total TRP retained investment earnings.



**Surplus Money Investment Fund (SMIF)**

The Surplus Money Investment Fund (SMIF) is managed by the State Treasurer to invest State funds, or funds held by the State on behalf of State agencies, in a short-term pool. The portfolio includes Certificates of Deposit, Treasuries, Commercial Paper, Corporate Bonds, and U.S. Government Agencies.

**Apportionment Annual Yield<sup>14</sup>**

|                                   |       |
|-----------------------------------|-------|
| Trailing 12 month as of 06/30/24  | 3.83% |
| Average (FYE 06/30/07 – 06/30/24) | 1.28% |

<sup>14</sup> Annual Yield calculated by CSU Treasury Operations based on the quarterly apportionment yield rates published by the State Controller's Office.