

## **COMMITTEE ON FINANCE**

### **California State University Quarterly Investment Report**

#### **Presentation By**

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Financing, Treasury, and Risk Management

#### **Summary**

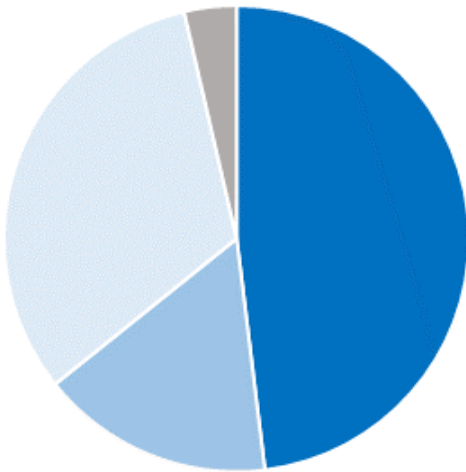
This item provides the quarterly investment report to the California State University Board of Trustees for the quarter ended December 31, 2023. The information in Attachment A provides the entire quarterly investment report regarding CSU investments as required by Education Code § 89726.

#### **Background**

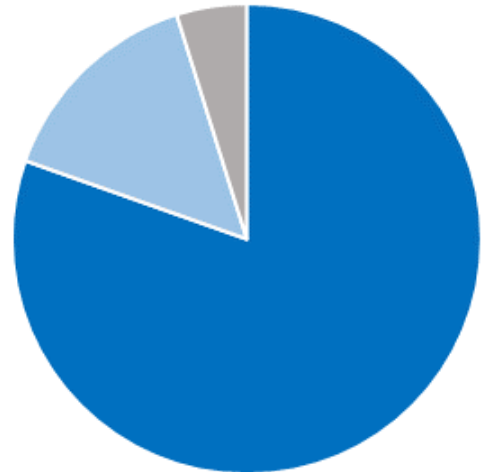
The California State University Master Investment Policy is posted publicly to: <https://calstate.policystat.com/policy/11691689/latest>. Pursuant to the CSU Master Investment Policy, CSU investments as of December 31, 2023, consisted of investments in the Liquidity Portfolio (LP), the Intermediate Duration 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 CSU investments. In addition, this report does not include approximately \$1.52 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  
 December 31, 2023**

	<u>Balance</u>	<u>% of CSU Investments</u>	<u>Twelve Month Returns</u>
Liquidity Portfolio (LP)	\$3.867 billion	48.1%	4.98%
Intermediate Duration Portfolio (IDP)	\$1.303 billion	16.2%	5.91%
<u>Total Return Portfolio (TRP)</u>	<u>\$2.584 billion</u>	32.1%	14.18%
<b>CSU Investment Portfolios</b>	<b>\$7.75 billion</b>		
Surplus Money Investment Fund (SMIF)	\$0.292 billion	3.6%	3.12%
<b>Total CSU Investments</b>	<b>\$8.05 billion</b>	<b>100%</b>	



- Liquidity Portfolio (LP) - 48.1%
- Intermediate Duration Portfolio (IDP) - 16.2%
- Total Return Portfolio (TRP) - 32.1%
- Surplus Money Investment Fund (SMIF) - 3.6%



- Fixed Income - 80.4%
- Equity - 14.8%
- Real Assets - 4.8%

**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 sixty-five percent 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 Framework
Risk Tolerance	Risk Management
Expected Return	Monitoring and Control Procedures
Asset Allocation	
Benchmarks	

With the passage of AB 2422, effective January 1, 2023, up to sixty-five percent 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 California State University 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, \$778 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 December 31, 2023, the TRP investment earnings were approximately \$438.5 million. During this period, the TRP total return exceeded the LP total return by 4.47% annualized (net of fees) or a cumulative \$316.8 million, which was about 3.6 times higher than LP investment earnings.

In October 2023, the IAC approved the fifth annual TRP distribution to the system of approximately \$56 million, bringing total TRP distributions to the system since inception to \$218 million. TRP distributions are allocated to the campuses annually for capital outlay or maintenance. Consistent with state law, specifically Education Code § 89726, additional earnings from the TRP shall be used only for capital outlay or maintenance and shall not be used for ongoing operations.

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

### **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.

### **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**

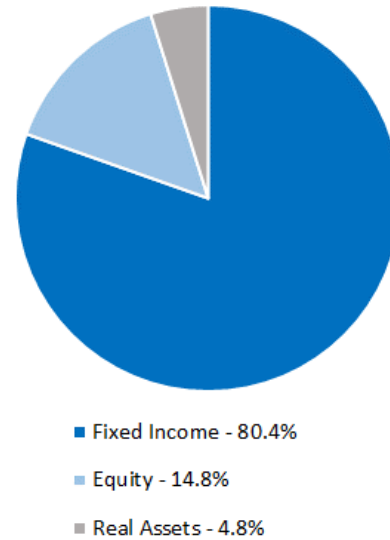
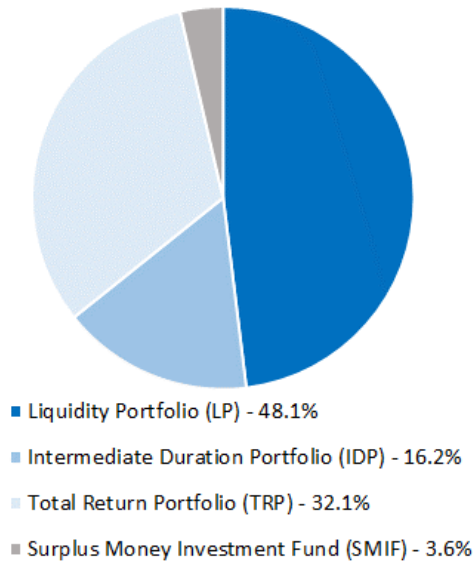
The next investment report to the Board of Trustees is scheduled for the September 2024 meeting and will provide information on the CSU Quarterly Investment Report for the fiscal quarter ending March 31, 2024.

**CSU Quarterly Investment Report  
 For the Fiscal Quarter Ended December 31, 2023**

CSU investments as of December 31, 2023, 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 \$1.52 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 December 31, 2023**

	<u>Balance</u>	<u>% of CSU Investments</u>
Liquidity Portfolio (LP)	\$3.867 billion	48.1%
Intermediate Duration Portfolio (IDP)	\$1.303 billion	16.2%
Total Return Portfolio (TRP)	\$2.584 billion	32.1%
Surplus Money Investment Fund (SMIF)	\$0.292 billion	3.6%
<b>CSU Investments</b>	<b>\$8.05 billion</b>	<b>100%</b>



For the six months ending December 31, 2023, direct investment management fees<sup>1</sup>, advisory, and custodial fees totaled just under \$2.1 million, or about 0.027 percent on CSU investments' average balance for the six months ending December 31, 2023.

<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.

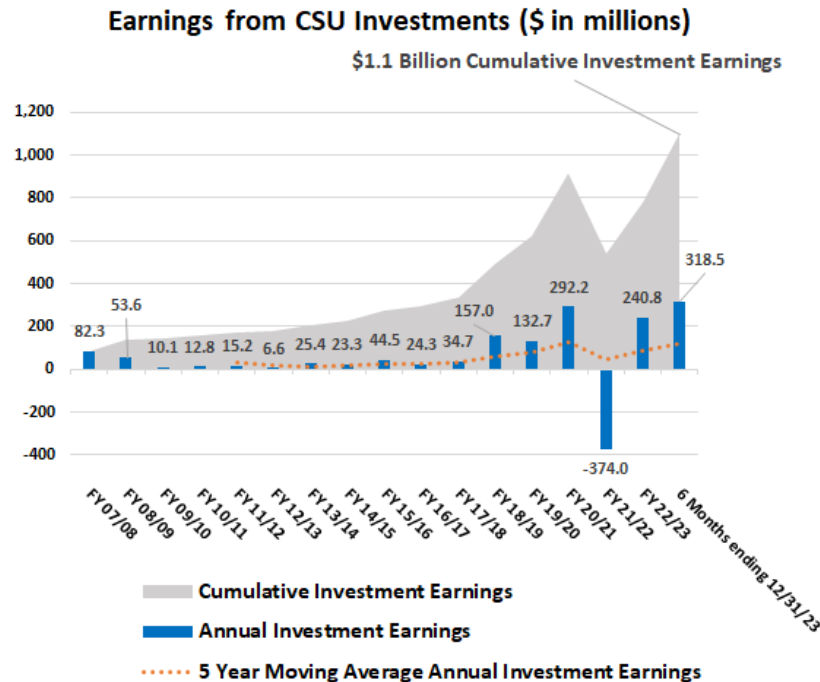
**CSU Consolidated Investment Portfolio**

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

	<b>CSU Consolidated Investment Portfolio</b>	<b>CSU Total Return Portfolio (TRP)</b>	<b>CSU Intermediate Duration Portfolio (IDP)</b>	<b>CSU Liquidity Portfolio (LP)</b>
1 Year Return	8.00%	14.18%	5.91%	4.98%
3 Year Annualized Return	1.52%	2.89%	N/A	1.02%
5 Year Annualized Return	2.93%	7.72%	N/A	1.69%
10 Year Annualized Return	1.90%	N/A	N/A	1.33%
Since Inception Return <sup>3</sup>	1.75%	6.19%	-2.29%	1.41%

As of December 31, 2023, the TRP since inception investment earnings were approximately \$438.5 million. During this period, the TRP total return exceeded the LP total return by 4.47 percent annualized (net of fees) or a cumulative \$316.8 million, which was about 3.6 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>	4.98%	4.54%
3 Year Annualized Return	1.02%	0.59%
5 Year Annualized Return	1.69%	1.50%
10 Year Annualized Return	1.33%	1.14%
Annualized Since Inception Return <sup>6</sup>	1.41%	1.53%
Yield	4.07%	4.60%
Duration (Years)	0.94	1.37
Average Credit Rating	AA-	AA+

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

Treasuries	59.67%	Agency MBS	1.92%
U.S. Corporate Bonds	25.77%	Cash Equivalents	0.99%
Commercial Paper	8.75%	CA Municipal Obligations	0.06%
U.S. Government Agencies	2.84%		

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<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 Duration Portfolio</b>	<b>Benchmark<sup>7</sup></b>
3 Months Return <sup>8</sup>	5.80%	5.86%
1 Year Return	5.91%	5.65%
Annualized Since Inception Return <sup>9</sup>	-2.29%	-2.28%
Yield	4.78%	4.60%
Duration (Years)	4.73	4.53
Average Credit Rating	A+	AA-

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

U.S. Corporate Bonds	54.4%	U.S. Government Agencies	1.4%
Agency MBS	29.6%	CA Municipal Obligations	1.2%
Treasuries	10.6%	Cash Equivalents	0.6%
Asset-Backed Securities	2.1%	Supranationals	0.1%

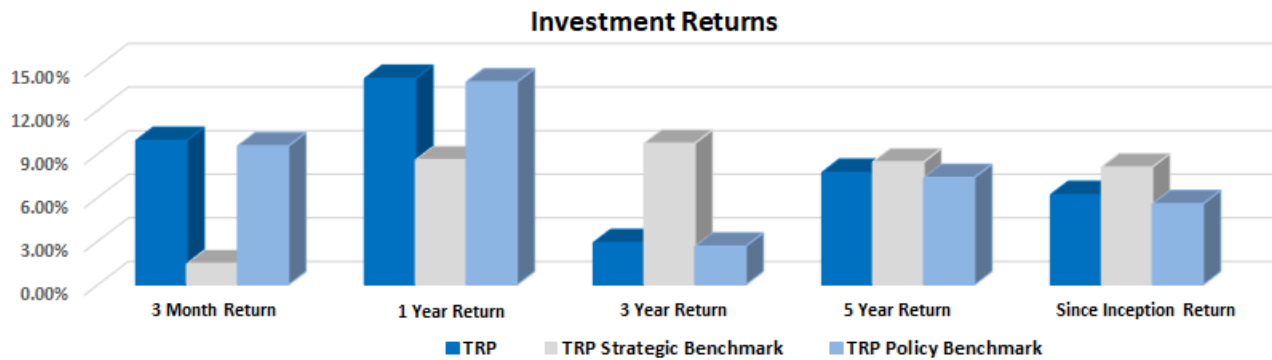
<sup>7</sup> Benchmark for the IDP is 50% Bloomberg Barclays US Corporate 1-10 Year A or Better Ex-Yankee / 30% Bloomberg Barclays US MBS / 20% Bloomberg Barclays US Intermediate Treasury Index.

<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.



	<b>CSU Total Return Portfolio</b>	<b>Strategic Benchmark<sup>10</sup></b>	<b>Policy Benchmark<sup>11</sup></b>
3 Months Return	9.92%	1.46%	9.54%
1 Year Return	14.18%	8.59%	13.94%
3 Year Annualized Return	2.89%	9.73%	2.65%
5 Year Annualized Return	7.72%	8.44%	7.37%
Annualized Since Inception Return <sup>12</sup>	6.19%	8.09%	5.57%

In October 2023, the CSU Investment Advisory Committee approved the fifth annual TRP distribution to the system of approximately \$56 million, bringing total TRP distributions to the system since inception to \$218 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 2.6% 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	46.0%	Passive Index Mutual Funds	74%
Fixed Income Mutual Funds	39.0%	Actively Managed Mutual Funds	26% <sup>13</sup>
Real Asset Mutual Funds	15.0%		

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

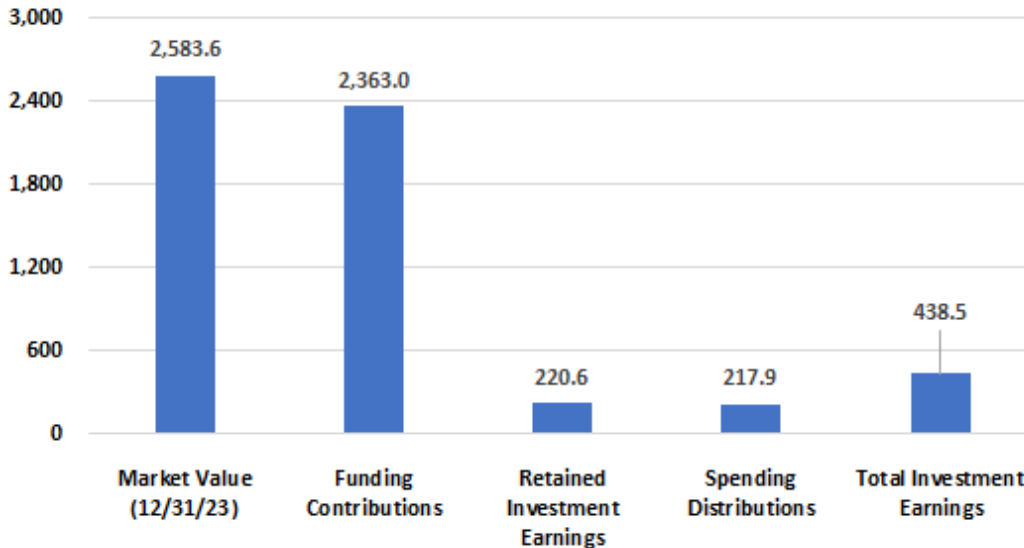
Asset Class	Strategy Name	Ticker	Value (millions)	% of Total Return Portfolio	TRP Fund Expense Ratio (Fee)	Median Fee Per Asset Class
<b>Fixed Income</b>						
	Vanguard Total Bond Market Index Fund	VBMPX	567.3	21.96%	0.03%	0.44%
	Vanguard Inflation-Protected Securities Fd	VIPIX	128.7	4.98%	0.07%	0.44%
	Lord Abbett High Yield Fund	LHYOX	0.0	0.00%	0.60%	0.78%
	American Century High Income Fund	NPHIX	140.1	5.42%	0.58%	0.78%
	Polen Opportunistic High Yield	DDJIX	15.6	0.60%	0.79%	0.78%
	Aristotle Floating Rate Income Fund	PLFRX	77.8	3.01%	0.70%	0.76%
	Payden Emerging Markets Bond Fund	PYEIX	38.8	1.50%	0.69%	0.80%
	T. Rowe Emerging Markets Bond Fund	TREBX	38.8	1.50%	0.70%	0.80%
<b>Equity</b>						
	Vanguard Total Stock Market Index Fund	VSMPX	620.1	24.00%	0.02%	0.75%
	Vanguard Developed Markets Index Fund	VDIPX	310.0	12.00%	0.04%	0.89%
	Driehaus Emerging Markets Growth Fund	DIEMX	154.4	5.98%	1.13%	1.01%
	DFA Emerging Markets Value Fund	DFEVX	77.7	3.01%	0.44%	1.01%
	Redwheel Global Emerging Equity Fund	RWCEX	25.8	1.00%	1.20%	1.01%
<b>Real Assets</b>						
	Vanguard Real Estate Index Fund	VGSNX	182.1	7.05%	0.10%	0.87%
	Vanguard Materials Index Fund	VMIAX	102.8	3.98%	0.10%	0.92%
	First Sentier Global Listed Infrastructure Fd	FLIIX	103.5	4.01%	0.95%	0.97%
<b>Cash</b>						
			0.0	0.00%	NA	NA
<b>Total</b>			<b>2,583.6</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 December 31, 2023. Total TRP investment earnings equal total TRP spending distributions plus total TRP retained investment earnings.

**TRP Market Value, Funding Contributions, Retained Investment Earnings, and Spending Distributions Since Inception as of December 31, 2023 (\$ in Millions)**



**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.

<b>Apportionment Annual Yield<sup>14</sup></b>	
Trailing 12 month as of 12/31/23	3.12%
Average (FYE 06/30/07 – 12/31/23)	1.19%

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