

IAC Members Attending			
Jack McGrory	IAC Chair	Irv Rothenberg	Member (attended remotely)
Steve Relyea	IAC Vice Chair	David Bach	Member
Robert Eaton	Member	Patrick Henning	Member
Leona Bridges	Member (attended remotely)	Mike Lucki	Member
Staff / Other Attendees			
Ron Flatt	Director – Treasury Operations	Laura Wirick	Meketa – Investment Advisor
Scott August	Chief Investment Manager	Sarah Bernstein	Meketa – Investment Advisor
Cal Dickman	Assistant Manager, Investments	Ryan Lobdell	Meketa – Investment Advisor
		Zachary Driscoll	Meketa – Investment Advisor
		Alison Adams	Meketa – Investment Advisor
		Frank Benham	Meketa – Investment Advisor

The IAC Chair called the meeting to order and established a quorum on January 24, 2024, at 11:00 am.¹

Item I: Welcome, Public Comment, Housekeeping & Approval of Minutes – Action Item

The IAC Chair asked if there were any amendments or changes to the minutes from the October 20, 2023 meeting. Upon a motion duly made and seconded, the minutes were approved as submitted. There was no public comment.

Item II: Risk Mitigating Strategies (RMS) Overview – Information

Meketa and Chancellor’s Staff provided additional information regarding the potential role of Risk Mitigating Strategies (RMS) in the TRP, which was first introduced to the IAC at the April 2023 meeting. At the August 2023 IAC meeting, the IAC approved a new asset allocation model for the TRP which included a 10% allocation to RMS subject to approval of an implementation plan which is discussed below in Item III. Assisting with the presentation on RMS were Meketa’s Managing Principal/Head of Marketable Alternatives and Senior Vice President/Research Consultant covering marketable alternatives, particularly defensive oriented Risk Mitigating Strategies. This presentation was a repeat of the August 2023 presentation to assist with Item III’s implementation plan discussion. Meketa and Chancellor’s Staff explained to the IAC that RMS is intended to mitigate, or lessen, downside risk during equity market downturns, while maintaining a low correlation to growth assets in the portfolio. RMS strategies are typically, but not always, implemented through hedge fund structures and are permitted in the TRP so long as they are institutional comingled funds, however liquidity for these funds may be limited to monthly or quarterly. Meketa and Chancellor’s Staff further explained the role of RMS by segmenting RMS into three categories based on their primary role as part of a potential allocation to RMS within the context of the broader CSU Total Return Portfolio:

¹ Details on all meeting agenda items are included in the meeting materials as presented at the CSU Investment Advisory Committee (“IAC”) meeting dated October 20, 2023.

- First Responders which are expected to provide immediate portfolio protection in the event of a sharp and sudden equity market downturn.
- Second Responders, which are trend following strategies and are designed to provide portfolio protection during an extended equity market downturn.
- Diversifiers which may provide return streams that are uncorrelated with traditional market returns and can also help to offset the impact of potential negative returns from 1st and 2nd responders during positive equity market environments.

The IAC, Meketa, and Chancellor's Staff engaged in further discussion regarding the potential role of RMS in the CSU Total Return Portfolio and further discussion regarding RMS continued during Item III below.

Item III: TRP Implementation Plan / Asset Allocation Changes – Action

At the August 2023 IAC meeting, as part of the Annual Asset Allocation Update, IAC members evaluated the current TRP asset allocation policy relative to two other asset allocation policy options which eliminated the allocation to investment grade fixed income and reallocated those assets to either equity and credit or equity and Risk Mitigating Strategies (RMS). The IAC selected the asset allocation option which increased equity and established RMS. This new asset allocation option was developed in consideration of the fact that, per state law, at least 35% of overall CSU Investments (*those assets invested outside of the TRP*) must be invested in high quality U.S. only fixed income securities, and therefore, when viewing risk levels holistically for overall CSU Investments, the TRP may be able to potentially assume a higher risk/return profile. The new asset allocation policy eliminates investment grade fixed income in the TRP and adds 17% to equity while establishing a new 10% allocation to Risk-Mitigating Strategies.

Chancellor's Staff and Meketa presented a proposal to implement the 10% allocation to RMS while considering RMS' ability to deliver positive results for the following:

- Will it work/produce positive returns in an equity drawdown?
 - Does it provide enough coverage across different types of equity drawdowns?
- Will it contribute enough during the equity drawdown?
 - Will the positive return from RMS be large enough to make a difference to the TRP?
- Can the allocation be maintained until a meaningful drawdown occurs?
 - Can the 'insurance' be held until an event occurs?

The implementation plan further detailed the 10% allocation to RMS (approximately \$300 million total) as follows:

- 33% First Responders (\$100 million total)
 - 50% Long US Treasuries (one manager, \$50 million)
 - 50% Long Volatility (2-3 managers, \$15-25 million per manager)
- 33% Second Responders (\$100 million total)
 - Either 1 fund-of-funds with multiple underlying managers or 3 individual managers
- 33% Diversifiers (\$100 million total)
 - 3-4 Managers (\$25M-\$33 million per manager)

Finally, the implementation plan provided a timeline and roadmap for Meketa and Chancellor's Staff to follow regarding additional due diligence of the underlying investment strategies and funds for the RMS allocation. This timeline included Meketa and Chancellor's Staff presenting the RMS manager recommendations and investment policy changes to the IAC for approval in late 2024/early 2025 prior to effecting any changes to the TRP's current asset allocation model.

Upon a motion duly made and seconded, the TRP Implementation Plan / Asset Allocation changes were approved by the IAC.

Break

Item IV: China Exposure in Investment Portfolios – Information

Item IV was an information item regarding the current landscape in China and its implications for investment portfolios. Meketa's Global Macroeconomic Research Consultant and Meketa's Director of Research and Strategic Asset Allocation jointly presented Item IV.

As of September 30, 2023, the CSU Total Return Portfolio ("TRP") had less equity exposure to China than the TRP Policy Benchmark, as the TRP is invested with three active emerging markets equity managers (Driehaus, DFA, and Redwheel) who are collectively underweight to China relative to the MSCI Emerging Markets Index. Within Emerging Market Bonds, exposure to China was also less than benchmark for the TRP's two emerging market bond managers. As presented by Meketa, geopolitical events combined with regulatory and policy changes are giving investors cause to re-evaluate their exposure to China.

Key points

- Geopolitical events combined with regulatory and policy changes are giving investors cause to re-evaluate their exposure to China.
- Market-friendly policies and openness are waning in China, while party ideology and nationalism are growing.
- The odds of conflict between China and the US appear to be increasing.
- The US has responded by acting in a way it deems to be in its national interests. The US now pursues an open policy of China containment. If this trend continues, the US government could make investment in China difficult, painful, or even illegal.
- Themes over the last twelve months:
 - Chinese growth has disappointed in 2023 as the anticipated COVID-19 economic rebound failed to materialize and growth projections have been ratcheted down due to:
 - a debt overhang in the property sector which represents nearly ¼ of China's economy
 - lagging exports
 - Foreign investment in China has been falling rapidly in 2023
 - Preliminary estimates indicated that foreign investors may have shed approximately \$3.8 billion US dollars of Chinese securities in 2023.

Summary

- The outlook for China is uncertain, but it is worth considering three general scenarios to frame asset allocation and portfolio implementation decisions.
 1. The bullish case for investors is one where pragmatism prevails, to some extent.
 - China could drive emerging markets benchmark returns.
 2. A middle path of ideological & socialist purity will likely slow growth in China.
 - Accepting index weighting exposure could result in sub-optimal returns.
 3. A path where Xi prioritizes ego/legacy poses substantial systematic risk for investors.
 - Consider incorporating portfolio hedging structures.

The IAC, Meketa, and Chancellor's Staff engaged in further discussion and decided to invite Emerging Markets Equity managers Redwheel and Driehaus to present on the topic at the April 2024 IAC meeting.

Item V: ESG Update – Information

Item V was an information item where Meketa discussed various changes and updates in the ESG landscape.

Meketa presented analysis for the integration of ESG risk factors for CSU Investments. The analysis included comparisons of each of the CSU Investment portfolios (Liquidity Portfolio, Intermediate Duration Portfolio, and Total Return Portfolio) to their respective benchmarks for numerous ESG risk factors. Similarly, this analysis was also applied to each of the TRP’s investment managers and their corresponding benchmarks.

The IAC, Meketa, and Chancellor’s Staff also engaged in further discussion surrounding the ESG Update.

Item VI: TRP Quarterly Report as of September 30, 2023 – Information

Item VI was an information item and is presented at each quarterly meeting. Meketa presented an Economic and Market Update as of December 31, 2023, which included updates on global economic information and financial markets, reviews of historical investment return for various asset classes and sectors, relative valuations, and economic statistics. Meketa then presented the TRP quarterly review and evaluation report as of September 30, 2023. Information in this report included the current TRP asset allocation, an update on TRP funding contributions, overall TRP performance versus its stated benchmarks, and detailed performance and characteristics for the TRP investment managers. Additional investment manager details are provided in the resource center on Diligent each quarter. As of September 30, 2023, the TRP market value was \$2.35 billion, a decline of approximately \$47 million from the beginning of the quarter. The TRP had net cash inflows of approximately \$38.2 million for the quarter and investment losses of \$85.2 million for the quarter.

Given that the meeting occurred on January 24th, Chancellor’s Staff also provided the IAC with an update on the TRP Market Value and performance as of January 22nd.

Key points:

- As of September 30, 2023, all TRP asset classes complied with the Policy Ranges outlined in the TRP Investment Policy.
- As of September 30, 2023, the TRP since inception return was +4.67% compared to +4.10% for the TRP Policy Benchmark and +8.19% for the TRP Strategic Benchmark.
- The TRP since inception return as of September 30, 2023, ranks in the 75th percentile of all Endowments in excess of \$250 million as represented by the InvMetrics All Endowment > \$250 million Peer Universe.²
- The TRP returned -3.52% for the third quarter 2023, compared to -3.36% for the TRP Policy Benchmark and +1.73% for the TRP Strategic Benchmark.

Chancellor’s Staff also presented a draft of the CSU Quarterly Investment Report to be presented to the CSU Board of Trustees at the March 2024 meeting.

The IAC, Meketa, and Chancellor’s Staff also engaged in further discussion surrounding the TRP Quarterly Report, economic conditions, and market conditions.

The next meeting is scheduled for April 12th, 2024, at 11:00 am at the Chancellor’s Office.

There being no further business before the IAC, the meeting adjourned at 2:00 pm.

² There were 59 Endowments in the InvMetrics All Endowment > \$250 million peer universe as of September 30, 2023.