

<b>IAC Members Attending</b>			
Jack McGrory	IAC Chair	Irv Rothenberg	Member
Steve Relyea	IAC Vice Chair	David Bach	Member
Robert Eaton	Member	Patrick Henning	Member
Leona Bridges	Member	Mike Lucki	Member
<b>Staff / Other Attendees</b>			
Ron Flatt	Director – Treasury Operations	Laura Wirick	Meketa – Investment Advisor
Scott August	Chief Investment Manager	Mark McKeown	Meketa – Investment Advisor
Cal Dickman	Assistant Manager, Investments	George Adutwum	Meketa – Investment Advisor

The IAC Vice Chair called the meeting to order and established a quorum on October 20, 2023, at 11:00 am.<sup>1</sup>

**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 August 9, 2023 meeting. Upon a motion duly made and seconded, the minutes were approved as submitted. There was no public comment.

**Item II: San Diego State University – Greeting from President and CFO/ Vice President of Administration and Business Affairs – Information**

Item II was an information item featuring San Diego State University’s President and CFO/Vice President. The presentation included a brief overview of SDSU and their STEM Forward initiative to build new STEM facilities to replace aging facilities. The CFO/Vice President discussed the accumulation of TRP distributions which will be directed towards future capital contributions to SDSU’s new life science lab building and the importance of this facility in meeting SDSU’s instructional and research needs.

**Item III: TRP Quarterly Report as of June 30, 2023 – Information**

Item III was an information item and is presented at each quarterly meeting. Meketa presented an Economic and Market Update as of August 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 June 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

<sup>1</sup> 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.

manager details are provided in the resource center on Diligent each quarter. As of June 30, 2023, the TRP market value was \$2.40 billion, an increase of approximately \$375 million from the beginning of the quarter. The TRP had net cash inflows of approximately \$312.5 million for the quarter and investment gains of \$62.5 million for the quarter.

Given that the meeting occurred on October 20<sup>th</sup>, Chancellor's Staff also provided the IAC with an update on the TRP Market Value and performance as of October 16<sup>th</sup>.

**Key points:**

- As of June 30, 2023, all TRP asset classes complied with the Policy Ranges outlined in the TRP Investment Policy.
- As of June 30, 2023, the TRP since inception return was +5.61% compared to +4.98% for the TRP Policy Benchmark and +8.24% for the TRP Strategic Benchmark.
- The TRP since inception return as of June 30, 2023, ranks in the 65<sup>th</sup> percentile of all Endowments in excess of \$250 million reporting to InvMetrics.<sup>2</sup>
- The TRP returned +2.76% for the second quarter 2023, compared to +2.70% for the TRP Policy Benchmark and +2.24% for the TRP Strategic Benchmark.

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

**Item IV: TRP Annual Spending Distribution – Action**

Meketa and Chancellor's Staff reviewed the TRP Spending Policy provisions contained within the TRP Investment Policy. Chancellor's Staff also reported a summary detailing the following information as of June 30, 2023:

- TRP Market Value equal to approximately \$2.40 billion
- Since Inception TRP Funding Contributions equal to approximately \$2.27 billion and
- Since Inception TRP Investment Earnings (including historical spending distributions) equal to approximately \$293 million
- Recommended approval of the TRP Spending Distribution equal to approximately \$56.1 million for the Fiscal Year End 2022/2023 per the TRP Spending Policy.

Chancellor's Staff and members of the IAC discussed the proposed annual TRP Spending Distribution in the context of recent and historical financial market returns. The IAC, Chancellor's Staff, and Meketa discussed that the investment time horizon for the TRP is long-term, interim fluctuations in the value of the TRP should be viewed with the appropriate perspective, and the goal of the TRP Spending Policy is to provide consistent and sustainable spending over long periods of time during both positive and negative investment return environments.

Upon discussion, further consideration, and a motion duly made and seconded, the IAC approved the Fiscal Year End 2022/2023 Annual TRP Spending Distribution equal to \$56.1 million.

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<sup>2</sup> There were 57 Endowments in the InvMetrics All Endowment > \$250 million peer universe as of June 30, 2023.

## **Item V: CSU Annual Investment Report – Action**

Chancellor’s Staff’s duties include informing the IAC on all CSU Investments, which are discussed in the quarterly and annual investment reports and are presented regularly to both the IAC and the CSU Board of Trustees.

This item contained a draft of the CSU Annual Investment Report for the Fiscal Year End 2022/2023 to be presented to the CSU Board of Trustees in November. Subsequent to the Board of Trustees meeting in November, the CSU Annual Investment Report will be distributed to the State Legislature and the Department of Finance per state law.

The IAC, Chancellor’s Staff, and Meketa discussed the content and format of the CSU Annual Investment Report. Upon further consideration and a motion duly made and seconded, the IAC approved the CSU Annual Investment Report for the Fiscal Year End 2022/2023.

## **Break**

## **Item VI: TRP / High Yield Manager Search – Action**

At the April 2023 meeting, Chancellor’s Staff and Meketa presented some concerns to the IAC regarding the TRP’s existing High Yield Fixed Income manager, Lord Abbett. Chancellor’s Staff and Meketa conducted a detailed review of Lord Abbett, including an onsite to Lord Abbett in June of 2023. At the conclusion of the review, the decision was made to conduct a search for replacement High Yield manager(s). Item VI discussed the asset class overview, the outlook for High Yield Fixed Income, and a review of the investment manager search and recommendation by Meketa and Chancellor’s Staff for IAC approval of new high yield fixed income investment managers.

Chancellor’s Staff and Meketa conducted two separate rounds of due diligence meetings over several months with the investment teams from each investment manager candidate. The first round was held at the Chancellor’s Office with ten high yield managers. Chancellor’s Staff and Meketa collaborated to narrow the list to five managers. Chancellor’s Staff met with the finalist candidates on-site at the investment managers’ respective offices to further evaluate the investment management teams and supporting resources. Chancellor’s Staff and Meketa discussed in depth the merits of each investment manager to collaborate on the final recommendations.

Meketa’s head of fixed income research presented the results of the search and a detailed comparison of the recommended investment managers to the IAC members. Chancellor’s Staff also provided comparative information on each investment manager candidate.

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

- Nomura High Yield Total Return (NPHIX) (70% of High Yield Fixed Income; 4.2% of the TRP)
- Brigade Traditional High Yield (3c7 Fund\*) (20% of High Yield Fixed Income; 1.2% of the TRP)
- Polen US Opportunistic High Yield(DDJIX) (10% of High Yield Fixed Income; 0.6% of the TRP)<sup>3</sup>

This recommended structure allows for an allocation to a market beta “traditional” high yield manager (Nomura) paired with two complimentary, “opportunistic” managers (Brigade and Polen) that have the potential to generate alpha in their high yield allocations in addition to allocations in off benchmark sectors.

\* A 3(c)(7) fund is a pooled investment vehicle that is limited to investors that are qualified purchasers and otherwise meets criteria outlined in Section 3(c)(7) of the Investment Company Act. California Education Code 89724 and 89725 allows the TRP to invest in “institutional comingled funds, including comingled trust funds, offered by investment advisors registered with, and under the regulatory authority of, the United States Securities and Exchange Commission.” A 3(c)(7) fund is a type of comingled fund, as described.

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<sup>3</sup> Chancellor’s Staff and Meketa noted the 70/20/10 split between Nomura, Brigade, and Polen may change over time depending on market volatility and rebalancing activity. There may be times when the opportunistic allocation Brigade and/or Polen is significantly more or less than the combined 30% shown above.

**Item VII: TRP Investment Policy Review – Action**

The annual TRP Investment Policy review contained recommended revisions to both the TRP Asset Allocation (Targets and Ranges) as well as the TRP Policy Benchmark. These changes incorporated the revisions to the TRP Investment Policy related to changes to the real assets allocation approved by the IAC at the August 9, 2023 meeting. Once complete, the real assets holdings will be weighted as follows: 4% Materials, 7% REITS, and 4% Infrastructure. The revised TRP Policy Benchmark includes a glide path for the incremental adjustments to the allocation over several months.

There was an additional change to Section IX of the TRP Investment Policy, removing the signature block for the IAC Chair and simply stating that the IAC has reviewed, approved, and adopted the TRP Investment Policy.

Finally, Section II of Attachment A, the CSU Total Return Portfolio Investment Beliefs, was amended to include institutional comingled funds offered by advisors registered with the SEC, SEC-registered exchange-traded-funds, and SEC-registered and publicly traded REITs as additional investment vehicles that the TRP may be invested in. Section II was also revised slightly stating that the majority of TRP investments are expected to have daily liquidity.

Upon a motion duly made and seconded, the revision to the TRP Investment Policy was approved by the IAC as recommended.

The next meeting is scheduled for January 24<sup>th</sup>, 2023, at 11:00 am at the Chancellor’s Office.

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