

401 Golden Shore, 5th Floor  
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**Steve Relyea**  
Executive Vice Chancellor  
and Chief Financial Officer

562-951-4600  
srelyea@calstate.edu

November 18, 2024

Scott Wiener  
Joint Legislative Budget Committee  
1021 O Street, Suite 8620  
Sacramento, CA 95814

Gabriel Petek  
Legislative Analyst Office  
925 L Street, #1000  
Sacramento, CA 95814

Joe Stephenshaw, Director  
Department of Finance  
1021 O Street, Suite 3110  
Sacramento, CA 95814

Erika Contreras  
Secretary of the Senate  
State Capitol, Room 307  
Sacramento, CA 95814

Cara L. Jenkins  
Legislative Counsel  
1021 O Street, Suite 3210  
Sacramento, CA 95814

Sue Parker  
Chief Clerk of the Assembly  
State Capitol, Room 319  
Sacramento, CA 95814

## **RE: CSU Annual Investment Report**

This report is the CSU Annual Investment Report for the Fiscal Year Ended June 30, 2024.

We are pleased to note in this report the positive impact of CSU's Total Return Portfolio (TRP) which was created by authority granted under SB 1412 of 2016. Proceeds from this portfolio, as required by Ed Code 89726, have resulted in \$313.4 million in one-time distributions to campuses for capital outlay or maintenance needs since 2018.

The CSU Annual Investment Report is being provided to the California State Legislature and Department of Finance as required by Education Code 89726.

Should you have any questions about this report, please contact Nathan Dietrich, Assistant Vice Chancellor, Advocacy and State Relations at (916) 445-5983.

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**CSU Campuses**  
Bakersfield  
Channel Islands  
Chico  
Dominguez Hills  
East Bay

Fresno  
Fullerton  
Humboldt  
Long Beach  
Los Angeles  
Maritime Academy

Monterey Bay  
Northridge  
Pomona  
Sacramento  
San Bernardino  
San Diego

San Francisco  
San José  
San Luis Obispo  
San Marcos  
Sonoma  
Stanislaus

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November 18, 2024

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Sincerely,



Steven Relyea (Nov 20, 2024 10:51 PST)

Steve Relyea  
Executive Vice Chancellor and  
Chief Financial Officer

SR:dr

Full report posted to <https://www.calstate.edu/impact-of-the-csu/government/Advocacy-and-State-Relations/Pages/legislative-reports.aspx>

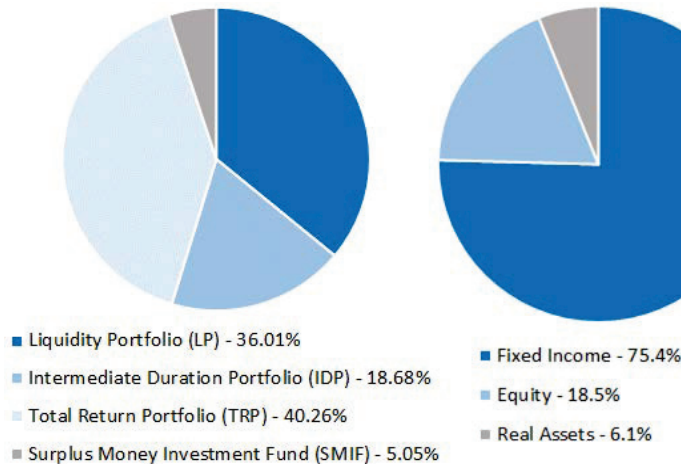
- c: Members, California State Legislature  
Members, Joint Legislative Budget Committee  
Natalie Gonzalez, Fiscal & Policy Analyst, Legislative Analyst Office  
Nathan Evans, Deputy Vice Chancellor, Academic and Student Affairs  
Dilcie Perez, Deputy Vice Chancellor, Academic and Student Affairs  
Greg Saks, Vice Chancellor, External Relations & Communications  
Nathan Dietrich, Assistant Vice Chancellor, Advocacy and State Relations  
Ryan Storm, Assistant Vice Chancellor, Budget Planning and Advocacy  
Jeni Kitchell, Assistant Vice Chancellor, Finance and Budget Administration/Controller  
Robert Eaton, Assistant Vice Chancellor, Financing, Treasury, and Risk Management

## 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

	<b>Balance</b>	<b>% of CSU Investments</b>
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.

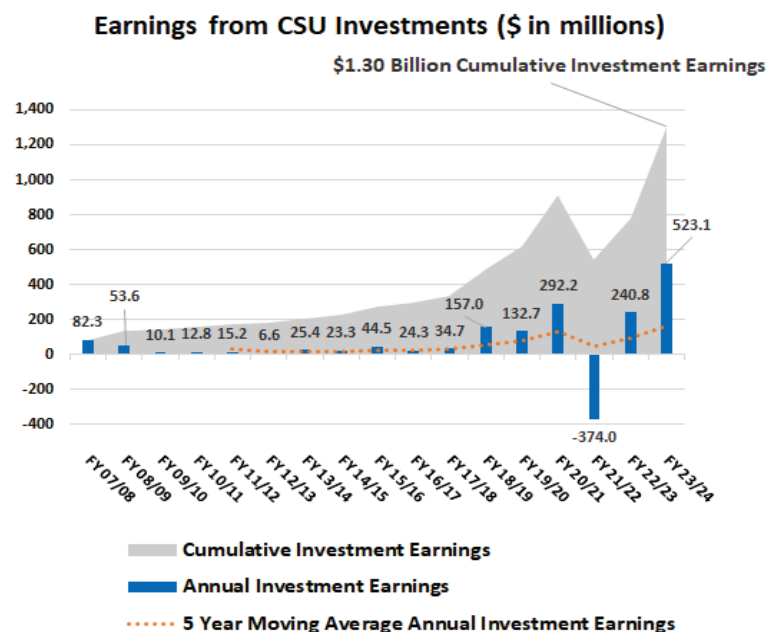
## CSU Consolidated Investment Portfolio

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

	CSU Consolidated Investment Portfolio	CSU Total Return Portfolio (TRP)	CSU Intermediate Duration Portfolio (IDP)	CSU Liquidity Portfolio (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%		

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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>	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%

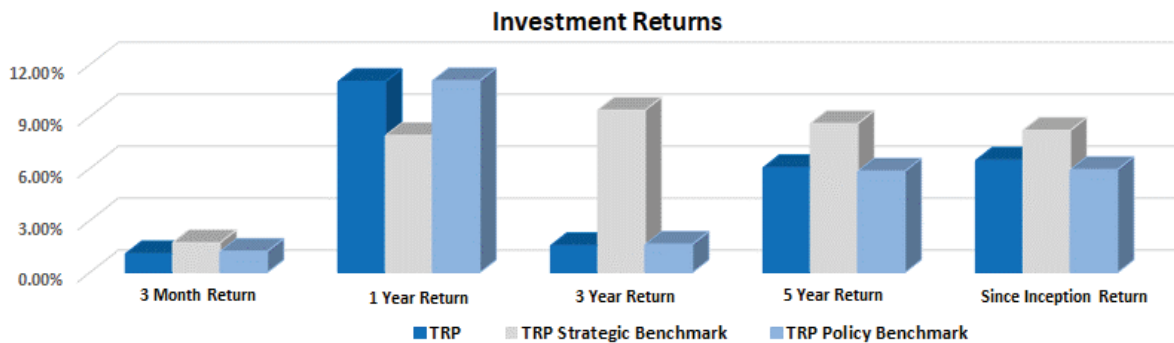
<sup>7</sup> Benchmark for the IDP is 50% Bloomberg Barclays US Corporate 1-10 Year A or Better Ex-Yankee / 30% Bloomberg Barclays US MBS / 20% Bloomberg Barclays US Intermediate Treasury Index.

<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.



	<b>CSU Total Return Portfolio</b>	<b>Strategic Benchmark<sup>10</sup></b>	<b>Policy Benchmark<sup>11</sup></b>
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)

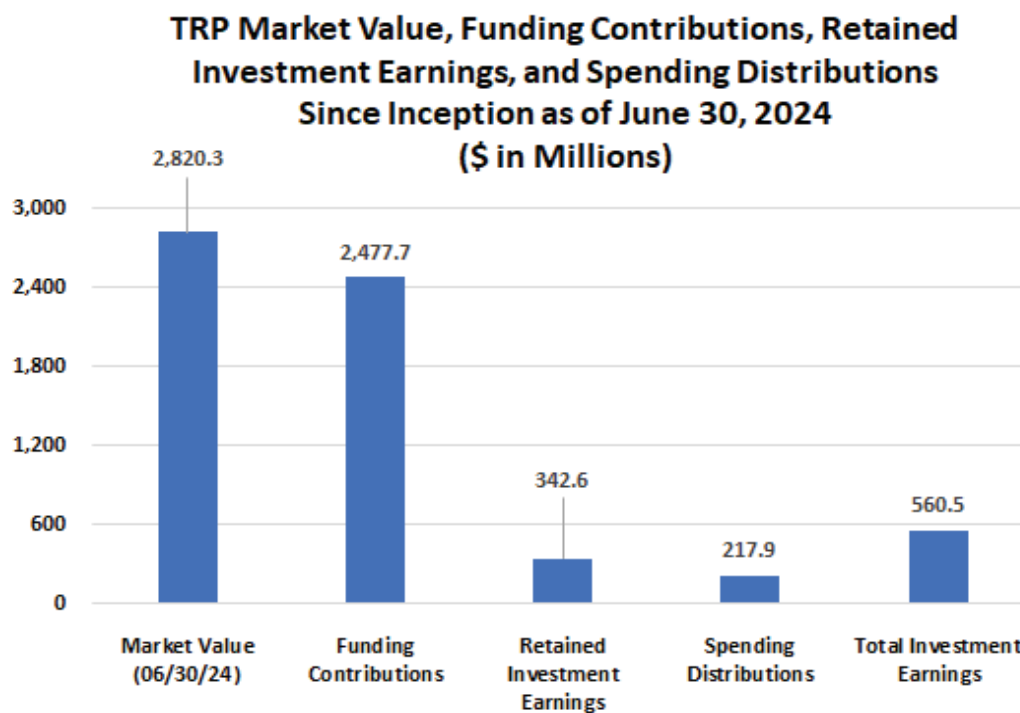
Asset Class	Strategy Name	Ticker	Value (millions)			Median Fee Per Asset Class
<b>Fixed Income</b>						
	Vanguard Total Bond Market Index Fund	VBMPX	618.5	21.93%	0.03%	0.44%
	Vanguard Inflation-Protected Securities Fd	VIPIX	140.7	4.99%	0.07%	0.44%
	American Century High Income Fund	NPHIX	152.9	5.42%	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.