

AGENDA
COMMITTEE ON FINANCE

Meeting: **1:00 p.m., Tuesday, May 12, 2020**
Virtually via Teleconference

Lillian Kimbell, Chair
Jack McGrory, Vice Chair
Larry L. Adamson
Jane W. Carney
Rebecca D. Eisen
Juan F. Garcia
Hugo N. Morales
Romey Sabalius
Lateefah Simon
Peter J. Taylor

- Consent** 1. Approval of Minutes of the Meeting of March 24, 2020, *Action*
 2. California State University Quarterly Investment Report, *Information*
- Discussion** 3. California State University Fiscal Status Report, *Information*
 4. California State University Doctorate of Occupational Therapy Tuition, *Information*

Action Item
Agenda Item 1
May 12, 2020
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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**

March 24, 2020

Members Present

Lillian Kimbell, Chair
Jack McGrory, Vice Chair
Larry L. Adamson
Jane W. Carney
Rebecca D. Eisen
Juan F. Garcia
Hugo N. Morales
Romey Sabalius
Lateefah Simon
Peter J. Taylor
Adam Day, Chair of the Board
Timothy P. White, Chancellor

Trustee Lillian Kimbell called the meeting to order.

Public Comment

No public comment was made relating to this committee.

Approval of Minutes and Consent Agenda

The minutes of the January 28, 2020 meeting of the Committee on Finance and consent agenda were approved as submitted.

Trustee Kimbell adjourned the meeting of the Finance Committee.

***PLEASE NOTE: Due to the Governor's proclamation of a State of Emergency resulting from the threat of COVID-19, and pursuant to the Governor's Executive Orders N-25-20 and N-29-20 issued on March 12, 2020 and March 17, 2020, respectively, all members of the Board of Trustees may participate in meetings remotely, either by telephonic or video conference means. Out of consideration for the health, safety and well-being of the members of the public and the Chancellor's Office staff, the March 24, 2020 meeting of the CSU Board of Trustees was conducted entirely virtually via Zoom teleconference.**

COMMITTEE ON FINANCE

California State University Quarterly Investment Report

Presentation By

Steve Relyea
Executive Vice Chancellor and
Chief Financial Officer

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

Summary

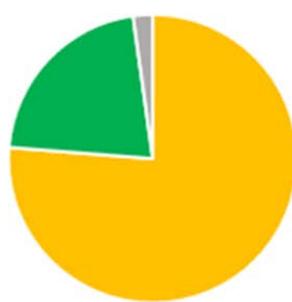
This item provides the quarterly investment report to the California State University Board of Trustees for the fiscal quarter ended December 31, 2019. The information in Attachment A provides the entire quarterly investment report regarding CSU investments as required by Education Code 89726.

Background

Pursuant to the California State University Master Investment Policy (included as Attachment B) CSU investments as of December 31, 2019 consisted of investments in the Liquidity Portfolio (Systemwide Investment Fund Trust or SWIFT), 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 \$1.14 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, 2019

	<u>Balance</u>	<u>% of CSU Investments</u>	<u>Twelve Month Returns</u>
Liquidity Portfolio (SWIFT)	\$3.487 billion	76.3%	3.05%
Total Return Portfolio (TRP)	\$985.1 million	21.5%	19.99%
Surplus Money Investment Fund (SMIF)	\$101.1 million	2.2%	2.03%
CSU Investments	\$4.57 billion		100%



- Liquidity Portfolio (SWIFT) - 76.3%
- Total Return Portfolio (TRP) - 21.5%
- Surplus Money Investment Fund (SMIF) - 2.2%



- Fixed Income - 86.8%
- Equity - 9.9%
- Real Assets - 3.3%

CSU Investment Portfolios

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

CSU Liquidity Portfolio (Systemwide Investment Fund Trust or SWIFT)

The purpose of the Liquidity Portfolio is to provide sufficient and immediate liquidity to meet the operating needs of the CSU. The investment objective is safety of principal and liquidity.

The Liquidity Portfolio is managed through contracts with two investment management firms, US Bancorp Asset Management and Wells Capital Management, each of whom provides investment management services for the program. While the custodian, US Bank, holds the funds invested in the Liquidity Portfolio, 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 Liquidity Portfolio investment policy. Consistent with state law, the Liquidity Portfolio is restricted to high quality, fixed income securities.

CSU Total Return Portfolio (TRP)

Legislation effective January 1, 2017, expanded the CSU investment authority to allow investment in mutual funds (including equity mutual funds) and real estate investment trusts. The Total Return Portfolio was created to take advantage of the new investment authority.

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.

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 thirty 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
Risk Tolerance	Framework
Expected Return	Risk Management
Asset Allocation	Monitoring and Control Procedures
Benchmarks	

The IAC has adopted an investment schedule for the TRP that utilizes a dollar-cost averaging approach and provides regular monthly contributions to the TRP. An initial investment of \$33.5 million into the TRP was made on April 1, 2018, with the goal of reaching the fiscal year 2018-2019 statutory limit of \$600 million in the first half of 2019. Since June 30, 2019, a new investment schedule was adopted by the IAC and staff, with the goal of funding the TRP to as much as 30 percent of CSU investments by mid-2020. The investment schedule may also be adjusted by the IAC at any time depending on market conditions.

Since the TRP inception date¹ through December 31, 2019, the TRP investment earnings were approximately \$85.1 million. During this period, the TRP total return exceeded the Liquidity Portfolio (SWIFT) total return by 6.65 percent annualized (net of fees) or \$64.8 million cumulative during the time period.

¹ The TRP inception date was April 1, 2018.

Finally, in October 2019, the IAC approved the first annual TRP Spending Dividend of approximately \$22.4 million which was allocated to the campuses for capital outlay or maintenance. Consistent with state law and specifically, Education Code 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.

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. In order to facilitate certain expenditures, the CSU maintains small amounts of funds with the State. The portfolio includes Certificates of Deposit, Treasuries, Commercial Paper, Corporate Bonds, and U.S. Government Agencies.

Next Steps

Staff will continue implementing the TRP investment schedule with oversight from the IAC. Staff is also working on developing the Intermediate Duration Portfolio, consistent with the CSU Master Investment Policy, however the implementation timeline for this portfolio has been delayed due to developments related to COVID-19. The next investment report is scheduled for the September 2020 Board of Trustees meeting and will provide information on the fiscal quarter ending March 31, 2020.

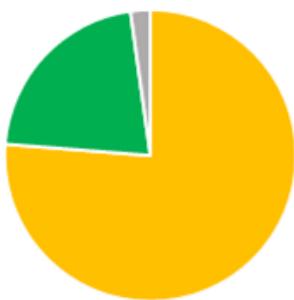
CSU Quarterly Investment Report

For the Fiscal Quarter Ended December 31, 2019

CSU investments as of December 31, 2019 consisted of investments in the CSU Liquidity Portfolio (Systemwide Investment Fund Trust or SWIFT), 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 \$1.14 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, 2019

	Balance	% of CSU Investments
Liquidity Portfolio (SWIFT)	\$3.487 billion	76.3%
Total Return Portfolio (TRP)	\$985.1 million	21.5%
Surplus Money Investment Fund (SMIF)	\$101.1 million	2.2%
CSU Investments	\$4.57 billion	100%



- Liquidity Portfolio (SWIFT) - 76.3%
- Total Return Portfolio (TRP) - 21.5%
- Surplus Money Investment Fund (SMIF) - 2.2%



- Fixed Income - 86.8%
- Equity - 9.9%
- Real Assets - 3.3%

For the quarter ended December 31, 2019, direct investment management fees¹, advisory, and custodial fees totaled just over \$1.1 million, or about 0.024 percent (2.4 basis points) on CSU investments total balance as of December 31, 2019.

¹ 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 4.

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CSU Consolidated Investment Portfolio Returns

The performance returns below are for the CSU Consolidated Investment Portfolio which includes the Liquidity Portfolio (SWIFT) and the Total Return Portfolio (TRP).²

CSU Consolidated Investment Portfolio	
1 Year Annualized Return ³	4.98%
3 Year Annualized Return	2.37%
5 Year Annualized Return	1.74%
10 Year Annualized Return	1.17%
Annualized Since Inception Return ⁴	1.54%

CSU Liquidity Portfolio (Systemwide Investment Fund Trust or SWIFT)

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

	CSU Liquidity Portfolio	Benchmark⁵
1 Year Annualized Return ⁶	3.05%	3.25%
3 Year Annualized Return	1.91%	1.83%
5 Year Annualized Return	1.47%	1.34%
10 Year Annualized Return	1.03%	1.08%
Annualized Since Inception Return ⁷	1.43%	1.68%
Yield	1.75%	1.62%
Duration (Years)	1.13	1.48
Average Credit Rating	AA-	Aaa/AA+

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

Treasuries	42.72%	CD's and Cash Equivalents	6.94%
U.S. Corporate Bonds	28.26%	Asset-Backed Securities	2.16%
U.S. Government Agencies	19.84%	Municipal Obligations	0.08%

² CSU Consolidated Investment Portfolio returns will also include the Intermediate Duration Portfolio (IDP) once this portfolio is incepted. CSU Consolidated Investment Portfolio returns exclude SMIF.

³ CSU Consolidated Investment Portfolio Returns reported gross of fees and as total return, including income and gains (realized and unrealized).

⁴ Inception Date for the CSU Consolidated Investment Portfolio (SWIFT) was July 1, 2007.

⁵ Benchmark for the CSU Liquidity Portfolio (SWIFT) is the Bank of America Merrill Lynch 0-3 Year Treasury Index.

⁶ CSU Liquidity Portfolio (SWIFT) Returns reported gross of fees and as total return, including income and gains (realized and unrealized).

⁷ Inception Date for the CSU Liquidity Portfolio (SWIFT) was July 1, 2007.

CSU Total Return Portfolio (TRP)

The purpose of the Total Return Portfolio 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 Return Portfolio	Strategic Benchmark⁸	Policy Benchmark⁹
3 Months Return	4.91%	1.26%	5.14%
1 Year Return	19.99%	6.85%	19.53%
Annualized Since Inception Return ¹⁰	9.32%	6.42%	8.00%

Since the TRP Inception date through December 31, 2019, the TRP investment earnings were approximately \$85.1 million. During this period, the TRP total return exceeded the Liquidity Portfolio (SWIFT) total return by 6.65% annualized (net of fees) or \$64.8 million cumulative during the time period.

Finally, in October 2019, the CSU Investment Advisory Committee approved the first annual TRP Spending Dividend of approximately \$22.4 million. The TRP Spending Dividend was allocated to the campuses for capital outlay or maintenance in November 2019. Consistent with state law and specifically, Education Code 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.

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

Equity Mutual Funds	46.1%	Passive Index Mutual Funds	74%
Fixed Income Mutual Funds	38.8%	Actively Managed Mutual Funds	26% ¹¹
Real Asset Mutual Funds	15.1%		

⁸ The TRP Strategic Benchmark is Inflation (Core Consumer Price Index) plus 4.5% per annum. The long-term rate of inflation is assumed at 2.5% per annum.

⁹ The TRP Policy Benchmark is a blend of passive indices whose weights match the TRP target asset allocation.

¹⁰ TRP Inception Date was April 1, 2018.

¹¹ 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.

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Values, Holdings & Fees (CSU Total Return Portfolio)

Asset Class	Strategy Name	Ticker	Value (millions)	% of Total Return Portfolio	TRP Fund Expense Ratio (Fee)	Universe Median Expense Ratio (Fee)
Fixed Income						
	Vanguard Total Bond Market Index Fund	VBMPX	215.5	22%	0.030%	0.450%
	Vanguard Inflation-Protected Securities Fund	VIPIX	48.9	5%	0.070%	0.450%
	Lord Abbett High Yield Fund	LHYOX	59.0	6%	0.600%	0.720%
	Pacific Funds Floating Rate Income Fund	PLFRX	29.3	3%	0.720%	0.755%
	Payden Emerging Markets Bond Fund	PYEIX	14.7	1.5%	0.690%	0.850%
	T. Rowe Emerging Markets Bond Fund	TREBX	14.7	1.5%	0.700%	0.850%
Equity						
	Vanguard Total Stock Market Index Fund	VSMPX	236.4	24%	0.020%	0.760%
	Vanguard Developed Markets Index Fund	VDIPX	118.1	12%	0.040%	0.900%
	Driehaus Emerging Markets Growth Fund	DIEMX	59.8	6%	1.180%	1.150%
	DFA Emerging Markets Value Fund	DFEVX	29.6	3%	0.540%	1.150%
	RWC Global Emerging Equity Fund	RWCEX	10.0	1%	1.250%	1.150%
Real Assets						
	Vanguard Real Estate Index Fund	VGSNX	69.8	7%	0.100%	0.900%
	Vanguard Energy Index Fund	VENAX	20.0	2%	0.100%	0.990%
	Vanguard Materials Index Fund	VMIAX	19.8	2%	0.100%	0.950%
	First State Global Listed Infrastructure Fund	FLIIX	39.3	4%	0.950%	0.990%
Cash			0.2	0%	NA	NA
Total			985.1	100%		

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 Yield¹²

Trailing 12 month as of 12/31/19	2.03%
Average (FY 06/30/07 – FYE 12/31/19)	1.14%

¹² Annual Yield calculated by CSU Treasury Operations based on the quarterly apportionment yield rates published by the State Controller's Office.



Master Investment Policy

For The California State University

Approved on November 8, 2017
By The Board of Trustees of The California State University

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I. Scope and Purpose

This California State University Master Investment Policy (“MIP”) governs the investment of California State University (“CSU”) funds. CSU investments are centrally managed on behalf of the CSU System and its campuses.

The purpose of the MIP, together with investment policies that govern individual Portfolios (as defined in Section IV) and are created pursuant to delegated authority contained herein, is to provide a framework for the investment of CSU funds consistent with the goals of the CSU Board of Trustees (the “Board”) and the educational mission of the CSU.

The MIP sets forth objectives, guidelines, and responsibilities that the Board deems to be appropriate and prudent in consideration of the needs of, and the legal requirements applicable to, the CSU’s investment program. The MIP is also intended to ensure that the Board, and any parties to whom the Board delegates authority, are fulfilling their fiduciary responsibilities in the oversight of CSU investments.

The MIP is a dynamic document and will be reviewed from time to time. The MIP will be modified, if necessary, to reflect the changing nature of the CSU’s assets and investment program, organizational objectives, and economic conditions.

II. Compliance with Law and Adherence to Policy

CSU investments are to be managed in full compliance with all applicable laws, rules, and regulations from various local, state, federal, and international political entities that may impact the CSU’s assets, including but not limited to the provisions of the California Education Code and California Government Code applicable to the investment of CSU funds, and in accordance with the policy objectives, guidelines, and responsibilities expressed herein.

III. Background and Investment Objectives

The investment objectives for the investment of CSU funds have been established in conjunction with a comprehensive review of current and projected financial requirements. The Board desires to provide the Chancellor, the Chancellor’s Staff, and the IAC (as defined in Section V) with the greatest possible flexibility to maximize investment opportunities. However, as agents of the Board, the Chancellor, the Chancellor’s Staff, and the IAC must recognize the fiduciary responsibility of the Board to conserve and protect the assets of the CSU investment program, and, by prudent management, prevent exposure to undue and unnecessary risk.

The following objectives shall govern the investment of CSU funds:

1. Safeguard the principal.
2. Meet the liquidity needs of the CSU.
3. Obtain the best possible return commensurate with the degree of risk the CSU is willing to assume in obtaining such return.

The Board acknowledges that these objectives may be weighted or prioritized differently for individual Portfolios depending upon the purpose of the Portfolio.

IV. Investment Portfolios

Consistent with its investment objectives, the Board has determined that CSU funds may be invested in three investment portfolios (individually, a “Portfolio” and together, the “Portfolios”) created by the CSU, with oversight by the Chancellor, the Chancellor’s Staff, and the IAC, and each with its own investment policy.

The three Portfolios and general purpose of each Portfolio are as follows:

Liquidity Portfolio (Systemwide Investment Fund—Trust or “SWIFT”)

The purpose of this Portfolio is to provide sufficient and immediate liquidity to meet the operating needs of the CSU. The investment objectives for this Portfolio shall be safety of principal and liquidity. The existing CSU Systemwide Investment Fund—Trust (SWIFT) shall serve as the Liquidity Portfolio and shall be comprised of investments authorized pursuant to California Government Code Sections 16330 or 16430.

Intermediate Duration Portfolio (IDP)

The purpose of this Portfolio is to provide opportunity for modest, additional risk adjusted returns on CSU funds not needed for immediate liquidity. The investment objectives for this Portfolio shall be safety of principal, liquidity and return. The Intermediate Duration Portfolio shall be comprised of investments authorized pursuant to California Government Code Sections 16330 or 16430.

Total Return Portfolio (TRP)

The purpose of this Portfolio is to provide opportunity for additional risk adjusted returns on CSU funds over a full market cycle. The investment objectives for this Portfolio shall be to achieve a prudent total return within a moderate risk level. The Total Return Portfolio shall be comprised of investments authorized pursuant to

California Government Code Sections 16330, or 16430 or California Education Code Sections 89724 or 89725.

The acceptable allocations for the Portfolios are as follows:

<u>Portfolio</u>	<u>Min – Target – Max</u>
Liquidity – Systemwide Investment Fund Trust (“SWIFT”)	5% - 20% - 100%
Intermediate Duration Portfolio (“IDP”)	0% - 52% - 95%
Total Return Portfolio (“TRP”)	0% - 28% - 30%¹

In addition, the CSU may invest any amount (from 0% to 100%), in any California State Treasury investment option, available now, or in the future, that the IAC and the Staff deem prudent, including, but not limited to:

- Surplus Money Investment Fund (SMIF)
- Local Agency Investment Fund (LAIF)

V. Roles and Responsibilities

Board of Trustees

The Board assumes fiduciary responsibility to conserve and protect the investment assets of the CSU, and by prudent management, to prevent exposure to undue and unnecessary risk. However, the Board also acknowledges investments are inherently risky with risk of loss and, as such, are viewed with a long-term time horizon.

As a fiduciary, the primary responsibilities of the Board are to:

1. Maintain and approve the MIP.

¹ Percentage allocations to the TRP are subject to annual phase-in restrictions through June 30, 2020 per state law.

2. Ensure that CSU investments are prudently diversified in order to obtain the best possible return commensurate with the degree of risk that the CSU is willing to assume.
3. Report annually to the California state legislature and the California Department of Finance regarding the investment of CSU funds.

The Board shall have oversight responsibility for investment of the assets and has delegated investment authority to the Chancellor, the Chancellor's Staff, and the IAC.

Chancellor and Chancellor's Staff

As agents of the Board, the Chancellor, the Executive Vice Chancellor and Chief Financial Officer, the Assistant Vice Chancellor responsible for CSU investments, and their designees (the "Chancellor's Staff"), recognize the fiduciary responsibility of the Board to conserve and protect the investment assets of the CSU and, by prudent management, to prevent exposure to undue and unnecessary risk.

The Chancellor and the Chancellor's Staff are hereby authorized to establish policies and procedures to implement the provisions of this MIP, including, but not limited to, the following activities:

1. Overseeing and implementing general administrative and investment operations for the Portfolios.
2. Informing the IAC on the overall investments of the CSU and each of the Portfolios to assist the IAC in fulfilling its duties.
3. Developing and implementing policies that are suitable for achieving the strategic objectives for each Portfolio, including coordination with the IAC in developing and implementing policies for the TRP.
4. Selecting, contracting with, and monitoring third party service providers, including, but not limited to, investment advisors, investment managers, and custodians. For the TRP, such actions will be based on the recommendations of the IAC.
5. Directing the investment of funds, including the ordering of purchase and sale transactions to, from and between the Portfolios to meet investment objectives and strategic asset allocations.

6. Monitoring and reviewing the performance of the Portfolios to their stated objectives.
7. Reporting to the Board regarding the investment of CSU funds as requested, but no less than quarterly.
8. Controlling and accounting for all investment, record keeping, and administrative expenses associated with the Portfolios.
9. Identifying the need for updates, monitoring the Portfolios for legal and policy compliance, and acting on the recommendations of the IAC, as appropriate.
10. All other duties designated or delegated by the Board or the IAC.

Investment Advisory Committee

As required by state law, the CSU has created an Investment Advisory Committee (the “IAC”), to provide investment advice and expertise to the Board, particularly with respect to the management of the TRP.

The IAC shall be an advisory body and shall make recommendations, as appropriate, to the Board for approval or to the Chancellor and the Chancellor’s Staff for implementation. The IAC shall be responsible for overseeing all aspects of the TRP and is hereby authorized to recommend policies and procedures for the creation and implementation of the TRP, including, but not limited to, the following activities:

1. Understanding the overall investments of the CSU and each of the Portfolios as informed by the Chancellor’s Staff, investment advisors and/or investment managers.
2. Developing and approving an IAC charter to establish guidelines for operations of the IAC.
3. Developing, approving, and overseeing the implementation of an investment policy statement for the TRP.
4. Reviewing and approving target asset allocations and ranges for the TRP.
5. Monitoring and reviewing the performance of the TRP to its stated objectives.
6. Prudently reviewing, selecting, monitoring, and replacing investment management firms engaged to manage the TRP’s assets.
7. Monitoring and supervising all service vendors and fees for the TRP.

8. Any other investment or administrative duties deemed necessary to prudently oversee the investment program for the TRP.

Prudence, Ethics and Conflict of Interest

All participants in the investment process shall act responsibly. The standard of prudence applied by the Board, the Chancellor, the Chancellor's Staff, and the IAC, as well as any external service providers, shall be the "prudent investor" rule. The "prudent investor" rule in part, states, "A trustee shall invest and manage trust assets as a prudent investor would, by considering the purposes, terms, distribution requirements, and other circumstances of the trust. In satisfying this standard, the trustee shall exercise reasonable care, skill and caution. A trustee's investment and management decisions respecting individual assets must be evaluated not in isolation but in the context of the trust portfolio as a whole and as part of an overall investment strategy having risk and return objectives reasonably suited to the trust."

Furthermore, all participants in the investment process shall use the same care, skill, prudence, and due diligence under the circumstances then prevailing that a prudent person acting in a like capacity and fully familiar with such matters would use in the conduct of an enterprise of like activities for like portfolios with like aims and in accordance and compliance and all other applicable laws, rules and regulations.

All investment personnel shall refrain from personal business activity which could create a conflict with proper execution of the investment program, or which could impair the ability to execute impartial investment decisions. All investment personnel shall disclose to the Chancellor's Staff or the IAC any material financial interests in financial institutions which conduct business within the jurisdiction and shall disclose any material financial investment positions which could be related in a conflicting manner to the performance of the Portfolios. All investment personnel shall report any potential conflicts of interest consistent with Government Code Section 87200. Further, the Chancellor shall report to the Board in writing any issues that could reflect any conflict in the performance of the Portfolios.

Document Acceptance of the Investment Policy Statement

The Chancellor's Staff shall provide a copy of this MIP, and the relevant Portfolio investment policy, to each firm retained to provide investment services to the CSU and each such firm shall acknowledge in writing receipt of the document and accept its content.

VI. Environmental, Social and Governance Framework

Attachment B

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The Board acknowledges the importance of understanding the potential risks and value that environmental, social, and governance (“ESG”) factors may have on CSU investments. Therefore, the Board expects that the consideration of ESG factors shall be integrated into the investment decision processes of the CSU.

Approved:

The California State University Board of Trustees

November 8, 2017

COMMITTEE ON FINANCE

California State University Fiscal Status Report

Presentation By

Steve Relyea
Executive Vice Chancellor and
Chief Financial Officer

Ryan Storm
Assistant Vice Chancellor
Budget

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

Summary

The Coronavirus (COVID-19) pandemic has adversely impacted the state and the California State University in many areas and ways. This information item and presentation will focus primarily on the financial impacts of COVID-19 on the CSU. Due to the rapidly changing circumstances, an updated report from several business and finance subject matter experts will be presented at the May 2020 meeting. The presentation will include information on: campus impact and actions, federal stimulus and relief programs, the state budget, financial markets and investments, and cash position.

Background

Campus Fiscal Impact and Actions

Since the start of COVID-19, a number of intentional actions and unintentional impacts have affected the 23 campuses in these three general areas: CSU operations (e.g. academic programs, student services, and central plant), CSU enterprise programs (e.g. housing, parking, and professional and continuing education) and non-profit auxiliary organizations (e.g. associated students, foundations, bookstores and other business services). Each area has been affected differently.

Beginning with CSU operations, campuses report \$50 million of adverse negative impact with much of that in the form of unanticipated costs. Concerns over the virus itself have created additional cleaning and overtime costs. There has also been a shift to virtual/distance instruction and work at home arrangements, which has increased technology needs for hardware, software,

and licenses. While the \$50 million represents less than one percent of the annual operating budget, there is significant risk to operations in the future. State tax revenue will suffer and support of the university could be reduced later this year while at the same time costs will be increasing. This is creating tremendous fiscal and enrollment planning challenges for system and campus leaders.

CSU enterprise programs losses reported by campuses total \$173 million resulting from very significant, negative impacts. Revenue loss is the primary challenge. For example, most students have vacated on-campus housing and few students and employees are utilizing on-campus parking. CSU enterprise programs like student housing and parking are self-supported by user fee revenue. Employees who work in enterprise programs are state employees and many are covered by collective bargaining agreements. If existing conditions persist into the summer and fall, one of the many challenges the CSU could face is the potential for additional, significant, and precipitous revenue drops. It would be challenging for campuses to reduce costs because of the adverse impact it would have on the employees of those enterprise programs.

Auxiliary organizations, which are separate 501(c)(3) non-profit organizations, have also suffered significant revenue losses totaling \$114 million. Auxiliary organizations have been especially affected by the loss of “foot traffic” and in-person gatherings on campuses, resulting in steep revenue losses, reduced hours, and in some cases layoffs. Like CSU operation and self-support enterprise programs, auxiliary organization operations confront significant risks if existing conditions persist.

As a result of COVID-19, campuses and auxiliary organizations estimate a total of \$337 million of new costs and revenue losses for the 2020 Spring term.

Campuses are taking steps to mitigate these impacts. They are analyzing their operations, their liquidity, and adjusting their costs to the best respond to the effects of the virus.

State Budget

COVID-19 and its effect on the U.S. and California economies will have negative ripple effects on the state budget and the CSU.

One effect is on proposed expenditures. In March, the governor’s administration shared that the severe drop in economic activity could have an immediate impact on tax revenues affecting the 2019-2020 fiscal year, and will impact the 2020-2021 fiscal year and beyond. As a result, the governor’s administration reports that it will reevaluate all budget proposals included in the governor’s January budget, which included the proposed \$199 million recurring for the CSU in 2020-2021. This is a striking development since Fall 2019 when the trustees requested a \$563.8 million recurring state funding increase. The state’s economy and tax revenues had been climbing steadily since 2012-2013 and the prospects for continued economic growth for 2020-2021 were good at the time the trustees finalized their request and when the governor proposed his 2020-2021 budget plan in January 2020.

Another effect is on the timing of the state budget. The typical state budget timeline has been delayed by a minimum of three months. The federal Internal Revenue Service and the state Franchise Tax Board extended the tax filing date from April 15 to July 15. At the time of this writing, it appears that the state will adopt a two-phase approach to the 2020-2021 state budget. Phase 1 will include the typical governor's May Revision and the likely adoption of an interim, baseline state budget in June. Phase 2 would be an amendment to the June baseline budget that will likely include a governor's "August Revision" and, presumably, a final, amended budget sometime in Fall 2020.

There are several key questions that will not be answered for several months: (1) How severe will the effects of COVID-19 be on the current and future state budget, and what will that mean for state investments in the CSU? (2) To what extent will the state's multi-billion dollar reserve mitigate the need for budget reductions? (3) How will a final Fall 2020 state budget—effectively a mid-year budget—disrupt CSU campuses in budget planning and immediate operations?

Federal Stimulus and Relief Programs

To combat the effects of COVID-19, House Resolution 748, the Coronavirus Aid, Relief, and Economic Security (CARES) Act, became law on March 27, 2020. The law provided approximately two trillion dollars of nationwide financial relief and made many changes to federal law to address the crisis. Specific to federal financial assistance available to the CSU, two items stand out.

First, the U.S. Department of Education is providing grants directly to CSU campuses. Overall, the CARES Act provided approximately \$12.6 billion to all institutions of higher education. CSU campuses will receive \$525.3 million of this one-time funding. Of this total amount, \$262.7 million of CARES Act funds (or 50 percent) must be used for campus COVID-19-related expenses, which is 2.5 percent of the CSU's annual total budget (i.e. operations and enterprises). Campuses are to use these funds to cover lost revenue and reimburse expenses already incurred. Additionally, the other half of the CARES Act funds are for emergency grants for students whose lives have been disrupted by COVID-19. On this latter 50 percent, federal guidance precludes federal funds being provided to undocumented and international students. To ensure that all students are eligible for emergency grants—including undocumented and international students – and receive the financial assistance they need, the chancellor and presidents have elected to augment the federal funds with campus resources to create a "CSU CARES" program. Campuses have applied for these federal funds, are developing or have developed their implementation plans, and some campuses have drawn the funding from their federal accounts.

Second, some CSU auxiliaries have secured loans through the federal Small Business Administration's Paycheck Protection Program, which offers emergency loans for eligible nonprofit organizations and small businesses permitting them to cover costs of payroll, operations, and debt service, and providing that the loans will be forgiven under certain circumstances. CSU

auxiliaries are nonprofit organizations that provide supplemental services and support to campuses such as student bookstores, dining, some student housing, institutes and recreation centers. Many auxiliary organizations applied for this federal program, but only some received an award. The program was first-come, first serve with limited funding available. As of the publication date of this agenda, auxiliaries have been awarded \$34.8 million. This federal funding certainly is helpful to some auxiliaries, but of no help to many others. Further, as reported above, the scope of reported costs and revenue losses to auxiliaries is very large compared to total amount of federal awards.

There are other CARES Act provisions that would have a much smaller direct or indirect impact on the CSU.

Financial Markets

As a result of COVID-19 and its impact on the global and US economy, the financial markets suffered severe disruption, particularly in March of this year. Equity values plunged dramatically, and the debt markets saw significant dislocation with very little ability for corporate and public entities to issue debt. Short term debt markets effectively froze with paper being placed for very short periods of time at very high interest rates. However, efforts by the federal government to pump money into the economy and liquidity into the financial markets have helped open up the financial markets and improve investor confidence. Since April, financial market conditions have improved with equity market values recovering some of their losses and debt issuance activity increasing, albeit at levels lower than pre-COVID-19 conditions.

With respect to accessing the debt markets, the CSU has not been materially impacted by these developments in the financial markets. The CSU issued long term bonds in February, when the financial markets were still operating normally and when long term rates were at record lows. Our next long-term bond sale has been targeted for July 2020 and staff will continue to monitor market conditions, as well as the readiness of projects, to determine if a bond sale at that time is warranted or should be postponed until conditions are better. The CSU also issued commercial paper prior to COVID-19 and the financial market dislocation. As of the publication date of this agenda item, the commercial paper was scheduled to come due on May 6 and given the improvement in financial market conditions, staff expected that the commercial paper would be remarketed without any issues.

With respect to our investments, initially, the overall value of our investments was adversely impacted with the disruption in the financial markets, but as of the publication date of this agenda, CSU investments had improved and the total \$4.7 billion market value of CSU investments included an unrealized gain of approximately \$17 million.

An update on further developments in the financial markets and their impact on the CSU's access to the capital markets and investments since the time of the agenda publication will be provided at the meeting.

Operational Liquidity

In response to COVID-19, the CSU has made a number of key decisions in the interest of serving the educational needs of students, while also protecting the health and safety of students, faculty, and staff. As noted above, some of these decisions have resulted in adverse financial impacts on the CSU and its operations for the fiscal year 2019-2020.

Over a number of years, the CSU has prudently grown reserves to meet certain strategic goals, one of which has been preparation for possible economic uncertainty. The CSU has drawn upon these reserves to maintain operations in programs impacted by COVID-19. The use of reserves cannot be a permanent solution, but they are a valuable asset that can be utilized until such time as other resources become available—for example, CARES Act funding—or until we have a clearer picture of our operational future and can make financial adjustments accordingly.

The CSU has been able to utilize reserves to meet these needs due to the liquidity of our investments. Because of the financial impact of COVID-19 on CSU operations, staff has positioned our investments for greater liquidity than normal in order to meet ongoing operations as needed. As new funds move into the portfolio or as existing securities mature, the funds are invested for much shorter maturities, building cash and liquid assets to meet expected cash outflows in the face of reduced revenues or increased expenditures. In addition, in April 2020, the CSU Investment Advisory Committee decided to reduce the previously planned transfer of \$150 million from the liquidity portfolio into the Total Return Portfolio for the final fiscal quarter of 2019-2020, and instead approved a much more modest transfer plan of \$5 million per month through August 2020 in order to preserve liquidity in the liquidity portfolio.

Staff has also postponed the implementation of the new Intermediate Duration Portfolio to preserve liquidity in the liquidity portfolio.

COMMITTEE ON FINANCE

California State University Doctorate of Occupational Therapy Tuition

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Summary

This information item is presented to the Board of Trustees to recommend authorization of a California State University Doctor of Occupational Therapy Tuition rate. The tuition rate is recommended in order to implement provisions of Assembly Bill (AB) 829 (Bloom), which authorized the CSU to award Doctor of Occupational Therapy (OTD) degrees. Chaptered in the Statutes of 2019, the law authorizes the CSU to charge tuition for occupational therapy doctoral programs at a rate no higher than the University of California's (UC) fee for doctoral programs. It is anticipated that OTD degree programs will be implemented as early as summer/fall term 2023.

Background

The Board of Trustees may establish, adjust, and abolish systemwide tuition and fees, including those for the newly authorized OTD degree programs. On August 30, 2019, Governor Newsom signed into law AB 829, which was codified as California Education Code 66043 and 66043.1 and allows the CSU to offer independently a doctoral degree in occupational therapy. Prior to the passage of the bill, the CSU could only offer OTD programs in partnership with the UC or a California private institution of higher education. CSU OTD degree programs were authorized to focus on preparing occupational therapists to provide health care services.

The recommended OTD tuition rate supports curriculum development and delivery, highly specialized faculty resources, doctoral advising and mentoring, required low-faculty-to-student ratios in supervised clinical settings, program administration, facilities, library resources, provisions for carrying out professional mandates and national professional accreditation, and the creation of a Western Association of Schools and Colleges Senior College and University Commission (WSCUC) - required "doctoral culture," typified by academic rigor, intellectual exchange, and a research-and-scholarship environment appropriate to a doctoral-granting institution.

Education Code 66043 stipulates that the OTD degree programs offered by the CSU shall be distinguished from doctoral programs at the UC. Education Code 66043.1 stipulates that the CSU shall provide any startup and operation funding needed for the degree programs from within existing budgets for academic program support, without diminishing the quality of program support offered to CSU undergraduate programs. Currently the UC does not offer any independent occupational therapy doctoral programs.

Proposed Doctorate of Occupational Therapy Tuition Rate

Based on program-cost analysis conducted in consultation among the Chancellor's Office and CSU campuses planning to offer the OTD, the CSU Occupational Therapy Doctorate Tuition rate is recommended to be set at \$8,598 per term.

The tuition rate recommendation includes the following:

- 1) The tuition rate of \$8,598 per term will be established as the CSU Occupational Therapy Doctorate Tuition for students enrolled in CSU Occupational Therapy Doctorate degree programs.
- 2) Students enrolled in CSU Occupational Therapy Doctorate programs shall also be subject to campus-based mandatory fees.
- 3) Proposals to the Board of Trustees to recommend increases in the CSU Occupational Therapy Doctorate Tuition Fee will be based on increased costs of the programs.
- 4) As the Occupational Therapy Doctorate is a postbaccalaureate-entry degree program and students will not enter from established professional careers, the financial aid set-aside from OTD tuition will be 25 percent of the academic year fee rate. After need-based aid has been distributed to qualifying students, remaining funds from the set-aside will be used for general operating support of the OTD program.

The tuition model recommended is comparable to other allied health doctoral programs in the CSU. Per semester, the Doctor of Audiology (AuD) is \$7,371, the Doctor of Nursing Practice (DNP) is \$7,635, and the Doctor of Physical Therapy is \$8,598.

The OTD tuition rate model recommended will generate sufficient revenue to fund total program cost while holding the CSU firmly within the legislative guidelines established in statute. An action agenda item will be presented at the July 2020 Board of Trustees meeting to request approval of the recommended OTD tuition rate.