

## AGENDA

### COMMITTEE ON FINANCE

**Meeting:** 12:20 p.m., Tuesday, March 23, 2021  
Virtually via Teleconference

Jack McGrory, Chair  
Peter J. Taylor, Vice Chair  
Larry L. Adamson  
Jane W. Carney  
Jack Clarke, Jr.  
Wenda Fong  
Maryana Khames  
Anna Ortiz-Morfit  
Krystal Raynes  
Lateefah Simon

- Consent** 1. Approval of Minutes of the Meeting of January 26, 2021, *Action*  
2. California State University Quarterly Investment Report, *Information*
- Discussion** 3. California State University Information Security, *Information*

**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**

**January 26, 2021**

**Members Present**

Jack McGrory, Chair  
Peter J. Taylor, Vice Chair  
Larry L. Adamson  
Jane W. Carney  
Jack Clarke, Jr.  
Wenda Fong  
Maryana Khames  
Anna Ortiz-Morfit  
Krystal Raynes

Lillian Kimbell, Chair of the Board  
Joseph I. Castro, Chancellor

Trustee Jack McGrory called the meeting to order.

**Public Comment**

Public comment took place at the beginning of the meeting's open session, prior to all committees.

**Approval of the Consent Agenda**

The minutes of the November 17, 2020 meeting of the Committee on Finance were approved as submitted.

Agenda item two, California State University, Fresno – Approval of the Final Public-Private Partnership Agreement for the Central Utility Plant Replacement Project was approved as submitted (RFIN 01-21-01).

**\*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 January 26-27, 2021 meeting of the CSU Board of Trustees was conducted entirely virtually via Zoom teleconference.**

## **AMENDED**

Finance

Agenda Item 1

March 23, 2021

Page 2 of 3

Agenda item three, Reporting of Auxiliary Liquidity Loans Approved by the Chancellor under Delegated Authority was an information item.

### **Strategic Partnerships**

Information on strategic partnerships at the California State University was provided including the types of partnerships, reasons for developing partnerships, and benefits. A few examples shared were: food services, campus vehicle fleets, systemwide insurance, housing and mixed used capital projects, athletics, and internships.

Following the presentation, the trustees requested additional information on partnership projects at each campus.

### **2020-2021 Student Fee Report**

Information was shared on 2020-2021 tuition and fee rates at the system and campus level. The information included total average tuition and mandatory fees for the CSU system and its comparison institutions. The six student fee categories were reviewed, including the types of fees, what they cover, and the person(s) with the authority to set and adjust each category.

Following the presentation, the trustees discussed the potential for increasing non-resident tuition. Trustee Jack McGrory commented that additional revenue should be explored through a market rate tuition fee structure for out-of-state students. He shared information about a pilot non-resident tuition program at Cal Poly San Luis Obispo and requested a report on the program after this summer. Executive Vice Chancellor and Chief Financial Officer Steve Relyea added that if successful, the program or aspects of it, could be extended to other CSU campuses on an individualized basis. Trustee Maryana Khames expressed concern over the financial impact to current students and commented that the cost of living in California is much higher than other states.

The trustees requested additional information on the process for increasing Category II – campus-based mandatory fees including student success fees, the use of alternative consultation, and the authority of the Board of Trustees to review and set these types of fees. There were opinions expressed to have the trustees play a greater role in approving Category II fees as well as contrasting opinions to continue to have the trustees set policy that allows the chancellor to manage the fees.

## **2021-2022 Operating Budget Update**

Information about state's budget outlook and preliminary proposal for the CSU was shared. The governor has proposed \$144.5 million dollars in recurring funding and \$225 million in one-time funding. The federal government has also adopted and proposed additional COVID-19 relief funding. Strategies to limit the impact of reductions were discussed.

Following the presentation, the trustees inquired about the campuses' use of designated balances and reserves for economic uncertainty to date. They were informed that campuses plan to use approximately \$200 million in 2020-2021. However, other cost reduction efforts and significant levels of one-time federal funding could affect those planned uses of reserves.

The trustees asked and were informed that the federal government has issued programmatic guidance for the first round of federal Higher Education Emergency Relief Fund moneys, that these funds are for COVID-19-related revenue losses and costs, and that campuses are required to justify their losses and costs before drawing the federal funds.

The trustees commented on the amounts being proposed by the state for CSU recurring and one-time funds and about the need to address deferred maintenance. Trustee Jack McGrory requested information on infrastructure needs, by campus, for trustee use in advocacy efforts.

Chancellor Joseph I. Castro announced that there will be no tuition increase in 2021-2022. He added that if assumptions for federal support hold, he will not support a systemwide furlough program, and will work together to do everything we can to avoid additional lay-offs of permanent CSU staff or faculty due to a lack of state funds.

Trustee McGrory adjourned the meeting of the Committee on Finance.

**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**

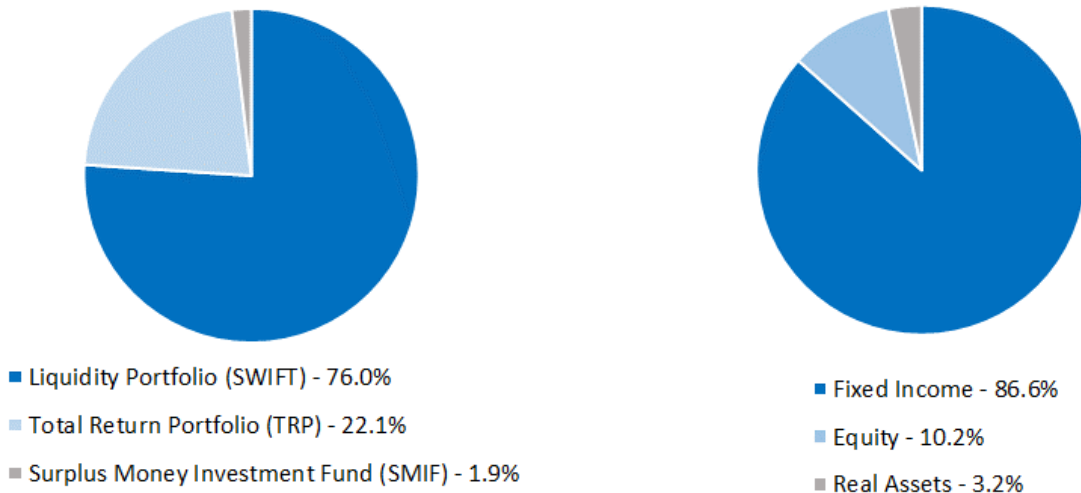
This item provides the quarterly investment report to the California State University Board of Trustees for the quarter ended September 30, 2020. The information in Attachment A provides the entire quarterly investment report regarding CSU investments as required by Education Code § 89726.

**Background**

Pursuant to the California State University Master Investment Policy (included as Attachment B) CSU investments as of September 30, 2020 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 \$2.04 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  
 September 30, 2020**

	<b>Balance</b>	<b>% of CSU Investments</b>	<b>Twelve Month Returns</b>
Liquidity Portfolio (SWIFT)	\$4.019 billion	76.0%	2.81%
Total Return Portfolio (TRP)	\$1.167 billion	22.1%	5.43%
Surplus Money Investment Fund (SMIF)	\$98.8 million	1.9%	1.36%
<b>CSU Investments</b>	<b>\$5.28 billion</b>	<b>100%</b>	



**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 Framework
Risk Tolerance	Risk Management
Expected Return	Monitoring and Control Procedures
Asset Allocation	
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, and additional investments allowed the TRP to reach the fiscal year 2018-2019 statutory limit of \$600 million in the first half of 2019. After 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. However, in April of 2020, the IAC approved a reduced investment schedule in the amount of \$20 million total between April and July of 2020, and in August of 2020, the IAC suspended further contributions to the TRP for the time being. Both of these actions were taken in order to preserve liquidity in the CSU Liquidity Portfolio in response to the COVID-19 pandemic. The investment schedule may also be adjusted by the IAC at any time depending on market conditions.

Since the TRP inception date<sup>1</sup> through September 30, 2020, the TRP investment earnings were approximately \$96.9 million. During this period, the TRP total return exceeded the Liquidity Portfolio (SWIFT) total return by 3.89 percent annualized (net of fees) or a cumulative \$53.9 million.

In October 2020, the IAC approved the second annual TRP distribution to the system of approximately \$35 million, bringing total TRP distributions to the system since inception to \$57.4 million. TRP distributions are allocated to the campuses annually for capital outlay or maintenance. Consistent with state law, 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.

### **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.

### **Next Steps**

With oversight from the IAC, staff will continue monitoring market conditions to determine if any changes in the TRP investment schedule are warranted. Staff has also resumed development of the Intermediate Duration Portfolio, consistent with the CSU Master Investment Policy, following a delay in the implementation timeline due to developments related to COVID-19. The next investment report to the Board of Trustees is scheduled for the May 2021 meeting and will provide information on the CSU quarterly investment report for the fiscal quarter ending December 31, 2020.

---

<sup>1</sup> The TRP inception date was April 1, 2018.



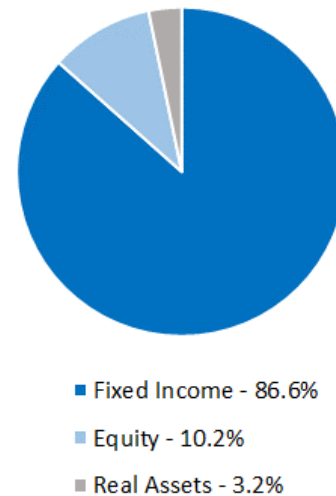
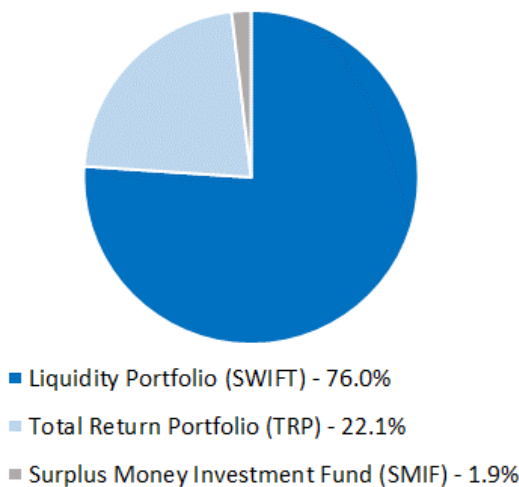
## CSU Quarterly Investment Report

### For the Fiscal Quarter Ended September 30, 2020

CSU investments as of September 30, 2020 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 \$2.04 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 September 30, 2020

	<b>Balance</b>	<b>% of CSU Investments</b>
Liquidity Portfolio (SWIFT)	\$4.019 billion	76.0%
Total Return Portfolio (TRP)	\$1.167 billion	22.1%
Surplus Money Investment Fund (SMIF)	\$98.8 million	1.9%
<b>CSU Investments</b>	<b>\$5.28 billion</b>	<b>100%</b>



For the twelve months ended September 30, 2020, direct investment management fees<sup>1</sup>, advisory, and custodial fees totaled just under \$0.6 million, or about 0.011 percent (1.1 basis points) on CSU investments total balance as of September 30, 2020.

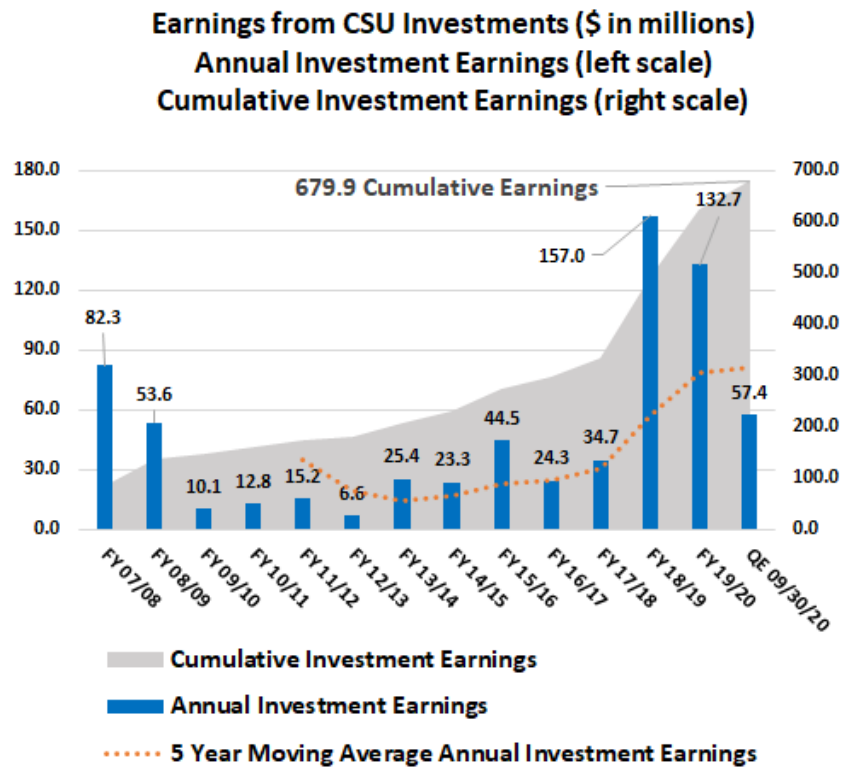
<sup>1</sup> Direct investment management fees exclude TRP mutual fund investment management fees. TRP mutual fund investment management fees are included as mutual fund expenses and reported as a percent of total fund assets. See TRP Fund Expense Ratio (Fee) in the table on page 5.

**CSU Consolidated Investment Portfolio**

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

	<b>CSU Consolidated Investment Portfolio</b>
1 Year Annualized Return <sup>3</sup>	3.92%
3 Year Annualized Return	2.89%
5 Year Annualized Return	2.08%
10 Year Annualized Return	1.39%

*Investment Earnings from CSU Investments Supports Campus Operations and Student Experience*



<sup>2</sup> 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.

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

**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.

	<u>CSU Liquidity Portfolio</u>	<u>Benchmark<sup>4</sup></u>
1 Year Annualized Return <sup>5</sup>	2.81%	2.97%
3 Year Annualized Return	2.35%	2.43%
5 Year Annualized Return	1.76%	1.68%
10 Year Annualized Return	1.23%	1.13%
Annualized Since Inception Return <sup>6</sup>	1.52%	1.77%
Yield	0.23%	0.13%
Duration (Years)	1.27	1.47
Average Credit Rating	AA-	Aaa/AA+

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

Treasuries	41.80%	CD's and Cash Equivalents	10.30%
U.S. Government Agencies	24.29%	Municipal Obligations	0.07%
U.S. Corporate Bonds	23.49%	Asset-Backed Securities	0.05%

**CSU Total Return Portfolio (TRP)**

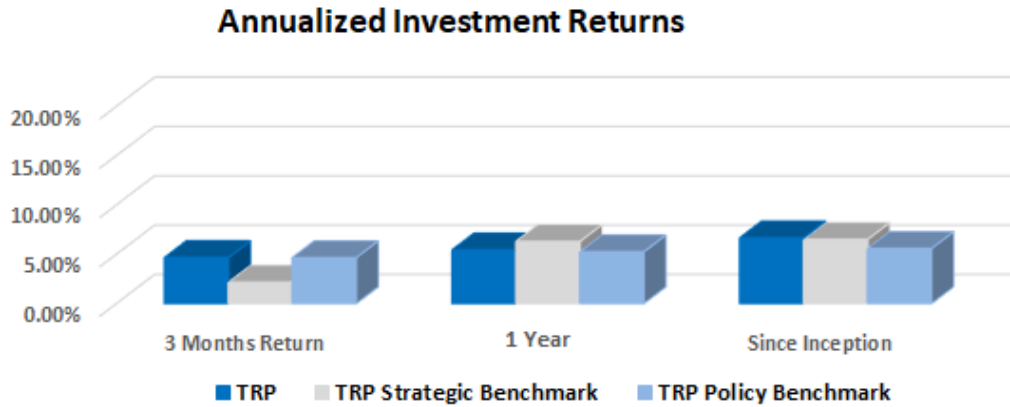
The purpose of the Total Return Portfolio is to provide opportunity for additional risk adjusted returns on CSU funds over a full market cycle. The investment objective is to achieve a prudent return within a moderate risk level. Consistent with state law, the TRP is invested in mutual funds subject 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.

---

<sup>4</sup> Benchmark for the CSU Liquidity Portfolio (SWIFT) is the Bank of America Merrill Lynch 0-3 Year Treasury Index.

<sup>5</sup> CSU Liquidity Portfolio (SWIFT) Returns reported gross of fees and as total return, including income and gains (realized and unrealized).

<sup>6</sup> Inception date for the CSU Liquidity Portfolio (SWIFT) was July 1, 2007.



	<b>CSU Total Return Portfolio</b>	<b>Strategic Benchmark<sup>7</sup></b>	<b>Policy Benchmark<sup>8</sup></b>
3 Months Return	4.65%	2.15%	4.64%
1 Year Return	5.43%	6.28%	5.24%
Annualized Since Inception Return <sup>9</sup>	6.65%	6.49%	5.57%

Since the TRP inception date through September 30, 2020, the TRP investment earnings were approximately \$96.9 million. During this period, the TRP total return exceeded the Liquidity Portfolio (SWIFT) total return by 3.89 percent annualized (net of fees) or a cumulative \$53.9 million.

In October 2020, the CSU Investment Advisory Committee approved the second annual TRP distribution to the system of approximately \$35 million, bringing total TRP distributions to the system since inception to \$57.4 million. TRP distributions are allocated to the campuses annually for capital outlay or maintenance. Consistent with state law, specifically 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>7</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 2.5% per annum.

<sup>8</sup> The TRP Policy Benchmark is a blend of passive indices whose weights match the TRP target asset allocation.

<sup>9</sup> TRP inception date was April 1, 2018.

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

Equity Mutual Funds	46.13%	Passive Index Mutual Funds	74%
Fixed Income Mutual Funds	39.24%	Actively Managed Mutual Funds	26% <sup>10</sup>
Real Asset Mutual Funds	14.63%		

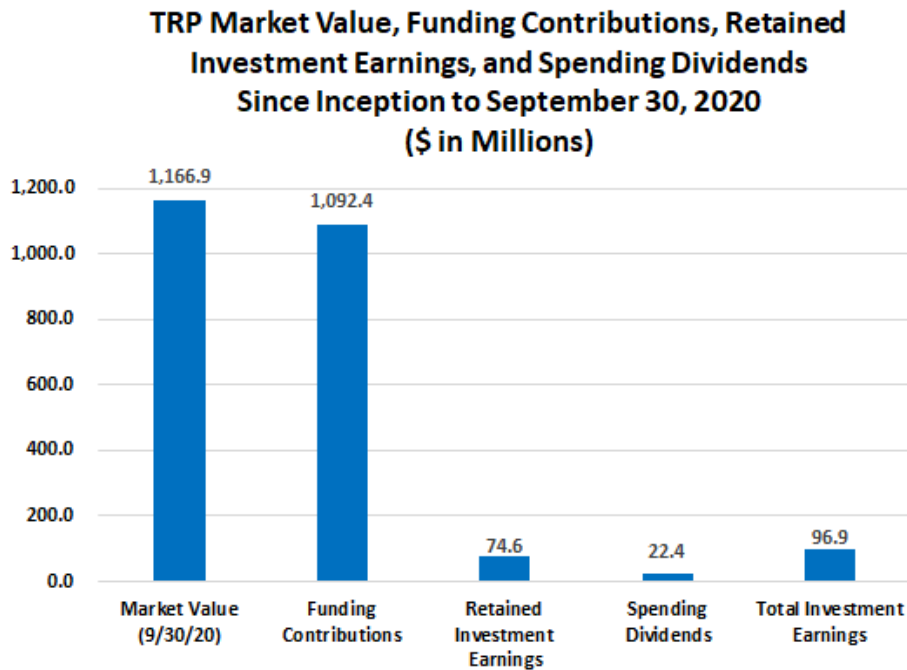
**Values, Holdings & Fees (CSU Total Return Portfolio)**

Asset Class	Strategy Name	Ticker	Value (millions)	% of Total Return Portfolio	TRP Fund Expense Ratio (Fee)	Universe Median Expense Ratio (Fee)
<b>Fixed Income</b>						
	Vanguard Total Bond Market Index Fund	VBMPX	258.3	22.13%	0.030%	0.450%
	Vanguard Inflation-Protected Securities Fund	VIPIX	59.1	5.07%	0.070%	0.450%
	Lord Abbett High Yield Fund	LHYOX	70.6	6.05%	0.620%	0.720%
	Pacific Funds Floating Rate Income Fund	PLFRX	35.6	3.05%	0.730%	0.765%
	Payden Emerging Markets Bond Fund	PYEIX	17.3	1.48%	0.690%	0.850%
	T. Rowe Emerging Markets Bond Fund	TREBX	17.1	1.46%	0.700%	0.850%
<b>Equity</b>						
	Vanguard Total Stock Market Index Fund	VSMPX	280.9	24.08%	0.020%	0.750%
	Vanguard Developed Markets Index Fund	VDIPX	140.1	12.01%	0.040%	0.890%
	Driehaus Emerging Markets Growth Fund	DIEMX	71.1	6.10%	1.220%	1.110%
	DFA Emerging Markets Value Fund	DFEVX	34.3	2.94%	0.510%	1.110%
	RWC Global Emerging Equity Fund	RWCEX	11.8	1.01%	1.250%	1.110%
<b>Real Assets</b>						
	Vanguard Real Estate Index Fund	VGSNX	81.1	6.95%	0.100%	0.890%
	Vanguard Energy Index Fund	VENAX	19.8	1.69%	0.100%	0.920%
	Vanguard Materials Index Fund	VMIAX	23.9	2.05%	0.100%	0.965%
	First State Global Listed Infrastructure Fund	FLIIX	45.9	3.93%	0.950%	0.990%
<b>Cash</b>			0.0	0.00%	NA	NA
<b>Total</b>			<b>1,166.9</b>	<b>100%</b>		

<sup>10</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.

***TRP Annual Spending Dividends 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 Dividends, and total investment earnings since inception on September 30, 2020. Total TRP Investment Earnings equal total TRP Spending Dividends 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.

<b>Apportionment Annual Yield<sup>11</sup></b>	
Trailing 12 month as of 09/30/20	1.36%
Average (FYE 06/30/07 – FYE 09/30/20)	1.14%

<sup>11</sup> 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

**Contents**

- I. Scope and Purpose..... 3
- II. Compliance with Law and Adherence to Policy..... 3
- III. Background and Investment Objectives..... 3
- IV. Investment Portfolios..... 4
- V. Roles and Responsibilities..... 5
  - Board of Trustees..... 5
  - Chancellor’s Office Staff..... 6
  - Investment Advisory Committee..... 7
  - Prudence, Ethics and Conflict of Interest..... 8
  - Document and Acceptance of the Investment Policy Statement..... 8
- VI. Environmental, Social and Governance (ESG) Framework..... 9
- VII. Adoption of the Investment Policy Statement..... 9



## **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:

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

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.

---

<sup>1</sup> 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**

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 Information Security**

#### **Presentation By**

Steve Relyea  
Executive Vice Chancellor and  
Chief Financial Officer

Michael Berman  
Chief Information Officer

Ed Hudson  
Chief Information Security Officer

#### **Summary**

This information item describes the California State University's approach to Information Security, the risks that the university faces in this area, and the high-level strategies used to mitigate these risks.

#### **Background**

The CSU's information security program is overseen by the Chief Information Security Officer (CISO) who reports to the Chief Information Officer at the Chancellor's Office. Each campus has a designated Information Security Officer (ISO) charged with implementing the program locally. The CISO and the campus ISOs comprise the Information Security Advisory Committee, which meets on a regular basis to advise the CISO on policies, to review campus security posture, and to share vital information on the security threats that campuses are facing and to collaborate on solutions.

The CSU has an extensive set of information security policies and standards<sup>1</sup> which are aligned with national and international standards.<sup>2</sup> The Chancellor's Office Audit and Advisory Services division performs regular audits to assure campus compliance with these requirements, and campuses are engaged in a process of continuous improvement and response to any findings that arise from these audits. The CSU CISO and CIO meet on a periodic basis with Audit and Advisory Services to assure that information technology and audit efforts are well-aligned and that systemwide trends are assessed and addressed.

---

<sup>1</sup> CSU ICSUAM 8000 series

<sup>2</sup> ISO 27001:2013 and NIST 800-171



While most activities to protect data have been delegated to the individual campuses, the Chancellor's Office has also been able to fund certain critical investments that help manage campus risk. Significantly, the Campus Network Infrastructure (CNI) program assures that every campus maintains up-to-date network and firewall hardware and software that provides an important protection against security risks. Providing common network and security hardware through the CNI program assures that campuses do not run the risk of critical hardware no longer being supported by the manufacturer, and also saves the CSU millions of dollars on an annual basis through leveraging the buying power of the institution.

### **Information Security Today**

While the need to protect our information resources is not new, the type and level of challenges are. As has been widely reported, higher education institutions throughout the nation have faced unprecedented levels of attacks in recent years. The CSU engages with national information security and technology organizations such as EDUCAUSE, California CyberSecurity Integration Center (CAL-CISC), Multi State Information Sharing and Analysis Center (MS-ISAC), and Research and Education Information Sharing and Analysis Center (REN-ISAC), as well as law enforcement. Our close connection with these organizations helps to assure that we are aware of these risks and that we take prompt action to prepare for new threats as they arise.

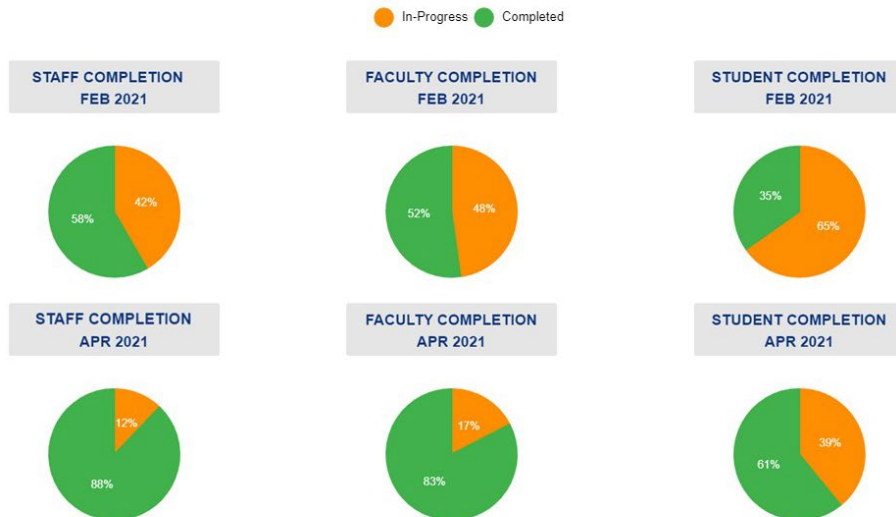
In the last year, there have been several high-profile security breaches at major universities and colleges, including incidences of ransomware that have crippled the operation of these institutions. CSU faces attacks of these kinds on a regular basis, and while there have been some relatively minor incidents, we have been able to avoid a major incident of that kind. While in past years, information security attacks often came from clever individuals acting on their own, the recent activity can be attributed to large and sophisticated teams sponsored by "nation state actors" as described in <https://www.insidehighered.com/news/2019/03/06/report-top-universities-us-targeted-chinese-hackers>. These threat actors are persistent, patient, and can consist of teams with hundreds of individuals targeting a single institution.

Based on this new and growing threat the CSU launched an initiative coordinated by the Chancellor's Office, and implemented on every campus, to undergo a review of the most likely vulnerabilities that could put a campus information technology infrastructure at risk. Every campus has completed a self-study of these risks and developed a prioritized plan for addressing them. CSU has engaged with an outside information security firm to provide specialized expertise to help campus teams perform this mitigation. We have leveraged our relationship with a major software vendor to ensure that we are using their most up-to-date recommendations to reduce risk. We have also assured that we have the contractual arrangements in place to provide expert outside help on a priority basis to respond to any critical event.

One of the components of this security improvement campaign has been to require two-factor authentication (2FA) for all campus staff, faculty, and students. 2FA requires access to two things, 1) a physical device such as a mobile phone or a smart key fob and 2) a password, in order to connect to campus systems. Adding this second factor makes it much more difficult (but not impossible) for an unauthorized individual to connect to CSU systems.

Most campuses have completely, or nearly completely, implemented 2FA for all staff members with access to the most critical data. However, providing 2FA to faculty and students is a newer endeavor. Not long ago, two-factor authentication seemed to many of us to be a “nice to have,” but the attacks that we are seeing at this time have convinced us that every CSU user must have this protection before accessing campus systems. Campuses have been working to increase coverage and as a result it is anticipated that by the end of March, 88 percent of campuses will have implemented two-factor authentication for all staff, 83 percent for all faculty, and 61 percent for all students. An overview of progress in this area is provided in the chart below. The goal is to achieve 100 percent coverage for all staff, faculty, and students this year.

### CAMPUS 2FA IMPLEMENTATION



### Information Security Risk in Perspective

Maintaining an atmosphere of open information exchange is an important value to preserve for an academic institution, but this creates a complex environment where some risk is always present. The CSU addresses risk and meets compliance requirements through balancing campus academic needs while maintaining cost-effective compensating controls and risk mitigation tools, technologies, and awareness campaigns.

The CSU maintains cyber insurance policies and engages with our cyber insurance carrier to collaboratively address risk, educate constituents, and respond effectively and quickly to cyber incidents.

### **Conclusion**

The number and sophistication of cyber-attacks continues to increase against higher education institutions. These attacks are motivated by financial gain, the wealth of personally identifiable information present and the presence of valuable confidential research and intellectual property. The CSU continues to respond to these risks, refine our approaches while reducing risk, and to ensure compliance with applicable laws and regulations. While continuing to address the challenges we face today, we are working actively to position our university for the future.