

401 Golden Shore, 5th Floor
Long Beach, CA 90802-4210

CSU Legislative Reports Website
<https://www.calstate.edu/legislativereports/>

Steve Relyea
Executive Vice Chancellor
and Chief Financial Officer

562-951-4600
srelyea@calstate.edu

December 4, 2019

Honorable Holly Mitchell, Chair
Joint Legislative Budget Committee
State Capitol, Room 5080
Sacramento, CA 95814

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

Keely Bosler, Director
Department of Finance
State Capitol, Room 1145
Sacramento, CA 95814

Erika Contreras
Secretary of the Senate
State Capitol, Room 3044
Sacramento, CA 95814

Diane Boyer-Vine
Legislative Counsel
State Capitol, Room 3021
Sacramento, CA 95814

E. Dotson Wilson
Chief Clerk of the Assembly
State Capitol, Room 3196
Sacramento, CA 95814

RE: CSU Annual Investment Report

This report is the CSU Annual Investment Report for the Fiscal Year Ended June 30, 2019.

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

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

CSU Campuses
Bakersfield
Channel Islands
Chico
Dominguez Hills
East Bay

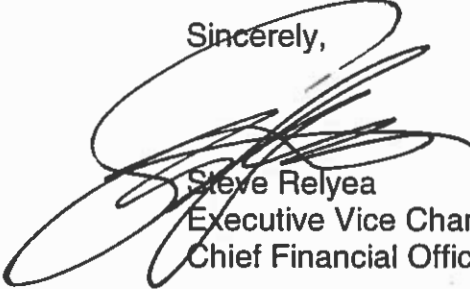
Fresno
Fullerton
Humboldt
Long Beach
Los Angeles
Maritime Academy

Monterey Bay
Northridge
Pomona
Sacramento
San Bernardino
San Diego

San Francisco
San José
San Luis Obispo
San Marcos
Sonoma
Stanislaus

CSU Report: Annual Investment Report
December 4, 2019
Page 2

Sincerely,



Steve Relyea
Executive Vice Chancellor and
Chief Financial Officer

SR:dr

Full report posted to <https://www.calstate.edu/legislativereports/>

- c: Members, California State Legislature
Members, Joint Legislative Budget Committee
Timothy P. White, Chancellor, California State University
Loren J. Blanchard, Executive Vice Chancellor, Academic and Student Affairs
Garrett Ashley, Vice Chancellor, University Relations and Advancement
Kathleen Chavira, Assistant Vice Chancellor, Advocacy and State Relations
Ryan Storm, Assistant Vice Chancellor for Budget
Kara Perkins, Executive Budget Director
Robert Eaton, Assistant Vice Chancellor, Financing, Treasury, and Risk
Management

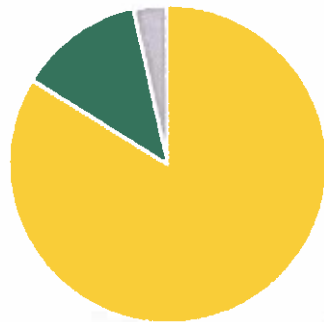
CSU Annual Investment Report

For the Fiscal Year Ended June 30, 2019

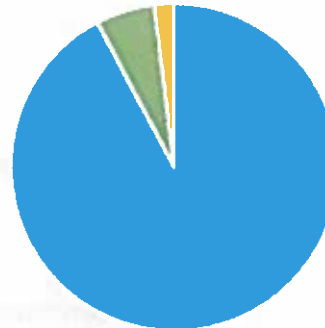
CSU investments as of June 30, 2019 consisted of investments in the CSU Liquidity Portfolio (Systemwide Investment Fund Trust or SWIFT), the Total Return Portfolio (TRP), and the State of California Surplus Money Investment Fund (SMIF). All CSU investments (except for funds invested in SMIF) are held 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 \$675 million in bond proceeds, which by state law are required to be held by the state and are invested in SMIF.

Balances and Allocations as of June 30, 2019

	<u>Balance</u>	<u>% of CSU Investments</u>
Liquidity Portfolio (SWIFT)	\$3.72 billion	83.9%
Total Return Portfolio (TRP)	\$559.2 million	12.6%
Surplus Money Investment Fund (SMIF)	\$155.6 million	3.5%
CSU Investments	\$4.43 billion	100%



- Liquidity Portfolio (SWIFT) - 83.9%
- Total Return Portfolio (TRP) - 12.6%
- Surplus Money Investment Fund (SMIF) - 3.5%



- Fixed Income - 92.2%
- Equity - 5.9%
- Real Assets - 1.9%

For the year ended June 30, 2019, direct investment management fees¹, advisory, and custodial fees totaled just under \$2.2 million, or about 0.051 percent (5.1 basis points) on CSU investments total balance as of June 30, 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 3.

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>Benchmark²</u>
1 Year Annualized Return ³	3.12%	3.53%
3 Year Annualized Return	1.50%	1.36%
5 Year Annualized Return	1.28%	1.15%
10 Year Annualized Return	0.96%	1.03%
Annualized Since Inception Return ⁴	1.39%	1.66%
Yield	2.11%	1.90%
Duration (Years)	0.89	1.44
Average Credit Rating	AA-	Aaa/AA+

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

Treasuries	32.82%
U.S. Government Agencies	28.86%
U.S. Corporate Bonds	27.64%
CD's and Cash Equivalents	5.13%
Asset-Backed Securities	4.18%
Municipal Obligations	1.37%

² Benchmark for the CSU Liquidity Portfolio (SWIFT) is the Bank of America Merrill Lynch 0-3 Year Treasury Index.

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

⁴ 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 Benchmark⁵	Policy Benchmark⁶
3 Months Return	3.35%	1.62%	3.02%
1 Year Return	7.03%	6.71%	6.73%
Annualized Since Inception Return ⁷	8.12%	6.63%	6.20%

Since the TRP Inception date through June 30, 2019, the TRP investment earnings were approximately \$34.2 million. During this period, the TRP total return exceeded the Liquidity Portfolio (SWIFT) total return by 5.30% annualized (net of fees) or \$21.1 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 to be 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.

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

Equity Mutual Funds	46.6%	Passive Index Mutual Funds	74%
Fixed Income Mutual Funds	38.5%	Actively Managed Mutual Funds	26% ⁸
Real Asset Mutual Funds	14.9%		

⁵ 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.

⁶ The TRP Policy Benchmark is a blend of passive indices whose weights match the TRP target asset allocation.

⁷ TRP Inception Date was April 1, 2018.

⁸ 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.

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	121.2	22%	0.030%	0.450%
	Vanguard Inflation-Protected Securities Fund	VIPIX	27.8	5%	0.070%	0.450%
	Lord Abbett High Yield Fund	LHYOX	33.4	6%	0.600%	0.730%
	Pacific Funds Floating Rate Income Fund	PLFRX	16.5	3%	0.720%	0.755%
	Payden Emerging Markets Bond Fund	PYEIX	8.4	1.5%	0.690%	0.850%
	T. Rowe Emerging Markets Bond Fund	TREBX	8.4	1.5%	0.700%	0.850%
Equity						
	Vanguard Total Stock Market Index Fund	VSMPX	134.7	24%	0.020%	0.780%
	Vanguard Developed Markets Index Fund	VTMNX	68.7	12%	0.050%	0.900%
	Driehaus Emerging Markets Growth Fund	DIEMX	34.3	6%	1.180%	1.150%
	DFA Emerging Markets Value Fund	DFEVX	17.1	3%	0.540%	1.150%
	RWC Global Emerging Equity Fund	RWCEX	5.7	1%	1.250%	1.150%
Real Assets						
	Vanguard Real Estate Index Fund	VGSNX	37.8	7%	0.100%	0.905%
	Vanguard Energy Index Fund	VENAX	11.6	2%	0.100%	0.990%
	Vanguard Materials Index Fund	VMIAX	11.6	2%	0.100%	0.950%
	First State Global Listed Infrastructure Fund	FLIIX	22.0	4%	0.950%	0.990%
Cash			0.0	0%	NA	NA
Total			559.2	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 Yield⁹

FYE 06/30/19	1.97%
Average (FYE 06/30/07 – FYE 06/30/19)	1.11%

⁹ Annual Yield calculated by CSU Treasury Operations based on the quarterly apportionment yield rates published by the State Controller's Office.