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Steve Relyea
Executive Vice Chancellor
and Chief Financial Officer

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January 25, 2019

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

Carolyn Chu
Legislative Analyst Office
925 L Street, #1000
Sacramento, CA 95814

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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, 2018.

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

Should you have any questions about this report, please contact Robert Eaton, Assistant Vice Chancellor, Financing, Treasury, and Risk Management, at 562-951-4572.

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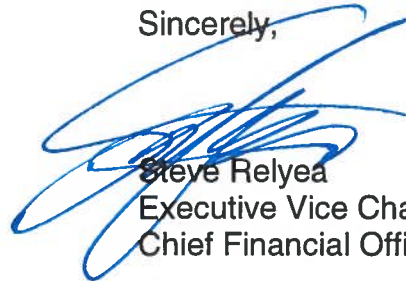
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San José
San Luis Obispo
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Sonoma
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January 25, 2019

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Sincerely,



Steve Relyea
Executive Vice Chancellor and
Chief Financial Officer

SR:dr

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- c: Members, California State Legislature
Members, Joint Legislative Budget Committee
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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

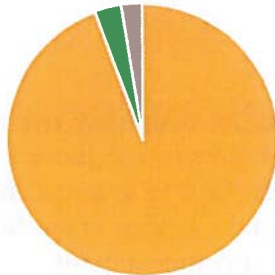
CSU Annual Investment Report

For the Fiscal Year Ended June 30, 2018

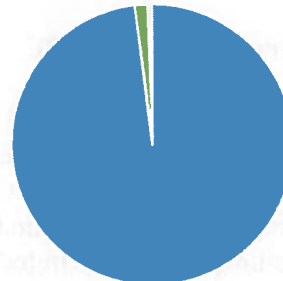
CSU investments as of June 30, 2018 consisted of investments in the CSU Liquidity Portfolio (Systemwide Investment Fund Trust or SWIFT), the Total Return Portfolio (TRP), and the State of California Surplus Money Investment Fund (SMIF). All CSU investments (except for funds invested in SMIF) are held 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 \$710 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, 2018

	<u>Balance</u>	<u>% of CSU Investments</u>
Liquidity Portfolio (SWIFT)	\$3.83 billion	94.4%
Total Return Portfolio (TRP)	\$126 million	3.1%
Surplus Money Investment Fund (SMIF)	\$101 million	2.5%
CSU Investments	\$4.06 billion	100%



- Liquidity Portfolio (SWIFT) - 94.4%
- Total Return Portfolio (TRP) - 3.1%
- Surplus Money Investment Fund (SMIF) - 2.5%



- Fixed Income - 98.1%
- Equity - 1.4%
- Real Assets - 0.5%

For the year ended June 30, 2018, direct investment management fees¹, advisory, and custodial fees totaled just under \$2.1 million, or about 0.052 percent (5.2 basis points) on CSU investments total balance as of June 30, 2018.

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.

	CSU Liquidity Portfolio	Benchmark ²
1 Year Annualized Return ³	0.85%	0.47%
3 Year Annualized Return	0.86%	0.53%
5 Year Annualized Return	0.83%	0.56%
Annualized Since Inception Return ⁴	1.23%	1.49%
Yield	2.45%	2.40%
Duration (Years)	0.98	1.428
Average Credit Rating	AA-	Aaa/AA+

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

U.S. Government Agencies	30.36%	Asset-Backed Securities	7.52%
U.S. Corporate Bonds	29.40%	CD's and Cash Equivalents	5.71%
Treasuries	25.68%	Municipal Obligations	0.52%

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 Benchmark ⁵	Policy Benchmark ⁶
3 Months Return	3.01%	1.53%	1.02%
Annualized Since Inception Return ⁷	3.01%	1.53%	1.02%

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

³ All 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.

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.

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

Equity Mutual Funds	45.95%
Fixed Income Mutual Funds	39.03%
Real Asset Mutual Funds	15.02%

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	VBPIX	27.8	22%	0.040%	0.500%
	Vanguard Inflation-Protected Securities Fund	VIPIX	6.3	5%	0.070%	0.430%
	Lord Abbett High Yield Fund	LHYOX	7.6	6%	0.600%	0.730%
	Pacific Funds Floating Rate Income Fund	PLFRX	3.8	3%	0.710%	0.750%
	Vanguard Emerging Markets Government Bond Index Fund	VGAVX	3.8	3%	0.320%	0.880%
Equity						
	Vanguard Total Stock Market Index Fund	VITMX	30.2	24%	0.035%	0.690%
	Vanguard Developed Markets Index Fund	VTMNX	15.1	12%	0.060%	0.860%
	Vanguard Emerging Markets Stock Index Fund	VEMIX	12.6	10%	0.110%	1.190%
Real Assets						
	Vanguard Real Estate Index Fund	VGSNX	8.9	7%	0.100%	0.910%
	Vanguard Energy Index Fund	VENAX	2.5	2%	0.100%	1.030%
	Vanguard Materials Index Fund	VMIAX	2.5	2%	0.100%	1.040%
	First State Global Listed Infrastructure Fund	FLIIX	5.0	4%	0.950%	1.000%
Cash			0.0	0%	NA	NA
Total			126.0	100.00%		

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 Yield⁸

FYE 06/30/18	1.30%
Average (FYE 06/30/07 – FYE 06/30/18)	1.03%

⁸ Annual Yield calculated by CSU Treasury Operations based on the quarterly apportionment yield rates published by the State Controller's Office.