

IAC Members Attending			
Peter Taylor	IAC Chair	Leona Bridges	Member
Steve Relyea	IAC Vice Chair	Irv Rothenberg	Member
Tim Schaefer	Member		
IAC Members Absent			
David Bach	Member	Mike Lucki	Member
Robert Eaton	Member		
Chancellor’s Staff / Other Attendees			
Ron Flatt	Director – Treasury Operations		
Scott August	Manager, Investments		
Laura Wirick	Meketa – CSU Investment Advisor		
Hannah Schriener	Meketa – CSU Investment Advisor		
Perry Opel	Meketa – CSU Investment Advisor		
Rafi Zaman	Meketa – CIO, Fiduciary Management (OCIO)		

The IAC Vice Chair called the meeting to order and established a quorum on June 6, 2018, at 11:00 am.¹

The IAC Chair joined by phone due to flight cancelations related to weather at the San Francisco International Airport. The IAC was advised by the CSU Office of General Counsel that off-site telephonic participation in this circumstance was acceptable so long as the circumstances were unusual, unforeseen, not within the power of the committee to control, and noted accordingly in the minutes.

The IAC Vice Chair asked if there were any amendments or changes to the minutes from the March 22, 2018 meeting. Upon a motion duly made and seconded, the minutes were approved as submitted.

Item II: TRP Governance & Reference Guild – Information Item

This item was an information item. There was no presentation on this item, but rather the Governance & Reference Guide for the CSU Total Return Portfolio was simply delivered to the members. The guide is meant to be a document that the members can bring to each meeting and use it as a reference if needed to revisit certain topics. The Guide contains the following documents and information:

- Key Contacts
- TRP Investment Beliefs Statement
- TRP Investment Policy
- TRP Funding Schedule
- TRP Investment Manager Roster
- TRP Asset Allocation & Risk Analysis
- CSU Investment Advisory Committee Charter
- CSU Master Investment Policy

¹ Details on all meeting agenda items are included in the meeting materials as presented at the CSU Investment Advisory Committee (“IAC”) meeting dated June 6th, 2018.

Lastly, this document will be revised and updated as needed when documents or circumstances change, such as the addition of additional investment managers, changes to the funding schedule, or investment policy, etc.

Item III: Capital Markets Review – Information Item

This was an information item and will be included as a regular part of each quarterly meeting going forward. This item reviewed historical investment returns for various asset classes and sectors, relative valuations, economic statistics, and Meketa’s long-term outlook. Information contained in this item was also referenced in detail by the guest speaker during the presentation titled “Current Market Views” in item VI.

Item IV: Beta Test Review – Assets Allocation & Performance Report – Information Item

The purpose of this item was twofold. First, to update the IAC on the results of the Beta Test and to ensure the proper functioning of all investment operations and performance reporting requirements. Second, to familiarize the IAC with the format of the asset allocating monitoring and performance reports.

Chancellor’s Staff and Meketa reported that the Beta Test went well with no issues or concerns related to investment operations or performance reporting. Meketa and Chancellor’s Staff reviewed the TRP fund evaluation report with the IAC for the period ending April 30, 2018. Meketa and Chancellor’s Staff noted that the TRP value was \$33.49 million as of April 30, 2018.

Chancellor’s Staff polled the IAC for feedback relating to the TRP fund evaluation report reviewed at the meeting. The IAC communicated that the current version was very comprehensive and no additional changes were proposed at this time. The IAC discussed the option of adding additional content at any time in the future.

Item V: TRP Implementation – Information Item

Item V was an information item. The TRP Beta test was limited in scope to three (3) asset classes (US Equity, Investment Grade Fixed Income, and REITs). The broad asset allocation was substantially similar to the full TRP Asset Allocation, but did not include many of the sub asset classes, such as High Yield, International Equity, Natural Resources, etc. Item V was an update to the IAC on the estimated investments to be made at the end of June to round out the full TRP Asset Allocation and Investment Manager Roster. The figures contained in the item were estimates based on May 21, 2018, portfolio values. Chancellor’s Staff communicated to the IAC that they will work with Meketa using end of June portfolio values to finalize the exact amounts to implement the full TRP Asset Allocation. The current portfolio value at May 21, 2018 was \$34.0 million and the projected cash flow through June 30, 2018 is \$91.5 million; resulting in a projected TRP value of \$125.5 million as of June 30, 2018.

Item VI: Current Market Views – Rafi Zaman – Information Item

Mr. Rafi Zaman, CFA – Chief Investment Officer of Meketa Fiduciary Management provided an update on the current market views. He noted that the big drivers of corporate profits in the market so far this year have been the energy and technology sectors. Tax relief has added 7-10% net income to the S&P. The second significant market driver has been interest rates².

Mr. Zaman expects corporate profit growth to slow from currently high levels and he advised investors to be somewhat cautious and gradually become a little more defensive as we move into 2019. Mr. Zaman forecasted gradual subdued increases to both asset volatility and interest rates in the near to intermediate future. Mr. Zaman communicated his belief that the United States Federal Reserve believes that at the current level of interest rates, there is not enough cushion to lower rates enough to combat a future recession should the economy slowdown, and, therefore, the Federal Reserve is on a path to gradually increase interest rates, while accepting a symmetrical level of inflation slightly above 2%.

Item VII: Next Implementation Steps – Asset Class Study – Efficient and Inefficient Asset Classes – Information Item

The purpose of item VII was to examine the evidence and justification for which asset classes are efficient and may best be implemented via passive index funds versus those that have shown more inefficiency and may justify paying a higher fee for active management in an effort to generate excess return net of fees.

The IAC has adopted a core/satellite approach for the TRP, utilizing index funds for the core or efficient asset classes and active managers for the satellite or inefficient asset classes. Chancellor's Staff and Meketa communicated to the IAC that the intent, based on the outcome of the discussion related to this item, would be to continue to add active managers in inefficient asset classes over time based on the results of investment manager searches performed by Meketa and Chancellor's Staff.

The IAC discussed and reviewed the study provided by Meketa. For equity, U.S. Large Cap and U.S. Mid Cap appeared to be the most efficient of the five assets classes, while U.S. Small Cap, Developed Foreign, and Emerging Markets were more inefficient, suggesting that the latter three asset classes may afford more opportunity to benefit from active investment management. The IAC commented for U.S. Small Cap Equity deeper research into the efficiency of the asset class may be warranted given that, during the time studied, the median average annualized active manager return net of fees only exceeded the benchmark return by 10 basis points.

For Emerging Markets Equity, Meketa presented the benefits of pairing an Alternative Beta strategy with actively managed investment strategies. One such benefit was the possibility to smooth potential long-term excess returns relative to the MSCI Emerging Markets Index. Alternative Beta strategies provide passive, index-like exposure to alternative risk premia or return factors, while seeking to achieve better risk-adjusted performance than traditional market cap weighted index funds. Fees for Alternative Beta strategies are typically less than active management fees but higher than traditional passive investment management fees.

Based on the results of the Asset Class Study, Meketa and Chancellor's Staff recommended the IAC continue to invest passively in U.S. Large Cap Equity, Core Fixed Income, TIPS, and REITS. Additionally, Meketa and Chancellor's Staff

² Details of Mr. Zaman's presentation are included in section VI of the meeting materials as presented at the CSU Investment Advisory Committee ("IAC") meeting dated June 6th, 2018.

recommended adding Natural Resources to the list of passive investments. Finally, Meketa's analysis concluded with the continued recommendation of active investment management for Emerging Market Equity (possibly paired with an Alternative Beta strategy) and Emerging Market Debt.

Meketa and Chancellor's Staff will request the IAC for approval to transition from passive investment management to active investment management for the Emerging Market Equity and Emerging Market Debt assets classes at the next IAC meeting scheduled for January 30, 2019. Future active investment manager searches will likely be conducted for U.S. Small Cap Equity and possibly International Developed Equity.

Item VIII: Electronic Board Books – Information Item

Item VIII was an information item to introduce Electronic Board Books as an electronic document management solution. Chancellor's Staff presented a recommendation to utilize Diligent, a leading service provider. Diligent Boardbooks provides solid functionality for organizations that need controls over their meeting documents, including note taking, historical searchability of all documents, and the feel of a physical boardbook.

The IAC Vice Chair indicated the next meeting, schedule for January 30, 2019, at 11:00 am will be held at the Office of the Chancellor.

There being no further business before the IAC, the meeting adjourned at 3:30 pm.