

<b>IAC Members Attending</b>			
Jack McGrory	IAC Chair	Irv Rothenberg	Member
Steve Relyea	IAC Vice Chair	David Bach	Member
Robert Eaton	Member	Tim Schaefer	Member
Leona Bridges	Member	Mike Lucki	Member
<b>Staff / Other Attendees</b>			
Ron Flatt	Director – Treasury Operations	Laura Wirick	Meketa – Investment Advisor
Scott August	Chief Investment Manager	Jonas Noack	Meketa – Investment Advisor
Taylor Brown	Senior Treasury Analyst	Sarah Bernstein	Meketa – Investment Advisor

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 Order N-25-20 issued on March 12, 2020, attending members of the IAC participated in this meeting 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, there was no physical location for the meeting and a physical location was not open to the public during the meeting. No IAC members or staff were present at a physical location. Members of the public were still able to participate via the meeting dial in information noted on the agenda and offer public comment pursuant to appropriate public meeting protocol.

The IAC Chair called the meeting to order and established a quorum on October 06, 2021, at 11:00 am.<sup>1</sup>

**Item I: Welcome, Public Comment, Housekeeping & Approval of Minutes – Action Item**

Following public comment by several individuals, Chancellor’s Staff provided an update on the launch and planned funding of the new Intermediate Duration Portfolio (IDP) and discussed other housekeeping items. Next, the IAC Chair asked if there were any amendments or changes to the minutes from the August 10, 2021, meeting. Upon a motion duly made and seconded, the minutes were approved as submitted.

**Item II: TRP Quarterly Report – Information Item**

Item II was an information item and is presented at each quarterly meeting. Meketa presented an Economic and Market Update as of August 31, 2021, which included updates on global economic information and financial markets. Meketa also presented their Second Quarter 2021 World Markets Review, which included a review of historical investment returns for various asset classes and sectors, relative valuations, and economic statistics. Finally, Meketa presented the TRP quarterly review and evaluation report as of June 30, 2021. Information in this report included the current TRP asset allocation, an update on TRP funding contributions, overall TRP performance versus its stated benchmarks, and detailed performance and characteristics for the TRP investment managers. Additional investment manager details are provided in the resource center on Diligent each quarter. As of June 30, 2021, the TRP market value was \$1.36 billion, an increase of approximately \$73 million from the beginning of the quarter with \$0 cashflows during the quarter.

<sup>1</sup> Details on all meeting agenda items are included in the meeting materials as presented at the CSU Investment Advisory Committee (“IAC”) meeting dated October 06, 2021.

Given that the meeting occurred on October 6th, Chancellor's Staff also provided the IAC with an update on TRP Market Value and performance as of October 4<sup>th</sup>.

**Key points:**

- As of June 30, 2021, all TRP asset classes complied with the Policy Ranges outlined in the TRP Investment Policy.
- As of June 30, 2021, the TRP since inception return was +11.21% compared to +10.06% for the TRP Policy Benchmark and +7.12% for the TRP Strategic Benchmark.
- The TRP Since Inception return as of June 30, 2021, ranks in the 41<sup>st</sup> percentile of all Endowments in excess of \$250 million reporting to InvMetrics.<sup>2</sup>
- The TRP returned +5.66% for the second quarter 2021, compared to +5.40% for the TRP Policy Benchmark and +3.52% for the TRP Strategic Benchmark.

The IAC, Meketa, and Chancellor's Staff also engaged in further discussion surrounding the TRP Quarterly Report, economic conditions, and market conditions.

**Item III: Climate Transition Risks – Action Item**

Item III was an Action Item continuing the discussion from the August 2021 IAC meeting relating to Climate Transition Risks and its potential impact on CSU investments in the fossil fuel industry. Based on feedback received from the IAC at the August 2021 IAC meeting, and after analyzing the scientific and global policy implications of greenhouse gas emissions and the related economic and investment risks, Chancellor's Staff and Meketa recommended the IAC take action where feasible to eliminate and exclude investments in the fossil fuel industry. Specifically, the recommended actions included the following:

1. Recommend CSU staff liquidate fossil fuel related bonds in the Liquidity Portfolio (SWIFT) as soon as reasonable and restrict future fossil fuel investments for the Liquidity Portfolio and the Intermediate Duration Portfolio (IDP).
2. Transition out of the TRP's approximate 2% direct Energy allocation and into other asset classes within the Real Assets category – namely Real Estate, Materials, and Infrastructure **(0 to 30 days)**
3. Due to current legislative restrictions that limits the TRP to mutual funds or REITS, which are commingled investment vehicles, the CSU cannot selectively exclude fossil fuel investments from these investment vehicles without sacrificing the investment objectives of the CSU, the integrity of the TRP's asset allocation model, the skill and resources of its investment managers, or the reasonableness of fees. Therefore, the IAC recommends CSU staff and Meketa engage with existing TRP mutual fund managers, whether active or passive, to further reduce and limit exposure to fossil fuels and other heavy greenhouse gas emitters where feasible. Any recommended manager changes would be subject to IAC approval. **(Several Years)**
4. Allow all CSU investment managers discretion to continue to invest in those businesses that are successfully transitioning to sustainable green business models consistent with the aims of the Paris Accord and the spirit of the CSU Sustainability Policy regardless of what industry they are classified under.
5. Pursue legislation that, among other things, will allow the CSU to invest in a broader array of investment vehicles, including Separately Managed Accounts (SMAs) and Exchange Traded Funds (ETF's). The ability to invest in ETF's will provide for more access to investment strategies and vehicles which further limit or eliminate fossil fuel exposures. The ability to invest in SMA's will allow the CSU to further refine, limit or eliminate the CSU's exposure to fossil fuels and greenhouse gas emissions through Separately Managed Accounts and customized investment guidelines specific to the CSU, without sacrificing the integrity of the CSU's overall investment objectives. **(Several Years)**

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<sup>2</sup> There were 61 Endowments in the InvMetrics All Endowment > \$250 million peer universe as of June 30, 2021.

6. Recognize certain asset classes may still be most optimally invested in commingled vehicles due to diversification, transaction costs, and other efficiencies. For these asset classes, it may be difficult to completely eliminate exposures to fossil fuels and greenhouse gas emissions.

Upon robust discussion among the IAC, Meketa, and Chancellor's Staff a motion was duly made and seconded to approve the action item as recommended and the motion was approved.

#### **Item IV: Annual TRP Investment Policy Review – Action Item**

Item IV was an action item related to the TRP Investment Policy annual review. The annual TRP Investment Policy review contained several recommended revisions related to additional Environmental, Social, and Governance (ESG) language reflecting Climate Transition Risks and related changes to the TRP Asset Allocation Model and the TRP Policy Benchmark. Additional recommended revisions to the TRP Investment Policy included the removal of certain provisions regarding the launch of the TRP as those provisions are no longer necessary.

Upon a motion duly made and seconded, the action item with all revisions as recommended was approved.

#### **Item V: TRP Annual Spending Distribution – Action Item**

Meketa and Chancellor's Staff reviewed the TRP Spending Policy provisions contained within the TRP Investment Policy. Chancellor's Staff also reported a summary detailing the following information as of June 30, 2021:

- TRP Market Value equal to approximately \$1.36 billion
- Since Inception TRP Funding Contributions equal to approximately \$1.09 billion and
- Since Inception TRP Investment Earnings (including historical dividends) equal to approximately \$326.8 million
- Recommend approval of the TRP Spending Dividend equal to approximately \$41.1 million for the Fiscal Year End 2020/2021 using the TRP Spending Policy

Chancellor's Staff also noted the TRP Funding Schedule spread TRP funding contributions out over an approximate 2-year period resulting in the moving average value component of the TRP Spending Dividend calculation being skewed lower than it would otherwise be. Therefore, the recommended TRP Spending Dividend of \$41.1 million represents a spending rate of only 3.3% of the TRP midpoint value during Fiscal Year 2020/2021 which is lower than the 4.5% average annual spending rate for Endowments in excess of \$1.0 billion as evidenced by the 2020 NACUBO-Common Study of Endowments referenced in the item.

Based on this information, Chancellor's Staff also proposed the IAC could approve an alternative spending amount equal to 4.5% of the TRP midpoint value during Fiscal Year 2020/2021, or \$55.6 million.

Upon discussion, further consideration and a motion duly made and seconded, the IAC approved the Fiscal Year End 2020/2021 Annual TRP Spending Dividend equal to \$55.6 million.

**Item VI: CSU Annual Investment Report – Action Item**

Item VI was an action item. Chancellor's Staff's duties include informing the IAC on all CSU Investments, which are discussed in the quarterly and annual investment reports and are presented regularly to both the IAC and the CSU Board of Trustees.

This item contained a draft of the CSU Annual Investment Report for the Fiscal Year End 2020/2021 to be presented to the CSU Board of Trustees in November. Subsequent to the Board of Trustees meeting in November, the CSU Annual Investment Report will be distributed to the State Legislature and the Department of Finance per state law.

Upon discussion the IAC recommended one suggested improvement to the format of the report which Chancellor Staff incorporated. Upon further consideration and a motion duly made and seconded, the IAC approved the CSU Annual Investment Report for the Fiscal Year End 2020/2021.

The next meeting, scheduled for January 27, 2021, at 11:00 am, will be video teleconference only with no physical meeting location.

There being no further business before the IAC, the meeting adjourned at 1:30 pm.