The Regents of the University of California

COMMITTEE ON INVESTMENTS
November 14, 2001

The Committee on Investments met on the above date at UCSF-Laurel Heights, San Francisco.

Members present: Regents Atkinson, Davies, T. Davis, Hopkinson, S. Johnson, Lansing, Lee, and Moores; Advisory member Ligot-Gordon

In attendance: Regents Connerly, O. Johnson, Lozano, Marcus, Montoya, Morrison, Preuss, Sayles, and Seymour, Regents-designate Sainick and Terrazas, Faculty Representatives Binion and Viswanathan, Secretary Trivette, General Counsel Holst, Treasurer Russ, Provost King, Senior Vice Presidents Darling and Mullinix, Vice Presidents Broome, Gómez, and Hershman, Chancellors Berdahl, Bishop, Cicerone, Dynes, Greenwood, Orbach, Tomlinson-Keasey, and Vanderhoef, and Recording Secretary Nietfeld

The meeting convened at 1:55 p.m. with Committee Chair Hopkinson presiding.

1. **APPROVAL OF MINUTES OF PREVIOUS MEETING**

Upon motion duly made and seconded, the minutes of the meeting of May 17, 2001 were approved.

2. **REPORT OF THE CHAIRMAN OF THE COMMITTEE ON INVESTMENTS**

Regent Hopkinson commented that the Investment Advisory Committee had had a productive meeting on November 6 which included participation by representatives of the campus foundations. She noted that a more complete report would be made by advisory committee chair Parsky at the January meeting.

3. **PORTFOLIO ANALYSES AND INVESTMENT TRANSACTIONS (QUARTERLY REPORT)**

Treasurer Russ presented his oral quarterly report with the aid of slides. He reported that for the quarter ending September 30, 2001 and the fiscal year to date, the total return for the General Endowment Pool (GEP) was negative 7 percent. For the University of California Retirement Plan (UCRP), the return was negative 6.9 percent. Both outperformed the policy benchmark's return of negative 8.6 percent. October saw improved performance, with positive returns of 2.55 percent for the UCRP and 2.45 percent for the GEP; the benchmark had a return of 2.59 percent. For the calendar year to date, the total return was negative 13 percent for the GEP and negative 12 percent for the retirement plan, while the benchmark return was negative 11.6 percent. Mr. Russ noted that the endowment pool has a higher exposure to the private equity market, which partially explains the difference in returns.

Bond returns for the quarter were 5 percent for the GEP and 5.1 percent for the UCRP, while the benchmark returned 5.3 percent.

Treasurer Russ stressed that long-term returns remain excellent, despite recent market activity, and he presented three-year, five-year, and ten-year results for the GEP, the UCRP, and the policy benchmark. He displayed the results for other public market indices for the September 2001 quarter, noting that The Regents' diversified investment philosophy results in reduced risk. He presented a slide which displayed current economic indicators, including increased unemployment and decreased consumer spending. Inflation is still relatively low. The Federal Reserve has decreased its interest rate by 4 percent since January 2001.

Mr. Steve Nesbitt of Wilshire Associates noted that many trustees were wondering whether or not to change investment strategies in light of the downturn in the stock market. The consensus among experts is to stay the course. He reported that the sharp decline in value in September had caused the allocation to equity in The Regents' portfolios to fall below the policy minimums. The Treasurer reallocated additional funds to equities in order to correct the imbalance. Mr. Nesbitt commented that overall performance continues to meet expectations. The index funds are fully operational. The private equity portfolio is suffering due to the relatively poor performance of venture capital partnerships. He noted that, compared to those of its peer institutions, The Regents' portfolios are performing about in the middle. Fortunately, the retirement plan's overfunding provides a buffer during leaner times.

Committee Chair Hopkinson reported that the members of the Investment Advisory Committee had concurred with the recommendation to stay the course. She noted that the asset allocation policy had served The Regents well.

(For speakers' comments, see the minutes of the November 14, 2001 afternoon meeting of the Committee of the Whole.)

3. **TREASURER'S ANNUAL REPORT**

The Treasurer recommended that the Committee forward to The Regents the **Treasurer's Annual Report** for the fiscal year ended June 30, 2001.

> [The report was mailed to all Regents in advance of the meeting, and a copy is on file in the Office of the Secretary.]

Treasurer Russ recalled that the Bylaws state that the Committee on Investments shall report periodically to the Board concerning the investment operations of the University. The Treasurer's Annual Report goes into detail concerning these operations. Mr. Russ drew the Committee's attention to several charts which were presented in the report, including annualized total returns for the General Endowment Pool versus the policy benchmark, the Capital Resource Advisors Balanced Fund Median, and inflation. He stressed the excellent

20-year cumulative results. The High Income Pool, which is mainly composed of bonds, had a positive return of 12.1 percent versus the policy benchmark of 17.2 percent. He noted that the pool had been reduced over time as investments shift to the GEP. The report also presents detailed results for the UCRP, University-managed defined contribution funds, and the Short-Term Investment Pool.

Treasurer Russ reported that, at the request of Regent Hopkinson, his office had prepared comparisons of its cost of managing the portfolios with other public institutions and universities. The Treasurer's Office cost is two basis points, or 0.02 percent. The National Association of College and University Business Officers found a median cost of approximately 40 basis points. A Cambridge Associates survey for the year ending June 30, 2001 found an average of 50 basis points.

The Committee went into Closed Session at 2:15 p.m.

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The meeting adjourned at 2:40 p.m.

Attest:

Secretary