

**COMMITTEE ON FINANCE  
COMMITTEE ON INVESTMENTS**

March 14, 2002

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

Members present:     ***Representing the Committee on Finance:*** Regents Atkinson, Hopkinson, Kozberg, Lee, Montoya, Moores, Morrison, Parsky, and Preuss; Advisory member Ligot-Gordon

***Representing the Committee on Investments:*** Regents Atkinson, Davies, T. Davis, Hopkinson, Lee, Moores, and Parsky; Advisory member Ligot-Gordon

In attendance:       Regents Johnson, Saban, and Seymour, Regents-designate Sainick and Terrazas, Faculty Representatives Binion and Viswanathan, Associate Secretary Shaw, General Counsel Holst, Treasurer Russ, Provost King, Senior Vice Presidents Darling and Mullinix, Vice Presidents Broome, Gurtner, and Hershman, Chancellors Berdahl, Bishop, Cicerone, Dynes, Greenwood, and Vanderhoef, Acting Chancellor Warren, and Recording Secretary Nietfeld

The meeting convened at 9:20 a.m. with Committee on Investments Chair Hopkinson presiding.

**TREASURER'S OFFICE COMPENSATION: ANNUAL INCENTIVE PLAN PROPOSAL**

The President recommended approval of the Annual Incentive Plan for the Office of the Treasurer presented in Attachments A, B, and C for the 2002-03 fiscal year. The President also recommended approval of a target award opportunity of 50 percent of base salary for David H. Russ, Treasurer and Vice President for Investments. Mr. Russ's maximum award opportunity under the terms of the Plan would be 75 percent of base salary.

The Committee was informed that, for the years following the initial year of implementation, the plan specifies that the President, the Chairman of the Board, the Chair of the Committee on Finance, and the Chair of the Committee on Investments will jointly approve certain parameters of the plan, including performance measures and objectives. At the beginning of each plan year, the Treasurer will submit a report to The Regents showing approved participants, award opportunity levels, performance measures, and objectives for the coming year.

Participants in the plan and actual award payments, based on achievement of performance objectives, will be determined by the Treasurer, subject to approval by the President. The Treasurer's award will be determined by the Office of the President and approved by The Regents. At the end of each plan year, the Treasurer will submit a report to The Regents which summarizes the overall results of the plan for the year, including the payment of actual incentive awards.

Modifications Since January Presentation

The proposal for an incentive compensation plan for the Office of the Treasurer was presented for discussion at the January 16, 2002 meeting. Some minor modifications have been incorporated into the plan since that time. The first gives the President the discretion to grant exceptions to the eligibility criteria to allow participants who go on approved leaves of absence or who begin working less than full time during a plan year to remain participants in the plan. The second allows the President to determine the award component subject to the negative accrual feature for certain participants based on their roles and portfolio responsibilities.

Another change is highlighted on Attachment B. The weighting of performance measures for the Managing Director – Alternative Investments and the Private Equity Officer have been changed to 25 percent asset class (private equity) and 50 percent individual goals. This has been endorsed by Wilshire Associates to better reflect the nature of the current alternative investment portfolio. To recognize the increasing pace of investment expected in this area, 5 percent per year will be moved from the individual component to asset class until the desired weighting is achieved.

On Attachment C, the benchmark and corresponding target levels for the asset class measure for private equity has been changed to the Venture Economics Vintage Year Index, a measure of the opportunity set of investment options in a particular year. In addition, the target levels for the Salomon Brothers Long Pension Fund measure for the bond asset class have been increased to better reflect the risk profile of the benchmark. Wilshire Associates has also endorsed both these changes to the performance objectives.

The background material provides a summary of certain studies that have been published concerning the correlation of incentives to financial performance. In general, these studies support the use of incentives to improve performance. While most studies of this nature are conducted in private industry and focus on bottom line results, the fact that incentives are highly prevalent in the market for investment professionals is a more compelling argument in favor of implementing the plan for the Office of the Treasurer. The administration believes that adoption of this plan would significantly improve the University's ability to recruit and retain the most qualified staff to best achieve The Regents' objectives for the investment portfolio.

Upon motion duly made and seconded, the Committees approved the President's recommendation and voted to present it to the Board.

The meeting adjourned at 9:21 a.m.

Attest:

Associate Secretary