The Regents of the University of California

COMMITTEE ON FINANCE
COMMITTEE ON INVESTMENTS
November 13, 2002

The Committees on Finance and Investments met jointly on the above date at UCSF–Laurel Heights, San Francisco.

Members present: Representing the Committee on Finance: Regents Atkinson, Connerly, Hopkinson, Ligot-Gordon, Montoya, Moores, and Preuss
Representing the Committee on Investments: Regents Atkinson, Blum, Davies, Ligot-Gordon, Montoya, Moores, and Preuss

In attendance: Regents Johnson, Marcus, Sainick, and Terrazas, Regents-designate Bodine, Murray, and Seigler, Faculty Representative Pitts, Associate Secretary Shaw, General Counsel Holst, Treasurer Russ, Provost King, Senior Vice Presidents Darling and Mullinix, Vice Presidents Broome, Drake, Gurtner, and McTague, Chancellors Córdova, Dynes, Tomlinson-Keasey, and Vanderhoef, and Recording Secretary Bryan

The meeting convened at 10:26 a.m. with Committee on Investments Vice Chair Davies presiding.

1. **APPROVAL OF MINUTES OF PREVIOUS MEETINGS**

Upon motion duly made and seconded, the minutes of the meetings of January 16 and March 14, 2002 were approved.

2. **ADOPTION OF EXPENDITURE RATE FOR THE GENERAL ENDOWMENT POOL**

The President recommended that, with the concurrence of the Committee on Investments, the Committee on Finance recommend that the expenditure rate per unit of the General Endowment Pool (GEP) for expenditure in the 2003-04 fiscal year shall be 4.5 percent of a 60-month moving average of the market value of a unit invested in the GEP.

It was recalled that in October 1998, The Regents adopted a target endowment expenditure rate of 4.75 percent, with a first year payout of 4.35 percent. For all future years, the President and the Treasurer committed to review GEP performance, inflation expectations, and the University's programmatic needs and to recommend to The Regents a rate that would provide appropriate increases in the dollar value of the payout. Last year the endowment expenditure rate was approved at 4.45 percent, which continued the rate adopted in November 2000.

If the GEP meets the fund's expected long-term target total return of 8.5 percent, the recommended rate of 4.5 percent would produce an increase in the per-share payout for expenditure in 2003-04 of 2.99 percent over the prior fiscal year. The increase in the dollar payout per share of GEP would range from 1.13 percent to 3.13 percent, with a 2.99 percent increase if the GEP meets its estimated target long-term total return of 8.5 percent. This range of dollar payouts is considered to be an appropriate balance among the following objectives that were discussed with The Regents in October 1998:

- Maximize long-term total return;
- Preserve the real (i.e., after inflation) long-term purchasing power of the endowment portfolio's principal and of its distributions;
- Optimize annual distributions from the endowment portfolio;
- Maximize the stability and predictability of distributions;
- Promote accountability of asset management (disclosures to donors, performance reporting, etc.); and
- Promote the fundraising effort.

The results of the endowment payout following the adoption of the endowment payout policy in 1998, including the 1998-99 and 1999-2000 payouts at 4.35 percent, the 2000-01 and 2001-02 payouts at 4.45 percent, and the estimated 2002-03 payout at 4.5 percent are as follows:

	Year	Payout per share of GEP	Change per share of GEP	Amount paid
	1998-99	$0.54055	NA	$120.1M
	1999-2000	$0.62544	15.7%	$132.7M
	2000-01	$0.71451	14.2%	$152.6M
	2001-02	$0.75720	6.0%	$153.0M
Estimated:	2002-03	$0.77981	3.0%	$157.8M

The number of shares to which the payout formula applies changes over time. New shares are purchased by additions to the GEP, existing shares experience fluctuation with the financial markets, and some shares are sold. For these reasons, the percentage is expressed on a per-share basis.

The President and the Treasurer will continue to review annually the expenditure rate in the context of the performance of the GEP to form their recommendation to The Regents for the continuation or modification of the endowment expenditure rate.

In response to an observation by Regent Hopkinson, Senior Vice President Mullinix noted that when there is a decline in market, the recipients of endowment funds with a market value that is lower than the initial amount endowed may receive significantly less than the 4.5 percent, but he noted that the number of such recipients is very small. Under State law, the University cannot expend in excess of the income from those funds. Last year these funds were given about 2.5 percent of market value and 2.2 percent of historical value as a payout rate as opposed to the amount that would be paid out under the current policy.

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 10:35 a.m.

Attest:

Associate Secretary