

The Regents of the University of California

COMMITTEE IN INVESTMENTS

July 14, 2004

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

Members present: Regents Anderson, Blum, Dynes, Lee, Montoya, Ornellas, and Parsky;
Advisory member Blumenthal

In attendance: Regents Connerly, Hopkinson, Johnson, Kozberg, Lansing, Marcus, Novack, Sayles, and Wachter, Regents-designate Juline and Rominger, Faculty Representative Pitts, Secretary Trivette, General Counsel Holst, Treasurer Russ, Provost Greenwood, Senior Vice Presidents Darling and Mullinix, Vice Presidents Broome and Hershman, Chancellors Berdahl, Carnesale, Cicerone, Córdova, Tomlinson-Keasey, Vanderhoef, and Yang, Acting Chancellor Chemers, and Recording Secretary Nietfeld

The meeting convened at 5:00 p.m. with Committee Chair Lee presiding.

1. APPROVAL OF MINUTES OF PREVIOUS MEETINGS

Upon motion duly made and seconded, the minutes of the meetings of March 18 and May 4, 2004 were approved.

2. APPOINTMENT OF INVESTMENT CONSULTANT

The President recommended that the Officers of The Regents be authorized to execute an agreement with Richards & Tierney, Inc. to serve as The Regents' Investment Program consultant in connection with ongoing review of the University of California's Investment Program. The consultant services will be conducted for a term of three years.

It was recalled that the investment funds managed by the Office of the Treasurer consist of the University's retirement plan, the general endowment pool, and the University's cash assets. The Treasurer and Vice President for Investments is responsible for all investment management, investment accounting, portfolio reporting, and cash management for the University system. The current investment portfolio has approximately \$58 billion in assets.

Wilshire Associates Incorporated was appointed by The Regents at its meeting of May 2000 for general consultant services in connection with the implementation of the asset allocation plan. That contract expired on March 31, 2001. In January 2001, The Regents issued a Request for Proposals for conducting a review of the investment program. Based on the responses and interviews of two of the firms that responded, the Committee on Investments recommended to The Regents that Wilshire Associates Incorporated be appointed as the general consultant to The Regents in connection with ongoing review of the University of

California's Investment Program. That contract was for the period April 1, 2001 through March 31, 2004.

Because the contract with Wilshire Associates was expiring on March 31, 2004, on February 13, 2004 a Request for Proposals for The Regents' Investment Program Consultant was issued, requesting responses by March 12, 2004. Twenty-six Requests for Proposals were distributed, and an advertisement was placed in the February 23, 2004 issue of Pensions & Investments. Fifteen responses were received. A panel which included Mr. Charles Martin, a member of the Investment Advisory Committee, reviewed the fifteen submissions received and determined, based on the written responses, that four firms were particularly well qualified to provide the requested services.

The four firms (Callan Associates, Ennis Knupp & Associates, Richards & Tierney, Inc., and Strategic Investment Solutions, Inc.) each made 60-minute presentations to the review panel on April 30, 2004. Upon conclusion of the presentations, the review panel ranked their preferences, based on the experience and competency of the firms and the teams presented, as well as plans of work and responsiveness to the RFP. References of current and former clients were contacted, and the results were shared with the review panel members on May 17, 2004.

The review panel members unanimously recommended that The Regents appoint Richards & Tierney, Inc. as the Investment Program consultant. The panel felt that Richards & Tierney presented the strongest written proposal, one that was tailored to the University of California and that reflected creativity. The panel also unanimously agreed that Tom Richards and Ann Posey were the strongest of the teams. Reference checks resulted in unqualified positive responses from present and former clients, with clients praising the intellectual and creative talents of the firm, the level of client service and responsiveness provided, and the integrity and skill of the team proposed. Estimated fees for services to be provided were within appropriate parameters and consistent with fees proposed by other firms, at \$375,000 per year for each of the three years of the contract. This fee is lower than that charged by Wilshire Associates.

Based on the review of the written materials, responses to detailed questions posed to Richards & Tierney and discussions with present and former clients, no conflicts of interest or potential for conflicts of interest were determined. The contract negotiated with Richards & Tierney will not include the recommendation or selection of investment managers.

Senior Vice President Mullinix introduced Mr. Tom Richards and Mr. Dave Tierney, noting that the firm has an impressive list of clients that includes major corporate pension funds, as well as state pension funds. Richards & Tierney is recognized as a firm with in-depth experience in the investment field.

In response to a series of questions from Regent Hopkinson, Mr. Mullinix noted that the firm's client list includes General Appliance, General Electric, General Mills, Minnesota State Board of Investments, and Delta Airlines. Based upon assets advised, the firm was ranked as 8th by an investment advisor service. Mr. Richards will be the principle person who will work with the University; Mr. Tierney and Ms. Posey will also serve as members of the team.

Regent Parsky asked that the Request for Proposals be distributed to the Regents. He stressed that the role of Richards & Tierney would be to serve as an investment consultant to The Regents.

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

3. **REMARKS OF THE COMMITTEE CHAIR**

Regent Lee observed that the court's ruling in *Coalition of University Employees, et al. v. The Regents* had hurt the University's ability to invest in venture capital and asked that the Treasurer make a presentation on what effects the ruling would have on The Regents' portfolio. He also raised the issue of resuming contributions to the University of California Retirement Plan and asked that the Treasurer provide information on how soon such contributions would need to be made.

Regent Parsky suggested that it would be beneficial to have a presentation on the Plan's assets and liabilities. He commended Treasurer Russ for outperforming his benchmark in the current fiscal year. Regent Parsky noted that, rather than focusing exclusively on venture capital, it would be appropriate for the Committee to understand what steps may be taken to improve the returns that would be expected if the portfolio were invested in only fixed income and public equities, as well as what investment opportunities are available to improve the returns.

Regent Marcus added that it would be useful to know what steps would be taken to improve returns if the portfolio were limited in that way.

In response to a comment by Regent Hopkinson, Senior Vice President Darling noted that a group within the Office of the President was working on the feasibility of sponsoring legislation which would address the disclosure issues with respect to investments in venture capital.

The meeting adjourned at 5:20 p.m.

Attest:

Secretary