

The Regents of the University of California

**COMMITTEE ON FINANCE
COMMITTEE ON INVESTMENTS**

September 20, 2007

The Committees on Finance and Investments met on the above date at Mondavi Center, Davis campus.

Members present: Representing the Committee on Finance: Regents Blum, Brewer, Dynes, Garamendi, Gould, Hopkinson, Island, Kozberg, Moores, Parsky, Preuss, and Wachter; Advisory member Croughan; Staff Advisors Brewer and Johansen

Representing the Committee on Investments: Regents Blum, Brewer, De La Peña, Dynes, Moores, Parsky, Pattiz, Preuss, and Wachter; Advisory member Croughan

In attendance: Regents Allen, Bugay, Johnson, Ruiz, and Varner, Regents-designate Cole, Scorza, and Shewmake, Faculty Representative Brown, Secretary and Chief of Staff Griffiths, Associate Secretary Shaw, General Counsel Robinson, Chief Investment Officer Berggren, Provost Hume, Executive Vice Presidents Darling and Lapp, Vice Presidents Broome, Foley, and Sakaki, Acting Vice President Standiford, Chancellors Birgeneau, Bishop, Block, Fox, Kang, Vanderhoef, and Yang, Acting Chancellors Blumenthal and Grey, and Recording Secretary Smith

The meeting convened at 11:15 a.m. with Committee on Finance Chair Gould presiding.

**AMENDMENT OF POLICY ON CONFLICT OF INTEREST DISCLOSURE
OBLIGATIONS OF INVESTMENT ADVISORY GROUP MEMBERS**

The General Counsel, with the concurrence of the President and the Vice President for Investments/Acting Treasurer, recommended that The Regents adopt, effective immediately, an amendment to the policy on conflict of interest disclosure by members of the Investment Advisory Group, as follows:

Deletions shown by ~~strikeout~~; additions shown by underlining

1999 Policy Establishing the Investment Advisory Committee [now Group, per Regents' action at the July 2007 meeting]:

Conflicts: Members of the Advisory Group shall upon taking and leaving office and annually during their terms, with updates when information changes, disclose ~~all-existing~~

and potential conflicts of interest and shall abstain from voting on any such matters the following: their status and the status of their immediate family, within the meaning of the Political Reform Act, as partners, members, executive officers or employees with any and all investment management firms; any ownership interest in a privately held investment management firm; and any ownership interest of 1 percent or more in a publicly traded investment management firm.

An investment management firm is defined as a for-profit business entity which derives its revenues from the investment of third-party assets or, if it is a diversified business entity, no other business line contributes more revenues or earnings than the investment of third-party assets.

University Counsel Birnbaum recalled that at the July 2007 meeting, The Regents acted to amend the 1999 Policy Establishing the Investment Advisory Committee (IAC) and the 2005 Policy on Conflict of Interest Regarding Assets Managed by the Treasurer. These amendments reconstituted the Investment Advisory Committee as the Investment Advisory Group (IAG), which is advisory to The Regents' Committee on Investments. The amendments also provided that eligibility to serve on the IAG is limited to investment professionals, faculty, and UC Foundation members not currently serving as Regents; clarified that the responsibilities of the IAG are to advise on investment policies and performance, but do not include selection of specific investments or the selection of investment managers; and required the General Counsel to take action to assure that selections of investment managers by the Treasurer's office have been exercised free of any conflicts of interest.

At the July 2007 meeting, amendments to the conflict of interest disclosure requirements for IAG members were also recommended. Given the range of views expressed during the discussion of this issue, the matter was put over to the September meeting. The current proposal is set forth above.

The existing conflict of interest disclosure provisions for IAG members in the 1999 policy provide that IAG members shall disclose all "existing and potential conflicts of interest." There have been no disclosures of actual conflicts by IAC/IAG members, and the General Counsel's office is not aware of any. In fact, conflicts of interest on the part of IAG members are highly unlikely, given their role advising on investment policies and performance, and the absence of any role in the selection of individual investments or investment managers.

Nevertheless, questions have been raised about perceived conflicts of interest regarding selection by the Treasurer's office of outside fund management firms in which IAC members have had financial interests. Given the importance of perception issues and the ongoing commitment of The Regents and the Office of the President to assure public and employee trust, accountability, and transparency, amendments to the 1999 conflicts policy are proposed that require disclosure by IAG members of their status, or the status

of members of the “immediate family,”¹ as partners, members, executive officers, or employees with any and all investment management firms; any ownership interest in a privately held investment management firm; and any ownership interest of 1 percent or more in a publicly traded investment management firm.

This disclosure would be required upon taking and leaving office as IAG members, annually during their terms, and whenever any information contained in the disclosures changes.

This proposal differs from the proposal made at the July 2007 meeting in the following respects:

- The current proposal requires disclosure of any ownership interest of any amount in a privately held investment management firm; the July 2007 proposal was for disclosure of ownership interests of 5 percent or more in an investment management firm.
- The current proposal requires disclosure of an ownership interest in a publicly held investment management firm of 1 percent or more; the July 2007 proposal did not distinguish between privately held and publicly owned investment management firms; a 5 percent threshold was needed in order to require disclosure of ownership interests in any investment management firm.
- The current proposal contains a definition of “investment management firm,” which was not contained in the July 2007 proposal. This definition is modeled on the definition of “tobacco companies” contained in The Regents’ guidelines for investment managers.

The current proposal reflects discussion by Regents at the July 2007 meeting in which some Regents expressed a desire for greater disclosure, including disclosure of any ownership interest of any amount in an investment management firm, and other Regents questioned the need for disclosure of ownership interests in publicly owned investment management firms, as well as concern about the willingness of individuals to volunteer their time as IAG members if disclosure requirements were overly intrusive.

The current proposal is intended to balance these interests by requiring disclosure of any ownership interest in a privately held investment management firm, but limiting disclosure obligations to significant ownership interests (1 percent or greater) in publicly held investment management firms. In addition, disclosure is required of any IAG member’s status, and the status of their immediate family, as a partner, member, executive officer, or employee with any investment management firm. This was also part of the proposal at the July 2007 meeting.

In response to a question from Regent Brewer, Regent Wachter clarified that this policy applies only to the Investment Advisory Group, not consultants.

¹ “Immediate family” is defined under the Political Reform Act, and for purposes of this proposed policy, as: spouse, including registered domestic partner, and dependent children.

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

The meeting adjourned at 11:20 a.m.

Attest:

Secretary and Chief of Staff