The Regents of the University of California

COMMITTEE ON INVESTMENTS
INVESTMENT ADVISORY GROUP
September 17, 2008

The Committee on Investments and the Investment Advisory Group met jointly on the above date at the Student Center, Irvine Campus.

Members present: Representing the Committee on Investments: Regents Blum, De La Peña, Pattiz, Schilling, Wachter, and Yudof; Advisory members Nunn Gorman and Powell
Representing the Investment Advisory Group: Member Martin and Consultant Gilman

In attendance: Regents Scorza and Shewmake, Secretary and Chief of Staff Griffiths, Associate Secretary Shaw, General Counsel Robinson, Chief Investment Officer Berggren, Executive Vice Presidents Darling and Lapp, and Recording Secretary Lopes

The meeting convened at 4:25 p.m. with Committee Chair Wachter presiding.

1. **READING OF NOTICE OF MEETING**

For the record, it was confirmed that notice was given in compliance with the Bylaws and Standing Orders for a special meeting of the Committee on Investments, concurrent with the meeting scheduled for this date and time, for the purpose of addressing two items on the Committee's agenda.

2. **APPROVAL OF MINUTES OF PREVIOUS MEETING**

Upon motion duly made and seconded, the minutes of the meeting of May 7, 2008 were approved.

3. **SECOND QUARTER 2008 AND FISCAL YEAR TO DATE INVESTMENT PERFORMANCE SUMMARY**

[Background material was mailed to the Committee in advance of the meeting, and copies are on file in the Office of the Secretary and Chief of Staff.]

Chief Investment Officer Berggren began by noting that this is a time of unprecedented turmoil in financial markets. In the last 72 hours, Merrill Lynch was bought by Bank of America, the magnitude of AIG's liquidity crisis increased from $40 billion to $75 billion, and Lehman Brothers essentially went bankrupt. The short-term impact of these events translates into what the Office of the Treasurer considers a re-pricing of risk. The market's appetite for risk has diminished significantly. The credit crisis that began last year with subprime mortgage loans has now moved into every area of credit, including mortgage securities, high-yield bonds, and commercial paper. Ms. Berggren anticipated that the capital and credit markets will remain in turmoil and expressed concern about dislocations in the market following the Lehman Brothers bankruptcy. Fortunately, the Federal Reserve Bank has made changes to its lending facilities and will now accept equities as collateral for loans. This may provide short-term benefit to the market.

Turning to the performance of the University's portfolios, Ms. Berggren noted that returns on the UC Retirement Plan (UCRP) were down approximately 2 percent in July and August, and about 5 percent so far this month. The public areas of the General Endowment Pool (GEP) portfolio have declined approximately 3 percent in July and August, and about 5 percent in the month to date.

The overall asset allocation in the UCRP is 62 percent equity, 27 percent fixed income, and 11 percent in alternatives; in the GEP, 43 percent equity, 23 percent fixed income, and 34 percent in alternatives. In the UCRP, there is an underweight in the equity position of about 330 basis points, and overweight in fixed income, which has worked to the University's benefit. In the GEP, there is an underweight of 210 basis points in equity and overweight in fixed income of 160 basis points. There is general concern about the University's active exposure in the financial sector. The University portfolio is underweighted relative to the benchmark across the board: in U.S. equity, in the developed non-U.S. equity market, in the emerging market, in core fixed income, and in high-yield debt.

The University wishes to maintain its current underweight in equities. It is reducing its overweight in bonds, using the most liquid parts of its bond portfolio. Ms. Berggren anticipated market opportunities in the absolute return area, which shows more flexibility, and increased volatility in commodity prices and foreign exchange markets. The decrease in equity valuations may provide the University with attractive market entry points. Many of the University's managers are currently neutral to the market and are expected to increase their exposure. There is a significant spread between high-quality and low-quality companies, which will allow for more shorting. Indiscriminate selling in the credit market is providing unusual opportunities in the debt market, and the University has taken advantage of this, specifically in the mortgage area. The decline in the high-quality mortgage security area will provide opportunity for outsized returns in the near term.

Managing Director Wedding then provided an update on the fixed income portfolio. He observed that the model of a free-standing, highly leveraged financial entity which does not have core retail consumer deposits, such as broker-dealers and consumer finance, is being severely tested by the current market conditions. Any entity that needs to borrow large sums in the short term is under great stress.

Financials account for about 28 percent of the UCRP benchmark. In other UC fixed income benchmarks, this figure is closer to 30 or 31 percent. They are a significant part of the equity index as well. The University portfolio is underweight in banks, half of which went to brokerages. Lehman Brothers was the first bankruptcy in the University's portfolio during Mr. Wedding's ten-year tenure as portfolio manager. He opined that the fixed income market is in an extreme condition. The fixed income portfolio is designed to perform at least as well as the index in such an environment. Through September 15, the portfolio index is up 1.5 percent, as is the fixed income portfolio. Mr. Wedding anticipated that the systemic stress in financials would not have a long-term material impact on UC's returns, but that it presented a situation through which it is difficult to navigate.

Investment Advisory Group Member Martin asked if the University's strategies would be affected by the movement of the dollar, currency plays, and events in the commodities markets. Ms. Berggren responded that the University would participate in most of those sectors through its real asset allocation. Obviously, an improvement in the dollar will affect the equity and debt of international companies.

Regent Wachter observed that the current market conditions have led to an effort to move the University portfolio toward absolute return strategies, rather than bonds, stocks, or hedge funds. There may be opportunities to take advantage of currencies.

Mr. Martin emphasized the importance of diversification in difficult times like the present. Regent Wachter anticipated that the next weeks would continue to be difficult.

President Yudof asked if the University selects individual stocks, or if it employs managers, in its equity portfolio. Ms. Berggren explained that, in equity, the University has an active portfolio and a passive portfolio. The active portfolio is managed by outside managers, not internally.

President Yudof asked if the passive portfolio is self-executing. Ms. Berggren responded in the affirmative.

President Yudof asked if the University purchases bundles of stocks or instruments. Ms. Berggren responded that State Street, the University's custodial bank, provides the technical ability to invest in those. During the last year, the University has substantially reduced the active equity risk in its portfolio. A number of active managers have been eliminated due to concerns about equity benchmark returns.

President Yudof asked if the University, in its active management portfolio, regulates the use of derivatives and leveraging. Ms. Berggren responded in the affirmative.

President Yudof noted that UC has investments in mortgage-backed instruments. He asked if there has been any investigation into the likelihood of default. He cited the magnitude of the investment and the potential risk of not being able to mark to market. Mr. Wedding identified the significant issue as agency vs. non-agency mortgage-backed securities. He recalled that there was a presentation to the Committee on this topic in May. The University has been active in the non-agency securities market for many years.

Last year, UC determined that these securities were very expensive relative to agency securities, and therefore the University had a low weight in those securities. As the market turmoil expanded, the non-agency securities became less expensive, and in December, the University bought a fairly significant amount.

In response to a question asked by President Yudof, Mr. Wedding stated that the University has about $1.4 billion invested in mortgage-backed securities, of which $0.6 billion is within the UCRP, 40 percent to 45 percent of the total mortgage-backed portfolio. Since May, that market has become very illiquid. Even the agency suppliers of mortgage debt, Freddie Mac and Fannie Mae, had to be guaranteed by the Treasury. Non-agency mortgages have become more illiquid and difficult to value in the market. The University cannot obtain reliable daily or monthly pricing from its pricing providers on many of these securities. When they were purchased, the University carried out credit analysis on them and continues to do so. There have been no missed interest or principal payments. The majority of them, 95 percent, are still valued AAA, as they were when purchased, but it is difficult to determine a market price. Mr. Wedding noted that the University feels more sanguine about the credit in these securities than in some Large Cap financials. The University's opinion is that it should hold this position rather than liquidate, and that this position will work out over a one-and-a-half to two-year period.

4. **APPROVAL OF REVISED ASSET ALLOCATION POLICY TARGETS FOR ALTERNATIVE INVESTMENTS IN THE UNIVERSITY OF CALIFORNIA RETIREMENT PLAN AND GENERAL ENDOWMENT POOL**

The Chief Investment Officer recommended, and Richards & Tierney, Inc. concurred, that the Asset Allocation Policy for the University of California Retirement Plan, with revisions shown in Attachment 1, and the University of California General Endowment Pool, with revisions shown in Attachment 2, be approved, effective October 1, 2008.

[Background material was mailed to the Committee in advance of the meeting, and copies are on file in the Office of the Secretary and Chief of Staff.]

Chief Investment Officer Berggren informed the Committee that this revised policy would result in much higher allocations to both private equity and real estate in the future. This is due to the fact that there are long lead times in both these asset classes. Actual future investments are a function of the increased commitments made at this time. The recommendation is for an increase in the long-term target for private equity and real estate consistent with the present commitments and with commitments planned for the next few years. Opportunistic investments will be put in the absolute return category rather than into a separate category. This was the recommendation of the Chair of the Committee on Investments.

Regarding the UC Retirement Plan (UCRP) asset allocation, the item proposes an increase in the target weights for private equity. The long-term target will be raised from 5 percent to 6 percent. The current Net Asset Value is 4.4 percent, with a target of 4 percent. The long-term target for real estate will be raised from 5 percent to 7 percent.

The current Net Asset Value is 3 percent, with a target of 3 percent. The target for absolute returns will be raised from 2 percent to 3.5 percent. The current Net Asset Value is 2.6 percent; the long-term target will be 5 percent.

Comparing the current and proposed asset allocation, Ms. Berggren pointed out that the portfolio is underweight in U.S. equity and overweight in fixed income. The proposal recommends a reduction in U.S. equity from 36 percent to 34.5 percent; this would fund absolute return. In the long term, the reduction in U.S. equity will fund private equity and real estate. In terms of its impact on the risk return space, the proposed long-term allocation brings the UCRP much closer to the efficient frontier with less risk than the existing current or long-term policy allocations.

Ms. Berggren then turned to the General Endowment Pool (GEP). The proposal recommends an increase in alternative target weights. The long-term target for private equity will be raised from 7.5 percent to 9 percent. The current Net Asset Value is 7.9 percent. The current and long-term targets for absolute returns will be raised from 20 percent to 23.5 percent. No change is proposed for real estate. In the GEP asset allocation, the proposal recommends a reduction in U.S. equity from 20 percent to 19 percent, in fixed income from 3 percent to 2.5 percent, and in Treasury Inflation Protected Securities (TIPS) from 6 percent to 4 percent. Absolute return would then rise to 23.5 percent. In the long term, the proposal recommends an increase in private equity and absolute return, and a reduction in other real assets. These changes will increase the risk of the GEP portfolio but materially increase its return.

Regent Pattiz asked if these measures should even be considered, given the current market environment. Ms. Berggren answered in the affirmative. She emphasized that the University invests for the long term. These are recommendations for the long-term health, stability and growth of the portfolio.

Regent Pattiz noted the current predictions that market turmoil and volatility will continue and raised the issue that it might be more prudent to wait and observe the market, as investment options may change in the short term.

Chairman Blum noted that the period of significant returns on real estate may now be over. He recalled that, for a time, it was easy to finance leveraged buyouts; now it is almost impossible. He stated that he could not judge whether UC should increase its allocation of private equity. He noted that for years, the pension fund did not pay attention to real estate. Real estate investments performed well for a number of reasons. Before interest rates went down, it was not difficult to achieve a 7 percent return on the pension fund. Chairman Blum recalled that there was a rush to manage real estate funds and that there were excellent returns three or four years ago. He stated that he was concerned less about specific percentages in the proposed asset allocation than about who the University's managers are.

Regent Wachter noted that the asset allocation cannot be changed quickly. He remarked that, in the opinion of the University, its portfolio has been underallocated in real estate, hedge funds, and private equity. In the current moment this may be an advantage. He recalled that the vintage of a private equity fund is important, and that the vintage of the proposed private equity funds would be outstanding, investing at the bottom of the market. Investors going into real estate and private equity at this moment will do well. He opined that the University is now well positioned to invest in areas that have gone down and may now go up. Responding to Chairman Blum's concern about managers, he observed that the Regents are allowed to know who the University's managers are, and in theory could comment on them. However, he recalled the stringent conflict-of-interest legal rule which applies to selection of managers and which defines "financial interest" very broadly as well as the Regents' Policy on Conflict of Interest Regarding Assets Managed by the Treasurer.

In response to remarks by Chairman Blum, Regent Wachter stated that the legal rule regarding financial interest cannot be changed, but the Regent's policy can. He acknowledged that the kinds of allocations the University makes can be a topic of discussion for the Regents, but expressed confidence in the ability and skills of the staff of the Office of the Treasurer.

Investment Advisory Group Member Martin praised Ms. Berggren and her team for their skill and diligence in selecting managers. He expressed confidence that they would do as well as could be done in a challenging investment area. He noted that it takes time to deploy funds in the private equity world. Prices over the last three to five years have been very high. The present turmoil creates an opportunity in bringing prices down. It will take the University two to three years to deploy this capital; even buyout funds will take several years to call down the capital. Mr. Martin estimated that the window of opportunity for this investment would last one to four years.

Ms. Berggren reminded the Committee of the professional experience she, Managing Director Wedding, and other staff members have. She stressed that they have experienced various market cycles. She recalled that the University has enjoyed a return of almost 20 percent, net of all fees, in its venture capital portfolio since inception; this in what is considered the highest-risk, lowest-return business over time. She found it unfortunate that this investment was limited to a small proportion of the overall portfolio.

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

5. **APPROVAL OF CHANGES TO PRIVATE EQUITY INVESTMENT GUIDELINES TO PERMIT CO-INVESTMENT AND DIRECT INVESTMENT STRATEGIES**

The Chief Investment Officer recommended, and Richards & Tierney, Inc. concurred, that the changes to the Investment Guidelines for the Private Equity allocation of the University of California Retirement Plan and the University of California General Endowment Pool shown in Attachment 3 be approved, effective upon approval.

[Background material was mailed to the Committee in advance of the meeting, and copies are on file in the Office of the Secretary and Chief of Staff.]

Chief Investment Officer Berggren explained that this item would permit the University to co-invest in private equity business. Initially, the University will allocate 5 percent of its overall private equity portfolio. The allocation would be taken from the venture capital portfolio and given to the University's highest-quality managers. Direct investment would only be done in association with a manager currently managing the UC portfolio, and it would involve only a University-related product.

Committee Chair Wachter opined that co-investing is very important.

President Yudof asked how these University-related technology and products would be vetted for quality and profitability. He asked if the Office of the Treasurer is able to carry out the necessary due diligence. Ms. Berggren indicated that her prior work experience included direct investing, and that the University currently does not have the internal resources to support direct investing. The only opportunity being considered for direct investment is one in which a high-performing venture capital manager is already engaged in University-related technology.

Committee Chair Wachter compared co-investment to investment in a private equity fund without paying fees, and with the ability to select attractive investment opportunities. Private equity firms typically offer this as a bonus to their larger, more important clients. He observed that the University has been successful with direct investment and that it would be appropriate for the University to invest in technologies developed at UC, as long as this involves a knowledgeable partner.

Investment Advisory Group Member Martin stressed that none of these scenarios involve a go-it-alone approach. The University would rely for vetting on proven sponsors or managers well-known to UC.

Ms. Berggren noted that, if the option of co-investment had existed beginning in the 1970s, this would have been valuable for the University.

Chairman Blum recalled that some companies spawned by UC-based research have been very successful.

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

6. **INVESTMENT CONSULTANT REVIEW OF UNIVERSITY OF CALIFORNIA FOUNDATIONS FIRST QUARTER 2008 PERFORMANCE REPORT**

[Background material was mailed to the Committee in advance of the meeting, and copies are on file in the Office of the Secretary and Chief of Staff.]

This item was not discussed.

The meeting adjourned at 5:25 p.m.

Attest:

Secretary and Chief of Staff

UNIVERSITY OF CALIFORNIA RETIREMENT PLAN

INVESTMENT POLICY STATEMENT

Originally approved March 19, 2008~~May 17, 2007~~
This version dated ~~March 19, 2008~~September 17, 2008

UNIVERSITY OF CALIFORNIA RETIREMENT PLAN
INVESTMENT POLICY STATEMENT

APPENDIX 1
Effective: ~~July 1, 2008~~October 1, 2008
Replaces Version Effective: July 1, 2008: ~~May 17, 2007~~

ASSET ALLOCATION, PERFORMANCE BENCHMARKS, AND REBALANCING POLICY

Based on the risk budget for the Retirement Fund, the Committee has adopted the following asset allocation policy, including asset class weights and ranges, benchmarks for each asset class, and the benchmark for the total Retirement Fund.

Criteria for including an asset class in the strategic policy include:

- Widely recognized and accepted among institutional investors
- Has low correlation with other accepted asset classes
- Has a meaningful performance history
- Involves a unique set of investors.

The Current Policy Allocation recognizes the current underinvestment in illiquid asset classes (private equity and real estate) and the corresponding need to set rebalancing ranges around this effective policy allocation until such time as long-term policy weights in these classes are achieved. The allowable ranges for each asset class and in total have been chosen to be consistent with budgets and ranges for total and active risk (see Appendix 2).

A. Strategic Asset Allocation and Ranges

	Long-Term Target Allocation	Current Policy Allocation	Allowable Ranges Minimum	Allowable Ranges Maximum
U.S. Equity	~~26~~23%	~~36~~34.5%	~~31~~29	~~41~~39
Developed Non US Equity	22	22	19	25
Emerging Mkt Equity	5	4	1	7
Global Equity	5	2	0	5
US Fixed Income	12	12	9	15
High Yield Fixed Income	3	3	0	6
Non USD Fixed Income	3	3	0	6
Emerging Mkt Fixed Income	3	3	0	6
TIPS	6	6	3	9
Private Equity	~~5~~6	4	1	7
Real Estate	~~5~~7	3	0	6
Absolute Return Strategy	5	~~2~~3.5	0	~~5~~6
Liquidity	0	0	0	10
	100%	100%		
Combined Public Equity	~~58~~55	~~64~~62.5	~~57~~55	~~71~~69
Combined Fixed Income	27	27	22	32
Combined Alternatives	~~15~~18	~~9~~10.5	~~4~~5	~~14~~15

UNIVERSITY OF CALIFORNIA RETIREMENT PLAN
INVESTMENT POLICY STATEMENT

B. Asset Class Performance Benchmarks

The Committee has adopted the following performance benchmarks for each asset class. Criteria for selection of a benchmark include:

- Unambiguous: the names and weights of securities comprising the benchmark are clearly delineated
- Investable: the option is to forego active management and simply replicate the benchmark
- Measurable: it is possible to readily calculate the benchmark's return on a reasonably frequent basis
- Appropriate: the benchmark is consistent with the Committee's investment preferences or biases
- Specified in Advance: the benchmark is constructed prior to the start of an evaluation period
- Reflects Current Investment Opinion: investment professionals in the asset class should have views on the assets in the benchmark and incorporate those views in their portfolio construction

Asset Class	Benchmark
U.S. Equity	Russell 3000 Tobacco Free Index
Developed Non US Equity	MSCI World ex-US (Net Dividends) Tobacco Free
Emerging Mkt Equity	MSCI Emerging Market Free (Net Dividends)
Global Equity	MSCI All Country World Index Net – IMI – Tobacco Free
Fixed Income	Citigroup Large Pension Fund Index
High Yield Fixed Income	Merrill Lynch High Yield Cash Pay Index
Non USD Fixed Income	Citigroup World Government Bond Index ex-US
Emg Mkt Fixed Income	33% times JP Morgan Emerging Market Bond Index – Global Diversified, plus 67% times the JP Morgan Global Bond Index – Emerging Markets – Global Diversified
TIPS	Lehman Brothers TIPS Index
Absolute Return Strategy	1 Month T Bill + 450 bp
Private Equity	N/A (see below note 2)
Real Estate	Public: 50% times the FTSE EPRA NAREIT US Index plus 50% times the FTSE EPRA NAREIT Global ex-US Index Private (core strategies): NCREIF Property Index Private (non-core strategies): N/A (see below note 3)

Notes on asset class benchmarks:
1. Global Equity: The Treasurer will determine what constitutes a tobacco company based on standard industry classification of the major index providers (e.g., Russell, MSCI) and communicate this list to investment managers annually and whenever changes occur.
2. Private Equity: *Long-term* portfolio returns will be compared to investable public equity alternatives as well as non-investable peer group indices. There is no appropriate market benchmark to use for *short-term* performance evaluation or decision making.
3. Private Real Estate (non-core strategies only): similar to Private Equity

C. Total Retirement Fund Performance Benchmark

This is the composition of the total Fund performance benchmark referred to in the Investment Policy Statement, Part 4(d). The percentages below add to 100%.

Percentage	Benchmark
45% - [A]	× Russell 3000 Tobacco Free Index
22%	× MSCI World ex-US (Net Dividends) Tobacco Free
4%	× MSCI Emerging Market Free (Net Dividends)
2%	× MSCI All Country World Index Net – IMI – Tobacco Free
12%.	× Citigroup Large Pension Fund Index
3%	× Merrill Lynch High Yield Cash Pay Index
3%	× Citigroup World Government Bond Index ex-US
3%	× 33% times JP Morgan Emerging Market Bond Index – Global Diversified, plus 67% times the JP Morgan Global Bond Index – Emerging Markets – Global Diversified
6%	× Lehman Brothers TIPS Index
Actual Weight [A.R.]	× 1 Month T Bill + 450 bp
Actual Weight [P.E.]	× Actual return of private equity portfolio
Actual Weight [public R.E.]	× 50% times the FTSE EPRA NAREIT US Index plus 50% times the FTSE EPRA NAREIT Global ex-US Index
Actual Weight [core private R.E.]	× NCREIF Property Index (lagged 3 Months)
Actual Weight [non-core private R.E.]	× Actual return of private real estate portfolio

where
[A] = Actual A.R. Weight + Actual P.E. Weight + Actual Total R.E. Weight

Notes on total fund benchmark:
1. The benchmark for private equity is replaced by the private equity portfolio's actual performance. This has the effect of neutralizing the active performance of this class for purposes of total fund performance evaluation.
2. The total fund benchmark contains the actual weights of Absolute Returns, Private Equity and Real Estate, rather than their policy weights. This is in recognition of the difficulty in quickly increasing or decreasing allocations in these illiquid asset classes. The difference between policy and actual weight is added to the US equity percentage, as shown. Thus the percentage to US Equity = ~~36~~34.5% + ~~2~~3.5% (abs. return) + 4% (private equity) + 3% (real estate) = 45%.
3. The calculation of the total fund benchmark will assume a monthly rebalancing methodology.
4. In the event of a significant change in asset allocation, The Regents' generalist consultant may specify an alternative weighting scheme to be used during a transition period.

D. Rebalancing Policy

There will be periodic deviations in actual asset weights from the long-term/current policy asset weights specified above. Causes for periodic deviations are market movements, cash flows, and varying portfolio performance. Significant movements from the asset class policy weights will alter the intended expected return and risk of the Fund. Accordingly, the Investment Committee authorizes the Treasurer to rebalance the Fund when necessary to ensure adherence to the Investment Policy.

The Treasurer will monitor the actual asset allocation at least monthly. The Committee directs the Treasurer to take all actions necessary, within the requirement to act prudently, to rebalance assets to within the policy ranges in a timely and cost effective manner when actual weights are outside the prescribed ranges. The Treasurer may utilize derivative contracts (in accordance with Appendix 4) to rebalance the portfolio.

The Treasurer shall assess and manage the trade-off between the cost of rebalancing and the active risk associated with the deviation from policy asset weights. With approval from the Chair of the Committee, the Treasurer may delay a rebalancing program when the Treasurer believes the delay is in the best interest of the Plan. Results of rebalancing will be reported to the Committee at quarterly meetings.

UNIVERSITY OF CALIFORNIA
GENERAL ENDOWMENT POOL

INVESTMENT POLICY STATEMENT

Originally approved March 19, 2008~~May 17, 2007~~
This version dated September 17, 2008~~March 19, 2008~~

APPENDIX 1
Effective: October 1, 2008~~July 1, 2008~~
Replaces Version Effective: July 1, 2008~~May 17, 2007~~

ASSET ALLOCATION, PERFORMANCE BENCHMARKS, AND REBALANCING POLICY

Based on the risk budget for the GEP, the Committee has adopted the following asset allocation policy, including asset class weights and ranges, benchmarks for each asset class, and the benchmark for the total GEP.

Criteria for including an asset class in the strategic policy include:

- widely recognized and accepted among institutional investors
- has low correlation with other accepted asset classes
- has a meaningful performance history
- involves a unique set of investors

The Current Policy Allocation recognizes the current under-investment in illiquid asset classes (private equity and real estate) and the corresponding need to set rebalancing ranges around this effective policy allocation until such time as long-term policy weights in these classes are achieved. The allowable ranges for each asset class and in total have been chosen to be consistent with budgets and ranges for total and active risk.

A. Strategic Asset Allocation and Ranges

	Long-Term Target Allocation	Current Policy Allocation	Allowable Ranges Minimum	Allowable Ranges Maximum
U.S. Equity	18%	20%	15	25
Developed Non US Equity	17	18	15	21
Emerging Mkt Equity	5	5	2	8
Global Equity	5	2	0	5
US Fixed Income	5	~~8~~6.5	~~5~~3	~~11~~9
High Yield Fixed Income	2.5	3	0	6
Non USD Fixed Income	2.5	~~3~~2.5	0	6
Emerging Mkt Fixed Income	2.5	~~3~~2.5	0	6
TIPS	2.5	~~6~~5	3	9
Absolute Return	~~20~~23.5	~~20~~23.5	~~17~~20	~~23~~26
Private Equity	~~7.5~~9	7	4	10
Real Estate	7.5	5	2	8
Other Real Assets	~~5~~0	0	NA	NA
Liquidity	0	0	0	10
	100%	100%		

Combined Public Equity	45	45	38	52
Combined Fixed Income	15	~~23~~19.5	~~18~~14	~~28~~24
Combined Alternatives	40	~~32~~35.5	~~27~~30	~~37~~35

* Alternatives category including, but not limited to: Real Estate, Private Equity, and Absolute Return Strategies

B. Asset Class Performance Benchmarks

The Committee has adopted the following performance benchmarks for each asset class. Criteria for selection of a benchmark include:

- Unambiguous: the names and weights of securities comprising the benchmark are clearly delineated
- Investable: the option is to forego active management and simply replicate the benchmark
- Measurable: it is possible to readily calculate the benchmark's return on a reasonably frequent basis
- Appropriate: the benchmark is consistent with The Committee's investment preferences or biases
- Specified in Advance: the benchmark is constructed prior to the start of an evaluation period
- Reflecting Current Investment Opinion: investment professionals in the asset class should have views on the assets in the benchmark and incorporate those views in their portfolio construction

Asset Class	Benchmark
U.S. Equity	Russell 3000 Tobacco Free Index
Non US Eq. Devel.	MSCI World ex-US Net Tobacco Free
Emerging Mkt Eq	MSCI Emerging Market Free Net
Global Equity	MSCI All Country World Index Net – IMI – Tobacco Free
Fixed Income	Lehman Aggregate Bond Index
High Yield Fixed Income	Merrill Lynch High Yield Cash Pay Index
Non USD Fixed Income	Citigroup World Government Bond Index ex-US
Emg Mkt Fixed Income	33% times JP Morgan Emerging Market Bond Index – Global Diversified, plus 67% times the JP Morgan Global Bond Index – Emerging Markets – Global Diversified
TIPS	Lehman TIPS Index
Absolute Return	1 Month T-Bill + 450 bp
Private Equity	N/A (see below note 1)
Real Estate	Public: 50% times the FTSE EPRA NAREIT US Index return plus 50% times the FTSE EPRA NAREIT Global ex-US Index return Private (core strategies): NCREIF Property Index, lagged 3 months Private (non-core strategies): N/A (see below note 2)

Notes on asset class benchmarks:
1. Private Equity: *Long term* portfolio returns will be compared to investable public equity alternatives as well as non-investable peer group indices. There is no appropriate market benchmark to use for *short term* performance evaluation or decision making.
2. Private Real Estate (non-core strategies only): similar to Private Equity

C. Total GEP Performance Benchmark
This is the composition of the total GEP performance benchmark referred to in the Investment Policy Statement, Part 4(b). The percentages below add to 100%.

Percentage	Benchmark
52% - [A]	× Russell 3000 Tobacco Free Index
18%	× MSCI World ex-US Net Tobacco Free
5%	× MSCI Emerging Market Free Net
2%	× MSCI All Country World Index Net – IMI – Tobacco Free
8%	× Lehman Aggregate Bond Index
3%	× Merrill Lynch High Yield Cash Pay Index
3%	× Citigroup World Government Bond Index ex-US
3%	× 33% times JP Morgan Emerging Market Bond Index – Global Diversified, plus 67% times the JP Morgan Global Bond Index – Emerging Markets – Global Diversified
6%	× Lehman TIPS Index
Actual Weight [A.R.]	× 1 Month T Bill + 450 bp
Actual Weight [P.E.]	× Actual return of private equity portfolio
Actual Weight [public R.E.]	× 50% times the FTSE EPRA NAREIT US Index return plus 50% times the FTSE EPRA NAREIT Global ex-US Index return
Actual Weight [core private R.E.]	× NCREIF Property Index, lagged one quarter
Actual Weight [non-core private R.E.]	× Actual return of private real estate portfolio

where
[A] = Actual A.R. Weight + Actual P.E. Weight + Actual Total R.E. Weight

Notes on Total Fund benchmark:
1. The benchmark for private equity is replaced by the private equity portfolio's actual performance. This has the effect of neutralizing the active performance of this class for purposes of total fund performance evaluation.
2. The total fund benchmark contains the actual weights of Absolute Return Strategies, Private Equity and Real Estate, rather than their policy weights. This is in recognition of the difficulty in quickly increasing or decreasing allocations in these illiquid asset classes. The difference between policy and actual weight is added to the US equity percentage, as shown. Thus the

percentage to US Equity = 20% + 20% (absolute return) + 7% (private equity) + 5% (real estate) = 52%.

3. The calculation of the Total Fund benchmark will assume a monthly rebalancing methodology.

4. In the event of a significant change in asset allocation, The Regents' generalist consultant may specify an alternative weighting scheme to be used during a transition period.

D. Rebalancing Policy

There will be periodic deviations in actual asset weights from the long-term/current policy asset weights specified above. Causes for periodic deviations are market movements, cash flows, and varying portfolio performance. Significant movements from the asset class policy weights will alter the intended expected return and risk of the GEP. Accordingly, the Investment Committee authorizes the Treasurer to rebalance the GEP when necessary to ensure adherence to the Investment Policy.

The Treasurer will monitor the actual asset allocation at least monthly. The Committee directs the Treasurer to take all actions necessary, within the requirement to act prudently, to rebalance assets to within the policy ranges in a timely and cost effective manner when actual weights are outside the prescribed ranges. The Treasurer may utilize derivative contracts [in accordance with Appendix 4] to rebalance the portfolio.

The Treasurer shall assess and manage the trade-off between the cost of rebalancing and the active risk associated with the deviation from policy asset weights. With approval from the Chair of the Committee, the Treasurer may delay a rebalancing program when the Treasurer believes the delay is in the best interest of the GEP. Results of rebalancing will be reported to the Committee at quarterly meetings.

APPENDIX 7K
Effective: September 17, 2008~~March 19, 2008~~
Replaces Version: March 19, 2008~~May 17, 2007~~

PRIVATE EQUITY
INVESTMENT GUIDELINES

The purpose for portfolio guidelines is to clearly define performance objectives and to control risk. Portfolio guidelines to control risk should be subject to ongoing review.

Performance Objectives:
The objective of the private equity portfolio is to earn a return, after adjusting for risk, that exceeds the Russell 3000 Index return on a consistent basis over time.

Portfolio Guidelines:

1. Permissible investments include partnerships that invest in U.S venture capital, U.S. buyouts, and non-U.S. private equity. Permissible investments also include co-investments and direct equity investments.

~~2. 2. Co-investment and dDirect investments are not permitted at this time.~~

2. ~~3.~~ Fund-of-funds partnerships are permitted, and the commitment to any individual fund-of-funds partnership is recommended not to exceed 35 percent of the total capital raised by the partnership. The maximum of 35 percent represents the ownership percentage of the partnership at each closing.

3. ~~4.~~ The policy allocation to U.S. buyouts is 45 percent of the private equity portfolio with a minimum allocation of 30 percent and maximum allocation of 70 percent. U.S. buyouts are broadly defined as leveraged buyouts, growth capital buyouts, special situations, restructuring, and mezzanine funds. Real estate funds are not included.

4. ~~5.~~ The policy allocation to U.S. venture capital is ~~45~~ 40 percent of the private equity portfolio with a minimum allocation of ~~30~~ 25 percent and maximum allocation of ~~70~~ 65 percent. U.S. venture capital includes early, middle, and late stage private investments in new high growth businesses.

5. ~~6.~~ The policy allocation to non-U.S. private equity is 10 percent of the private equity portfolio with a minimum allocation of 0 percent and maximum allocation of 20 percent. Non-U.S. private equity includes private equity and venture capital partnerships operating in Europe, Asia, and Latin America.

6. The policy allocation to co-investments / direct equity investments is 5 percent of the private equity portfolio with a minimum allocation of 0 percent and a maximum allocation of 10 percent.

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APPENDICES TO INVESTMENT POLICY STATEMENTS

7. No single partnership commitment (including co-investments / direct equity investments) can represent, at the time of commitment, more than 5 percent of the current private equity allocation defined as the most recent quarter book value plus unfunded commitments plus approved target commitment for the current (one) year.

8. Investment in multiple funds of the same general partner is permitted. However, the total commitment to partnerships with the same general partner (including co-investments / direct equity investments), at the time of commitment, can not exceed 15 percent of the budgeted three year private equity allocation defined as current book value plus unfunded commitments plus approved commitment level for the current year and two subsequent years.

9. The commitment to any individual partnership is recommended not to exceed 20 percent of the total capital raised by the partnership. The maximum of 20 percent represents the ownership percentage of the partnership at each closing. Notwithstanding these limitations, commitments to any fund-of-funds partnership are recommended not to exceed 35 percent of the total capital raised by the partnership.

10. The private equity portfolio should be diversified across time as well. At the time the budget is set, no more than 30 percent of the budgeted three year private equity allocation (defined in the same way as in guideline #8 above) can be committed to partnerships in any one year.

11. No single co-investment company can represent, at the time of commitment, more than $15 million at cost. No single co-investment company combined with UC's share of the same portfolio company from partnership investments can represent, at the time of commitment, more than $30 million at cost.