The Regents of the University of California

COMMITTEE ON INVESTMENTS
INVESTMENT ADVISORY GROUP
March 24, 2010

The Committee on Investments and the Investment Advisory Group met jointly on the above date at UCSF–Mission Bay Community Center, San Francisco.

Members present: Representing the Committee on Investments: Regents De La Peña, Kieffer, Makarechian, Marcus, Nunn Gorman, Schilling, and Wachter; Advisory members DeFreece, and Powell; Staff Advisors Abeyta and Martinez
Representing the Investment Advisory Group: Members Martin and Taylor

In attendance: Secretary and Chief of Staff Griffiths, Associate Secretary Shaw, General Counsel Robinson, Chief Investment Officer Berggren, Chief Compliance and Audit Officer Vacca, Executive Vice President Taylor, and Recording Secretary Harms

The meeting convened at 5:40 p.m. with Committee Chair Wachter presiding.

1. **APPROVAL OF MINUTES OF PREVIOUS MEETING**

Upon motion duly made and seconded, the minutes of the meeting of September 10, 2009 were approved.

2. **REAL ASSETS ALLOCATION AND INVESTMENT GUIDELINES FOR GENERAL ENDOWMENT POOL AND UNIVERSITY OF CALIFORNIA RETIREMENT PLAN**

The Chief Investment Officer (CIO) and the Regents' general investment consultant, Mercer Investment Consulting, Inc., recommended that:

A. A one-half percent (0.5 percent) current policy allocation to Real Assets be approved for the UC Retirement Plan (UCRP) and General Endowment Pool (GEP) funds, with a long-term allocation of three percent (3 percent).

B. The Investment Guidelines for the Real Assets allocation, as shown in Attachment 1, be adopted.

The new allocation and guidelines will be effective April 1, 2010.

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

Managing Director Recker explained that the typical drivers for the real assets program center around inflation protection. The building of the middle class in China, Brazil, and India is very resource-intensive, and those resources are limited, which makes investments related to their growth attractive to the University. Mr. Recker said that there has been an underinvestment in real assets, both in infrastructure and in commodity-related industries, and that they could be used to protect against secular U.S. dollar weakness. He noted that the risks associated with real assets are that they are generally more illiquid, commodity prices tend to be more volatile, and if the U.S. dollar strengthens, commodity prices tend to go down.

Mr. Recker stated that a strong real asset portfolio should protect against inflation, provide accretive returns to the overall plan, provide strong current yield/income generation, diversify benefits to hedge against U.S. dollar decline and global macro-shocks, and have a low correlation to other asset classes. Mr. Recker informed the Regents that the category of real assets includes both natural resources and capital assets. Natural resources include energy, timber, commodities, and land for agriculture. Capital assets include infrastructure, machinery, and intellectual property.

Mr. Recker observed that the portfolio characteristics and strategy include active management, focus on developed assets with strong cash yields (North American timber and energy, international infrastructure and commodities), and the use of illiquid strategies implemented through private partnerships which selectively include public market strategies with long bias.

Mr. Recker showed the Regents a slide depicting allocation in five key areas: energy and timber with 30 percent each, infrastructure with 20 percent, and commodities and opportunistic with ten percent each. The opportunistic category, he said, includes farmland, water rights, royalties, ships, and railcars. Mr. Recker explained that they would perform attractively in a negative economic environment. He showed the Committee slides illustrating the portfolio implementation progress to date.

Regent Wachter stated that the most important negative from his perspective was the illiquidity of the assets. He noted that in the recent global economic debacle, these assets were very problematic for those who held a substantial amount of them. He observed that the University has authorized up to three percent of assets in the General Endowment Pool (GEP) and the UC Retirement Plan (UCRP) to be in this class. He characterized that figure as modest and unlikely to cause difficulty for the University. However, he underscored that commodities tend to be volatile, which can raise difficulty in the short term. He acknowledged that most professional asset managers would consider them to be a good part of a portfolio, and because they formed such a small percentage, he was not uncomfortable with the decision.

Mr. Recker remarked that although commodities are extremely volatile, many of these are private partnerships that have a long history of being less volatile. He said a conscientious effort had been made to dampen the volatility of the construction portfolio.

Regent Marcus stated that he was not aware that the University was considering this asset class. He stated his view that the University should not invest in this class. Regent Marcus argued that the small percentage of investment would not provide inflation protection of any consequence, in addition to being extremely volatile and extremely illiquid. He suggested that the University redistribute its allocations where it has deeper positions, such as venture capital, other private equity activities, or stocks and bonds. He noted that the University is in the business of preserving capital and trying to risk-adjust its decisions.

Regent Wachter remarked that the size of the allocation should not deter movement in that area. He said that the University has had extremely small allocations to hedge funds that have performed very well. He expressed confidence in Chief Investment Officer Berggren and said that the portfolio would offer good inflation protection.

Regent Marcus remarked that a three percent allocation would not protect the University, and Ms. Berggren responded that it was equivalent to $1 billion. Regent Wachter added that in any pension portfolio, inflation poses one of the largest risks because the University must continue to pay out benefits.

Ms. Berggren explained that the volatility of that segment relative to the total portfolio is not very large, but that it can provide outsize returns when needed. She also noted that energy plays are a critical part of the U.S. economy, and that UC’s ability to invest in those types of energy plays will, over time, provide a good deal of upside and inflation protection. Timber, she remarked, is something that will provide some liquidity in the short period and will also provide good returns over time. Ms. Berggren noted that infrastructure is going to be a much longer-term investment.

Regent Marcus repeated his view that pension funds should not be invested in this class, but should be given to the University’s outperformers.

Mr. Recker stated that these investments were not a completely new area, but were an extension of UC’s current position. In addition, he said, the University has been tracking many of them for a long time. Their volatility is non-correlated to financial assets, and will actually dampen the volatility of the entire portfolio. Mr. Recker explained that the University has managers in place who will add value: if there are price spikes, the managers will hedge three to four years out to take advantage of those price spikes and lock them in.

Regent Marcus asked how the University had historically fared in this area, and Ms. Berggren replied that a few years ago, at the suggestion of the Office of the Treasurer, the Committee decided to take ten percent of the alternative asset classes and invest it in this area as an experiment. With the help of high-quality managers, she said, UC has been very successful in buying some secondaries on the energy side.

Committee Chair Wachter explained that the Committee had originally turned down the possibility because this is an area, like hedge funds, that can be dangerous without strong, talented management. However, Ms. Berggren and her team had proven very adept. He explained that the investments were very traditional and represented significant portions of the economy, such as agriculture, commodities, timber, energy, and machinery.

Regent Schilling stated that she believed that the University should have some small exposure to the asset class under discussion in order to increase the diversity of its portfolio. Regent Kieffer agreed. Faculty Representative Powell stated that he was supportive of the portfolio and that it seemed to be very well-reasoned and represented solid investments over time. Managing Director Phillips observed that the standards being used are similar to – or exactly the same as – those that UC has in other assets of this type.

Upon motion duly made and seconded, the Committee approved the President's recommendation and voted to present it to the Board, Regents De La Peña, Kieffer, Makarechian, Nunn Gorman, Schilling, and Wachter (6) voting "aye," and Regent Marcus (1) voting "no."

3. **UNIVERSITY OF CALIFORNIA RETIREMENT PLAN/GENERAL ENDOWMENT POOL ASSET ALLOCATION REVIEW AND RECOMMENDATIONS**

The Chief Investment Officer (CIO) and the Regents' general investment consultant, Mercer Investment Consulting, Inc., recommended that the following changes to the General Endowment Pool (GEP) and the UC Retirement Plan (UCRP) Investment Policy Statements be adopted, as shown in Attachment 2, with an effective date of April 1, 2010.

General Endowment Pool (GEP):

A. Reduce Non-USD Bond allocation from 2.5 percent to 0.0 percent (also reduce long-term targets).

B. Add an allocation to Real Assets of 0.5 percent (long-term allocation of 3.0 percent).

C. Add an allocation to Opportunistic Investments of 0.5 percent.

D. Increase U.S. Equity allocation by 1.0 percent (to 20.0 percent).

E. Increase Non-U.S. Developed Equity allocation by 0.5 percent (to 18.5 percent).

University of California Retirement Plan (UCRP):

A. Reduce U.S. Equity allocation from 32.0 percent to 31.0 percent (consistent with long-term targets).

B. Add an allocation to Real Assets of 0.5 percent (long-term allocation of 3.0 percent).

C. Add an allocation to Opportunistic Investments of 0.5 percent.

See tables below:

UCRP							
All Values in Percent		Effective May 2009		Proposed: April 1, 2010		Proposed Changes from Existing Policy	
Asset Class	Actual Wts. (Jan 2010)	Current Policy	Long Term Policy	**Current Policy**	**Long Term Policy**	**Current Policy**	**Long Term Policy**
US Equity	33.2	32.0	23.0	**31.0**	23.0	**(1.0)**	**-**
Non US Devl Equity	21.0	22.0	22.0	22.0	22.0	**-**	**-**
Emerging Mkt Equity	3.8	4.0	5.0	4.0	5.0	**-**	**-**
Global Equity	2.0	2.0	2.0	2.0	2.0	**-**	**-**
Total Equity	**60.0**	**60.0**	**52.0**	**59.0**	**52.0**	**(1.0)**	**-**
Core Fixed Income	12.9	12.0	12.0	12.0	12.0	**-**	**-**
HYD	2.7	2.5	2.5	2.5	2.5	**-**	**-**
EMD	2.3	2.5	2.5	2.5	2.5	**-**	**-**
Non US$ Debt	-	-	-	-	-	**-**	**-**
TIPS	7.2	8.0	8.0	8.0	8.0	**-**	**-**
Cash	0.6	-	-	-	-	**-**	**-**
Total Fixed Income	**25.7**	**25.0**	**25.0**	**25.0**	**25.0**	**-**	**-**
Absolute Return	4.8	5.0	10.0	5.0	**6.5**	**-**	**(3.5)**
Real Assets	0.5	0.0	0.0	**0.5**	**3.0**	**0.5**	**3.0**
Opportunistic	0.6	0.0	0.0	**0.5**	**0.5**	**0.5**	**0.5**
Subtotal	5.9	5.0	10.0	6.0	10.0	1.0	0.0
Private Equity	5.9	6.0	6.0	6.0	6.0	**-**	**-**
Real Estate	2.5	4.0	7.0	4.0	7.0	**-**	**-**
Total Alternatives	**14.3**	**15.0**	**23.0**	**16.0**	**23.0**	**1.0**	**0.0**
Grand Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**0.0**	**0.0**
CHANGES FROM EXISTING POLICY HIGHLIGHTED							

GEP							
All Values in Percent		Effective Sept 2008		Proposed: April 1, 2010		Proposed Changes from Existing Policy	
Asset Class	Actual Wts. (Jan 2010)	Current Policy	Long Term Policy	**Current Policy**	**Long Term Policy**	**Current Policy**	**Long Term Policy**
US Equity	20.3	19.0	18.0	**20.0**	**19.0**	**1.0**	**1.0**
Non US Devl Equity	17.0	18.0	17.0	**18.5**	**18.0**	**0.5**	**1.0**
Emerging Mkt Equity	4.7	5.0	5.0	5.0	5.0	-	-
Global Equity	1.8	2.0	5.0	2.0	**2.0**	-	**(3.0)**
Total Equity	**43.8**	**44.0**	**45.0**	**45.5**	**44.0**	**1.5**	**(1.0)**
Core Fixed Income	8.7	8.0	5.0	8.0	5.0	-	-
HYD	2.8	3.0	2.5	3.0	2.5	-	-
EMD	2.6	3.0	2.5	3.0	2.5	-	-
Non US$ Debt	2.3	2.5	2.5	**-**	**-**	**(2.5)**	**(2.5)**
TIPS	3.5	4.0	2.5	4.0	2.5	-	-
Cash	1.6	-	-	-	-	-	-
Total Fixed Income	**21.5**	**20.5**	**15.0**	**18.0**	**12.5**	**(2.5)**	**(2.5)**
Absolute Return	23.0	23.5	23.5	23.5	23.5	-	-
Real Assets	1.1	0.0	0.0	**0.5**	**3.0**	**0.5**	**3.0**
Opportunistic	0.7	0.0	0.0	**0.5**	**0.5**	**0.5**	**0.5**
Subtotal	24.8	23.5	23.5	24.5	27.0	1.0	3.5
Private Equity	6.5	7.0	9.0	7.0	9.0	-	-
Real Estate	3.4	5.0	7.5	5.0	7.5	-	-
Total Alternatives	**34.7**	**35.5**	**40.0**	**36.5**	**43.5**	**1.0**	**3.5**
Grand Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**0.0**	**0.0**
CHANGES FROM EXISTING POLICY HIGHLIGHTED							

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

Chief Investment Officer Berggren stated that the objective for asset allocation review was to best fund spending needs of the endowment, maintain current levels of real spending per student, estimate the impact of different portfolio choices on spending, and review asset allocation in light of recent events.

In looking at the current environment, Ms. Berggren stated that the U.S.-developed market began to emerge from the global recession in late 2009. Banks and household balance sheets are still quite impaired, and high inflation is all but certain. She expressed her opinion that the Federal Reserve is going to keep interest rates low. Ms. Berggren observed that all of the developed economies have large fiscal deficits, and while a repeat of the Great Depression is unlikely, the U.S. will almost certainly see some sovereign debt problems.

Ms. Berggren explained that the University's view on the economic environment was a critical part of the process used by her team. It considered the near-term outlook highly uncertain, so it used a three-year time horizon. Because the Treasurer's Office felt liquidity to be crucial to UC's spending needs and existing commitments, and that downside risk is important, it required a very flexible approach to its asset allocation.

Ms. Berggren remarked that her team developed the four most likely economic scenarios and estimated asset returns in each one. The team then developed market-efficient portfolios for each scenario, developed candidate portfolios that performed well across all scenarios, showed the impact of each asset mix on real spending-per-student, and chose the asset mix (policy portfolio) with best performance and lowest downside in a range of likely environments. She explained that use of the scenario framework was a key part of the process. However, the scenarios present a range of likely outcomes, not a forecast; economic growth and inflation are critical, and different growth and inflation environments will produce disparate results.

In response to a question by Regent Kieffer about inflation, Ms. Berggren stated that her office developed an optimal portfolio by combining the best portfolios developed for each of the four economic scenarios. She tested it against each of the scenarios, and had above-average economic experience in each of the scenarios.

Regent Marcus asked how detailed the scenarios were concerning equities that might have many different categories. Ms. Berggren stated that the scenarios do not go into great detail. Regent Marcus requested that Ms. Berggren provide him with the breakdown at the end of this discussion.

Regent De La Peña asked Ms. Berggren for an estimate of inflation during the two years of high inflation she predicted. She responded that she had calculated 7.5 percent starting in year three. She explained that in the past, the University looked at a ten to twelve-year time horizon, but due to rapid changes, her office decided it needed to consider a much shorter timeframe.

Managing Director Phillips underscored that the Treasurer's Office is not predicting what is going to happen in the future. Instead, it picked four scenarios that it thinks cover a broad range of what might happen in the future and tried to find a portfolio that not only looked good in each one of them, but across all of them. He said that the Office will review the process every quarter, and as it gets more information, it will refine the process and possibly come back with recommendations.

Ms. Berggren noted that spending-per-student is the key factor in setting asset allocation, and is dependent upon nominal return, gifts, inflation, and student growth. UC also has a required return, which is critical. Given that it has a spending rate of 4.75 percent, the University must have a required return of 5.7 percent if it has negative student growth, 7.9 percent if it has no student growth, and ten percent if it has positive growth.

Regent De La Peña noted that the University's endowments have significantly decreased, and asked if UC would have to generate a greater return because of this. Ms. Berggren said that it would depend on results over the next two- to five-year period, which are expressed as a smoothed number.

Committee Chair Wachter asked why inflation was included in the calculations if the endowment and spending do not grow. Mr. Phillips explained that the University is looking at the real value of the spending – that the outside world would have experienced inflation.

Ms. Berggren reviewed the current policies, and proposed policies to be effective April 1. Committee Chair Wachter noted that not much changed except for the real assets, and Ms. Berggren agreed.

Regent Marcus asked if the proposals were made annually or quarterly, and Ms. Berggren said they were made annually, and the University has worked closely with Mercer this year. Mercer Representative Mr. Love added that the study included a significant amount of detail and covered a broad swath of scenarios. Regent Marcus asked if the approach was more aggressive or less aggressive than allocations for endowments for most other universities. Ms. Berggren said that UC's alternatives are probably consistent with other endowments, although it has a much smaller percentage in private equity than other endowments.

Regent Marcus asked how UC's total return compared to that of its academic peers such as Harvard University. Ms. Berggren stated that the level of asset allocation and level of risk both needed to be considered. She observed that in fiscal year 2008, other institutions could not pay their operating budgets, but UC had no liquidity problems. Committee Chair Wachter noted that the University's risk has changed considerably over the past 20 years. He said that in the last three years, during the financial crisis, UC was liquid and its losses were contained. Ten years ago, he explained, UC had no alternatives; institutions that had alternatives in that period outperformed UC. However, when the economy fell, those institutions were selling their private equity at a discount on the secondary market and had no liquidity. Their problem, said Committee Chair Wachter, persists today. He stated that the University had considerable difficulty with its equity portfolio ten years ago when it was managed internally, which is no longer the case. Mr. Phillips added that UC has not tried to get the very highest return it could; it has set its risk to be in accordance with what it determined would produce a cycle of return.

Ms. Berggren observed that the University has done very well, and has had top quartile performance for pension funds and endowments.

Ms. Berggren informed the Regents that the recommended changes for allocation for the pension fund are modest and very consistent with the changes recommended for the endowment.

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

4. **UNIVERSITY OF CALIFORNIA RETIREMENT PLAN/GENERAL ENDOWMENT POOL INVESTMENT POLICY AND GUIDELINE REVIEW AND RECOMMENDATIONS**

The Chief Investment Officer (CIO) and the Regents' general investment consultant, Mercer Investment Consulting, Inc., recommended that the changes to Investment Policies and Guidelines for the University of California Retirement Plan (UCRP) and the University of California General Endowment Pool (GEP) be approved, as shown in Attachment 3, effective April 1, 2010.

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

Managing Director Phillips stated that the University is targeting its risk to get to a 7.5 percent return over an extended period. Every year, the Treasurer's Office reviews its guidelines with its consultant and its portfolio managers and tries to understand if there are any constraints in the guidelines that are no longer appropriate or if anything should be adjusted to meet changes in the capital market.

Mr. Phillips observed that the Treasurer's Office was proposing three changes to improve the ability of the portfolio to outperform. In absolute return strategies (AR), it proposes to change the language of the amount of investment with any single manager so that it can take advantage of separate account-type portfolios where the University may be larger than 15 percent. The University would also like to eliminate the constraints on non-U.S. equities within the AR portfolio. Many years ago, explained Mr. Phillips, UC determined to have no more than ten percent exposure to emerging markets and no more than 40 percent to non-U.S. equities. This practice is not consistent with the way it is managing the rest of its portfolio. Mr. Phillips said that on the Total Return Investment Pool (TRIP), UC has benchmarks for each individual sector. For the high-yield sector, it currently uses the Merrill Lynch High Yield Cash Paying Index, which is the benchmark used for the high yield sector of the General Endowment Pool (GEP) and the UC Retirement Plan (UCRP). He stated that the University would like to change it to the Merrill Lynch High Yield Cash Paying BB/B rated index, which is less risky and more appropriate.

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

5. **DECEMBER 2009 QUARTER AND FISCAL YEAR TO DATE INVESTMENT PERFORMANCE STRATEGY**

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

Chief Investment Officer Berggren noted that the past year has been one of unprecedented market performance. UC had excellent absolute and relative performance, which has been the result of portfolio repositioning. Liquidity was not an issue in any of its portfolios, and none of its hedge funds had any issues. The University had very limited exposure to real estate, and had none of the problems that other institutions had in securities lending. UC had top quartile performance for the General Endowment Pool (GEP) and top quartile performance for the UC Retirement Plan (UCRP). Ms. Berggren said the University had recovered about half of its losses because the asset classes that did poorly in 2008 did well in 2009.

Ms. Berggren remarked that UCRP had a gain of 16.3 percent for the last six months of 2009, and that the endowment had a gain of 13.8 percent. The University's equity performance added 17 basis points of active performance, eight for the U.S. equity line, and nine for non-U.S. UC's core bonds added 12 basis points from actual security selection, and the TIPS underweight added 12 basis points. The University added 50 basis points from asset allocation, and 27 basis points from security and manager selection, for a total of 77 basis points, which Ms. Berggren said is exceptional.

On the GEP, remarked Ms. Berggren, the non-U.S. equity experienced a huge difference in the performance of the overall portfolio. The University has changed managers, changed its strategy, and changed its process, all of which have made a difference.
Committee Chair Wachter pointed out that much more of the University's portfolio is now in passive management compared to five or ten years ago.

Regent De La Peña noted that a letter from Professor Charles Schwartz stated that UC pays too much for its financial managers and asked if the University's rate was consistent with the market. Ms. Berggren said that since UC has more money to invest, its overall fees tend to be lower, averaging around three basis points over the past 12 months.

Ms. Berggren noted that core fixed income, which was an item of concern a year ago, has turned around. UC acquired approximately eight basis points from securities selection on bonds, and had large gains in absolute returns, for an overall total of an additional 76 basis points.

Ms. Berggren told the Regents that the University did very well in the universe of large pension funds; in the three-month year-to-date, it was in the top quartile of comparable institutions for its endowment.

6. **PRIVATE EQUITY PROGRAM REVIEW**

This item was deferred.

7. **TREASURER'S FISCAL YEAR 2008-2009 ANNUAL ENDOWMENT REPORT**

This item was deferred.

8. **INVESTMENT CONSULTANT REVIEW OF UNIVERSITY OF CALIFORNIA CAMPUS FOUNDATIONS SEPTEMBER 2009 QUARTER PERFORMANCE REPORT**

This item was deferred.

The meeting adjourned at 6:35 p.m.

Attest:

Secretary and Chief of Staff

UNIVERSITY OF CALIFORNIA
APPENDICES TO INVESTMENT POLICY STATEMENTS

APPENDIX 7P

Effective: April 1, 2010

REAL ASSETS
INVESTMENT GUIDELINES

The purpose of these investment management guidelines ("Guidelines") is to clearly state the investment approach, define performance objectives, and to control risk within the Real Assets portfolio ("Portfolio"). These guidelines shall be subject to ongoing review.

These Guidelines are applicable to the entire Portfolio consisting of investments made on behalf of the UCRP and GEP ("the Funds"). The allocation of investments between the Funds will be managed by the Treasurer in accordance with the respective performance and risk objectives of the Funds.

Strategic Objective

The Portfolio shall be managed with the objective of preserving capital while maximizing the risk-adjusted returns of the Funds through income generation and long-term capital appreciation, enhancing diversification, and hedging against inflationary risks.

Performance Objective

The primary performance objective of the Portfolio is to generate annualized net-of-fee returns, after adjusting for risk, which exceeds the return of the Performance Benchmark on a consistent basis over time.

Performance Benchmark

The Committee has adopted the following performance benchmarks for each of the underlying strategies within the Portfolio:

Strategy	Benchmark
Timberland	IRR-Based Benchmark
Energy	IRR-Based Benchmark
Infrastructure	IRR-Based Benchmark
Commodities	S&P GSCI Reduced Energy Index
Opportunistic	IRR-Based Benchmark

Investment Guidelines

1. Investments shall be made through limited liability investment vehicles such as limited partnerships, limited liability corporations, and other pooled investment funds. Permissible investments shall also include fund-of-fund vehicles, co-investments and direct investments made through title holding corporations.

2. The Portfolio shall adhere to the following long-term allocation targets and ranges:

Strategy	Long-Term Target Allocation	Allowable Ranges Min	Max
Timberland	30%	0%	40%
Energy	30%	0%	40%
Infrastructure	20%	0%	30%
Commodities	10%	0%	20%
Opportunistic	10%	0%	20%
Total	100%	-	-

3. Investments shall be primarily equity-oriented, but may also include debt instruments secured by real assets with equity-like returns.
4. No single investment can represent, at the time of commitment, more than 10% of the overall Portfolio.
5. No single investment, at the time of commitment, can exceed 20% of the total capital being raised for that investment.
6. No investment with any single investment manager or general partner can represent more than 15% of the overall Portfolio.
7. No investment with any single investment manager or general partner can exceed 20% of that manager's total assets under management.
8. Investments in multiple vehicles managed by the same manager are permitted. However, the total commitment to these investments (including co-investments and direct equity investments), at the time of commitment, may not exceed 30% of the budgeted three-year allocation defined as current book value plus unfunded commitments plus approved commitment level for the current year and two subsequent years.
9. Investments outside the U.S. must be diversified by geographic location and may not represent more than 35% of the Portfolio.
10. The Portfolio shall be diversified across time with no more than 35% of the budgeted allocation being committed in any single year.
11. Use of derivative securities by individual investment managers must be specified in writing in the manager's guidelines and must be consistent with the Derivatives Policy, Appendix 4.

Note: Compliance with some of these guidelines will not be required until a sufficient number of investments have been made. The Treasurer will keep the Committee periodically informed as to the status of its compliance with these guidelines.

UNIVERSITY OF CALIFORNIA GENERAL ENDOWMENT POOL
INVESTMENT POLICY STATEMENT

APPENDIX 1
Effective: ~~December 1, 2008~~~~March~~April 1, 2010
Replaces Version Effective: December 1, 2008~~October 1, 2008~~

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	Maximum
U.S. Equity	~~18~~19%	~~19~~20%	~~14~~15	~~24~~25
Developed Non US Equity	~~17~~18	18.5	~~15~~13.5	~~21~~23.5
Emerging Mkt Equity	5	5	~~2~~3	~~8~~7
Global Equity	~~5~~2	2	~~0~~1	~~5~~3
US Fixed Income	5	8	5	11
High Yield Fixed Income	2.5	3	~~0~~2	~~6~~4
Non USD Fixed Income	~~2.5~~0	~~2.5~~0	~~0~~NA	~~6~~NA
Emerging Mkt Fixed Income	2.5	3	~~0~~2	~~6~~4
TIPS	2.5	4	~~1~~2	~~7~~6
Absolute Return	23.5	23.5	~~20~~18.5	~~26~~28.5
Real Assets	3.0	0.5	0	1.5
Opportunistic	0.5	0.5	0	1.5
Private Equity	9	7	4	10
Real Estate	7.5	5	2	8
Liquidity	0	0	0	10
	100%	100%		
Combined Public Equity	~~45~~44	~~44~~45.5	~~37~~35.5	~~51~~55.5
Combined Fixed Income	~~15~~12.5	~~20.5~~18	~~15~~13	~~25~~23
Combined Alternatives	~~40~~43.5	~~35.5~~36.5	~~30~~26.5	~~40~~46.5

APPENDIX 1
Effective: ~~June 1, 2009March~~April 1, 2010
Replaces Version Effective: June 1, 2009~~December 1, 2008~~

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	23%	~~32~~31%	~~27~~26	~~37~~36
Developed Non US Equity	22	22	17	27
Emerging Mkt Equity	5	4	2	6
Global Equity	2	2	1	3
US Fixed Income	12	12	9	15
High Yield Fixed Income	2.5	2.5	1.5	3.5
Emerging Mkt Fixed Income	2.5	2.5	1.5	3.5
TIPS	8	8	6	10
Absolute Return Strategy	~~10~~6.5	5	0	10
Real Assets	3	0.5	0	1.5
Opportunistic	0.5	0.5	0	1.5
Private Equity	6	6	3	9
Real Estate	7	4	1	7
Liquidity	0	0	0	10
	100%	100%		
Combined Public Equity	52	~~60~~59	~~50~~49	~~70~~69
Combined Fixed Income	25	25	20	30
Combined Alternatives	23	~~15~~16	~~8~~9	~~22~~23

UNIVERSITY OF CALIFORNIA
APPENDICES TO INVESTMENT POLICY STATEMENTS

APPENDIX 7O
Effective: ~~March~~ April 1, ~~2009~~2010
Replaces version approved March 1, 2009~~May 16, 2007~~

ABSOLUTE RETURN (AR) STRATEGIES INVESTMENT GUIDELINES

The purpose of portfolio guidelines is to clearly define performance objectives, state the investment approach, and to control risk. Portfolio guidelines should be subject to ongoing review. A change in the allocation to the strategy or the Investment Committee's risk tolerance can be among the reasons for a guideline review.

Performance Objective:
The objective of the absolute return strategy (AR) portfolio is to earn an annualized return that exceeds the Performance Benchmark (below). The AR portfolio should also provide diversification benefits to the overall portfolio by offering returns that have low correlation to the performance of other asset classes. The portfolio shall be roughly composed of one-half low-volatility, absolute return type strategies and one-half higher-volatility, market directional type strategies.

Portfolio Performance Benchmark
The performance benchmark is a weighted combination of 50% times the return of the HFRX-Absolute Return Strategies Index plus 50% times the return of the HFRX Market Directional Index

Portfolio Guidelines
1. Permissible investments include funds that invest primarily in Long/Short strategies (including U.S., dedicated Non-U.S., short bias, and global equities), Relative Value strategies (including equity market neutral, convertible bond arbitrage, and fixed income), Event Driven strategies (including distressed securities, special situations, capital structure arbitrage, relative value credit, and risk arbitrage strategies), and Opportunistic strategies (including macro, CTA and portfolio hedge).

2. Investments may be made in funds that manage single or multiple strategies.

3. Fund-of-funds investments are permitted.

4. Policy ranges for the strategies are:

	Range
Long/Short Equity	30-60%
Event Driven	20-50%
Relative Value	10-40%
Opportunistic	0-30%

5. No investment with any single manager can represent more than 10% of the AR portfolio.

6. No investment with ~~any single manager~~an asset management firm may exceed 15% of that ~~manager's~~ firm's total assets under management, and no investment in a single product may exceed 25% of the assets under management of that product.

7. Gross accounting leverage at the aggregate portfolio level shall not exceed 4.5 times the market value of the total AR assets. No more than 25% of the portfolio may be invested in managers who use on average more than 4.5 times gross accounting leverage. Recognizing the illiquidity of these investments, these constraints should guide the execution of the AR program, but may be exceeded temporarily between rebalancing. All leverage shall be non-recourse to the Regents, as trustee of UCRP, with respect to UCRP investments in the Program. All leverage shall be non-recourse to the Regents, a public corporation, with respect to GEP investments in the Program.

8. The Treasurer may not incur debt to leverage the AR portfolio; however, portable alpha strategies are permitted.

~~9.No more than 10% of the total gross exposure of the AR portfolio may be invested in emerging market securities (i.e., on a look-through basis). For purposes of these Guidelines, emerging market countries are defined as countries in Latin America, Eastern Europe, Africa, and Asia (excluding Japan, Hong Kong, Singapore, South Korea, and Taiwan).~~

~~10.No more than 40% of the total gross exposure of the AR portfolio may be invested in non-US market securities, inclusive of the restriction above.~~

~~11.~~9. No more than 15% of the total AR portfolio risk budget may be derived from any single manager.

~~12.~~10. Total AR portfolio forecast downside risk shall be maintained at a level of no more than 5% of total invested capital.

Note: During the initial implementation of an allocation for the UCRP, compliance with some of these guidelines will not be required. The Treasurer and Regent's investment consultants will monitor and inform the Committee as to the status of its compliance with these guidelines with respect to UCRP.

[Definition] Gross Accounting Leverage: the ratio of the sum of the absolute values of the long and short exposures of a portfolio divided by the net market value of the total portfolio. Gross accounting leverage of the AR portfolio is the sum of the individual manager leverage ratios, weighted by their market values.

[Definition] Forecast Downside Risk: the volatility of forecast negative returns, as measured by the annualized semi-standard deviation. The 5% level of forecast downside risk is the "risk budget."

UNIVERSITY OF CALIFORNIA
APPENDICES TO INVESTMENT POLICY STATEMENTS

APPENDIX 7Q
Effective: April 1, 2010
Replaces version: none

LIMITS ON THE SIZE OF INVESTMENTS WITH PUBLIC EQUITY AND FIXED INCOME MANAGERS

There are three broad reasons to limit the size of a management firm ("manager" or "product") within an asset class: first, to reduce headline risk, second, to reduce business risk, and third, to reduce the potential for loss caused by the action of other investors in the product. Unlike investments in non-traditional asset classes, public equity and fixed income portfolios have greater transparency and liquidity, and assets are normally held by a trustee. Nevertheless, it is prudent to be mindful of the Fund's exposure with individual investment management firms.

To best accomplish these goals, this Policy will primarily be stated in terms of principles and objectives and secondarily in explicit rules.

<u>Principles</u>

1. The University of California Pension and Endowment funds ("UC") desires to retain the freedom of action to make investment decisions without being unduly influenced by the actions of other investors.
2. UC desires to minimize circumstances where the size of its investments results in value impairment.

<u>Objectives</u>

1. Each asset class should be diversified across a group of products with sufficiently dissimilar processes to minimize the possibility of significant concentration in individual assets. This diversification should consider investment style, strategy, statistical characteristics, and cross-holding of actual holdings.
2. UC's exposure to any single management firm /product should be limited such that an event which has a negative impact on all investors within the firm/product does not cause a *disproportional* negative impact on the value of UC's investment. Thus the size of a prudent investment must also consider ownership concentration of the *remainder* of the firm /product's assets.

<u>Rules</u>

1. Notwithstanding the above, no investment with a single firm should be more than 25% of that firm's assets under management, nor should an investment in a single product of a firm be more than 10% of the assets of that product, unless mitigating circumstances exist. Such an exception must be approved in advance by the Chief Investment Officer.
2. Portfolios managed by staff within the Office of the Treasurer are exempt from this Policy