THE REGENTS OF THE UNIVERSITY OF CALIFORNIA

March 29, 2012

The Regents of the University of California met on the above date at UCSF–Mission Bay Community Center, San Francisco.

Present: Regents Blum, De La Peña, Gould, Hallett, Island, Kieffer, Lansing, Lozano, Makarechian, Mireles, Newsom, Pattiz, Pelliccioni, Reiss, Ruiz, Schilling, Varner, Wachter, and Yudof

In attendance: Regents-designate Mendelson, Rubenstein, and Stein, Faculty Representatives Anderson and Powell, Secretary and Chief of Staff Kelman, Associate Secretary Shaw, General Counsel Robinson, Chief Investment Officer Berggren, Provost Pitts, Executive Vice President Brostrom, Chief Financial Officer Taylor, Senior Vice Presidents Dooley and Stobo, Vice Presidents Allen-Diaz, Beckwith, Darling, Duckett, Lenz, and Sakaki, Chancellors Block, Blumenthal, Desmond-Hellmann, Fox, Katehi, Leland, White, and Yang, and Recording Secretary Johns

The meeting convened at 10:10 a.m. with Chairman Lansing presiding.

1. APPROVAL OF MINUTES OF PREVIOUS MEETING

Upon motion duly made and seconded, the minutes of the meeting of January 19, 2012 and the meetings of the Committee of the Whole of January 18 and 19, 2012 were approved.

2. REPORT OF THE PRESIDENT

President Yudof presented his report concerning University activities and individuals. Five UC faculty members were elected to membership in the prestigious National Academy of Engineering, one of the highest honors an engineer can receive. The previous month, it was announced that of 126 scientists elected to receive Alfred P. Sloan research fellowships, 15 were from UC. These fellowships are intended to enhance the careers of young faculty in various fields. Fifty-four UC scientists were elected fellows of the American Association for the Advancement of Science. They joined over 750 UC researchers who have been named fellows of the Association in the past. UCLA Professor Teofilo Ruiz, an internationally recognized historian whose work focuses on medieval Spain and Europe, was awarded a National Humanities Medal by President Barack Obama in a ceremony the previous month at the White House. The previous week, Governor Brown announced the appointment of UC Riverside Professor Juan Felipe Herrera as California's new poet laureate. Herrera, the author of 28 books, would serve a two-year term as poet laureate. Finally, President Yudof noted that two Regents would be honored the following month. Regent Blum would receive the UCSF Medal at the campus' Founders Day celebration. This award is the highest honor bestowed by the campus, for individuals who have made outstanding personal contributions to further the campus' mission, goals, and values. Regent Lansing would receive the Champion of Children award at an event benefiting the Children's Institute. She is being recognized for her contributions to children and families in the Los Angeles community.

Chairman Lansing explained that there was no report for the Committee on Grounds and Buildings because no action was taken at the Committee's meeting. The action item on the Committee's agenda had been withdrawn and would be considered at a future meeting.

3. REPORT OF THE COMMITTEE ON COMPLIANCE AND AUDIT

The Committee presented the following from its meeting of March 28, 2012:

A. *Approval of the Scope of the External Audit for the Year Ending June 30, 2012*

The Committee recommended that the scope of the external audit of the University for the year ending June 30, 2012, which includes the following reports, be approved:

(1) University of California system

(2) Annual financial reports for each of the University of California Medical Centers

(3) University of California Retirement Plan, including the PERS-VERIP Plan, University Retirement Savings Program, including the Defined Contribution, 403(b) and 457(b) Plans

(4) National Collegiate Athletic Association (NCAA) audit procedures

(5) Federal grants and contracts (A-133) audit

B. *Approval of External Audit Plan for the Year Ending June 30, 2012*

The Committee recommended that the external audit plan of the University for the year ending June 30, 2012, as shown in Attachment 1, and the fees shown in Attachments 2 and 3, be approved.

Upon motion of Regent Pelliccioni, duly seconded, the recommendations of the Committee on Compliance and Audit were approved.

4. REPORT OF THE COMMITTEE ON COMPENSATION

The Committee presented the following from its meeting of March 29, 2012:

A. ***Amendment of Regents Policy 7702 – Performance Management Consent Review Process***

The Committee recommended that Regents Policy 7702 – Senior Management Group Performance Management Review Process be amended as shown in Attachment 4.

B. ***Approval of Appointment of and Total Compensation for Glenn Mara as Vice President – Laboratory Management, Office of the President as Discussed in Regents Only Session***

The Committee recommended approval of the following items in connection with the appointment of and total compensation for Glenn Mara as Vice President – Laboratory Management, Office of the President:

(1) Term appointment at 100 percent time for 12 months, renewable annually for up to 24 months, with an annual base salary of $367,000.

(2) This position will be assigned to SLCG Grade 112 (Minimum $298,900, Midpoint $385,300, Maximum $471,500).

(3) Per policy, annual automobile allowance of $8,916.

(4) Per policy, a five percent monthly contribution to the Senior Management Supplemental Benefit Program.

(5) Per policy, this full-time appointment is contingent upon Mr. Mara's completion of the UC Retirement Plan Retired Employee Election Form to suspend income and any other health and welfare benefits he receives as a retiree. He will then re-enter the retirement system and enroll as an employee. He will re-retire the day after separation from UC employment. Therefore, the policy restrictions pertaining to appointment percentage or duration of reemployment for rehired retirees will not apply to Mr. Mara's appointment.

(6) Per policy, standard pension and health and welfare benefits and standard senior management benefits (including senior management life insurance and executive salary continuation for disability).

(7) Per policy, an annual Administrative Fund allocation for official business-related expenses in accordance with University policy and procedures. The amount of the fund is established annually by the Regents and is subject to the University's accounting procedures for administrative purposes.

(8) Provided that the contingency identified in paragraph (5) above is met, this appointment will be effective on or about July 1, 2012.

COMPARATIVE ANALYSIS

<u>Recommended Compensation</u>
Effective Date: July 1, 2012
Base Salary: $367,000
Target Cash Compensation: $367,000
Grade Level: SLCG Grade 112
(Minimum $298,900, Midpoint $385,300, Maximum $471,500)

<u>Budget &/or Prior Incumbent Data</u>
Title: Vice President – Laboratory Management
Base Salary: $391,416
Target Cash Compensation: $391,416
Grade Level: SLCG Grade 113
(Minimum $333,900, Midpoint $431,500, Maximum $529,100)

COMPETITIVE ANALYSIS

	BASE SALARY MARKET PERCENTILES				
Percentiles	**25th**	**50th**	**Mean**	**75th**	**90th**
Market Data	$315.0	$383.1	$422.3	$440.0	$559.3
% Difference from Market	16.5%	-4.2%	-13.1%	-16.6%	-34.4%

The compensation described above shall constitute the University's total commitment until modified by the Regents and shall supersede all previous oral and written commitments. Compensation recommendations and final actions will be released to the public as required in accordance with the standard procedures of the Board of Regents.

Submitted by: **President Yudof**
Reviewed by: **Committee on Compensation Chair Ruiz**
Office of the President, Human Resources

C. ***University of California Retirement Plan – Clarification of Status of Program Linked to Compensation Cap***

The Committee recommended that the Regents:

(1) Rescind their 1999 conditional authorization of an alternative benefit formula proposed for the University of California Retirement Plan, a restoration program (Program) that was designed to restore pension benefits reduced by the compensation limit established by the Internal Revenue Code and delegation of authority to the President (with the

concurrence of the Chairman of the Regents and the Chair of the Committee on Finance) to implement the Program.

(2) Affirm that the President (with the concurrence of the Chairman of the Regents and the Chair of the Committee on Finance) has never implemented the Program and, therefore, no benefits have accrued under the Program.

(3) Affirm that since the conditional authorization of the Program is being rescinded, no benefits can accrue in the future under the Program.

(4) As an exception to policy, that these actions be effective immediately upon adoption.

D. ***Amendment of the Health Sciences Compensation Plan, Section 670 of the Academic Personnel Manual***

The Committee recommended that, at the next regularly scheduled meeting of the Regents, the Health Sciences Compensation Plan, Section 670 of the Academic Personnel Manual (APM - 670), be amended as shown in Attachment 5.

Upon motion of Regent Ruiz, duly seconded, the recommendations of the Committee on Compensation were approved.

5. **REPORT OF THE COMMITTEE ON FINANCE**

The Committee presented the following from its meeting of March 28-29, 2012:

A. ***Authorization for Restructuring a Portion of the Berkeley Campus Long Term Housing Debt***

The Committee recommended:

(1) A partial restructuring of the Berkeley campus long term auxiliary (housing and dining) debt portfolio for fiscal year 2011-12 through fiscal year 2020-21 in an amount not to exceed $110 million in restructuring principal plus additional related financing costs.

(2) The term of the restructured debt service shall not exceed the current final maturity of the Berkeley campus housing debt, which is fiscal year 2040-41.

(3) That the President be authorized, after consultation with the General Counsel, to approve and execute all documents as may be necessary to implement the intent of this item.

B. ***Endorsement of Enterprise Risk Management Program***

The Committee recommended that the Regents endorse the Enterprise Risk Management Program, which is consistent with best practices as reflected in the common standards of the Committee of Sponsoring Organizations of the Treadway Commission Enterprise Risk Management Framework and International Organization for Standardization 31000 Risk Management Standards.

Upon motion of Regent Varner, duly seconded, the recommendations of the Committee on Finance were approved.

6. REPORT OF THE COMMITTEE ON GOVERNANCE

The Committee presented the following from its meeting of March 28, 2012:

A. ***Technical Amendment of Various Regents Policies – Conformance of Title of Chief Investment Officer***

The Committee recommended that the following Regents Policies be amended to substitute the title “Chief Investment Officer” for the title “Treasurer”:

(1) Regents Policy 1103: *Policy on Interim Authority* (Attachment 6)

(2) Regents Policy 6101: *Investment Policy Statement for UCRP* (Attachment 7)

(3) Regents Policy 6102: *Investment Policy Statement for General Endowment Pool* (Attachment 8)

(4) Regents Policy 6103: *Policy Establishing the Investment Advisory Group* (Attachment 9)

(5) Regents Policy 6104: *Policy on Conflict of Interest Regarding Assets Managed by the Treasurer* (Attachment 10)

(6) Regents Policy 6105: *Policy on Disclosure of UCRP and GEP Investment-Related Information* (Attachment 11)

(7) Regents Policy 6108: *Total Return Investment Pool Policy Statement* (Attachment 12)

(8) Regents Policy 6109: *Short Term Investment Pool Investment Guidelines* (Attachment 13)

(9) Regents Policy 6110: *Policy on Disclosures Regarding Use of Placement Agents for the University of California Retirement System Investments* (Attachment 14)

(10) Regents Policy 6201: *Investment Policy for the University of California Campus Foundations* (Attachment 15)

(11) Regents Policy 6301: *Policy to Exclude Securities of Companies Manufacturing Tobacco Products from Index Funds and to Continue Existing Exclusion from Actively Managed Funds* (Attachment 16)

(12) Regents Policy 6302: *Policy on Divestment of University Holdings in Companies with Business Operations in Sudan* (Attachment 17)

B. ***Amendment of Standing Order 110.2 – Matters Relating to Residency, and Adoption of Policy on Residency and Policy on Waiver of Tuition and Fees***

The Committee recommended that:

(1) The Regents approve the amendments to Standing Order 110.2, Matters Relating to Residency, as shown in Attachment 18.

(2) The Regents approve the Policy on Residency, as shown in Attachment 19, effective when the amendments to Standing Order 110.2 become effective.

(3) The Regents approve the Policy on Waiver of Tuition and Fees, as shown in Attachment 20, effective when the amendments to Standing Order 110.2 become effective.

(4) The Regents suspend the notice requirement in Standing Order 130.1, pursuant to Bylaw 7.3.

C. ***Appointment of Members to the Investment Advisory Group***

The Committee recommended that:

(1) H. Gifford Fong be reappointed to the Investment Advisory Group to a term ending March 2016.

(2) Robert Samuels be reappointed to the Investment Advisory Group to a term ending March 2013.

Upon motion of Regent Wachter, duly seconded, the recommendations of the Committee on Governance were approved.

7. REPORT OF THE COMMITTEE ON OVERSIGHT OF THE DEPARTMENT OF ENERGY LABORATORIES

The Committee presented the following from its meeting of March 28, 2012:

Adoption of Policy on Security Clearance for Access to Federal Classified Information

The Committee recommended that the Policy on Security Clearance for Access to Federal Classified Information be adopted as shown in Attachment 21.

Upon motion of Regent Pattiz, duly seconded, the recommendation of the Committee on Oversight of the Department of Energy Laboratories was approved.

8. **REPORT OF INTERIM AND CONCURRENCE ACTIONS**

Secretary and Chief of Staff Kelman reported that, in accordance with authority previously delegated by the Regents, interim action was taken on routine or emergency matters as follows:

A. The Chairman of the Board of Regents, the Chair of the Committee on Finance and the President of the University approved the following concurrence recommendation:

Authorization for External Financing for Two Properties Acquired for the UCLA Health System in 2011, Initially Purchased with Medical Center Reserves, Los Angeles Campus

(1) The President be authorized to obtain external financing not to exceed $18,925,000 to refinance two properties acquired in 2011 with UCLA Medical Center reserves – a land assemblage in Santa Monica, California ($13,325,000) and a clinical laboratory and office building in Los Angeles (Van Nuys), California ($5,600,000). The Los Angeles campus shall satisfy the following requirements:

a. As long as the debt is outstanding, the gross revenues of the UCLA Health System shall be maintained in amounts sufficient to pay the debt service and to meet the related requirements of the authorized financing.

b. The general credit of the Regents shall not be pledged.

(2) The President be authorized to execute all documents necessary in connection with the above.

B. The Chairman of the Board of Regents, the Chair of the Committee on Grounds and Buildings and the President of the University approved the following concurrence recommendations:

(1) ***Amendment of the Budget for Capital Improvements and the Capital Improvement Program, School of Medicine Education Building, Riverside Campus***

That the 2011-12 Budget for Capital Improvements and Capital Improvement Program be amended as follows:

Additions shown by underscoring; deletions shown by strikethrough

Riverside: ~~Health Science Teaching Center~~ *School of Medicine Education Building* – preliminary plans, working drawings, construction and equipment ~~– $12,965,000~~ $13,752,000.

(2) ***Amendment of the Budget for Capital Improvements and the Capital Improvement Program, East Campus Infrastructure Improvements Phase 2, Riverside Campus***

That the 2011-12 Budget for Capital Improvements and the Capital Improvement Program be amended as follows:

Additions shown by underscoring; deletions shown by strikethrough

Riverside: *East Campus Infrastructure Improvements Phase 2* – preliminary plans, working drawings, and construction – ~~$11,702,000~~ $15,202,000, funded from State funds ($8,893,000) and campus funds ~~($2,809,000~~ $6,309,000).

C. The Chairman of the Board of Regents and the President of the University approved the following recommendations:

(1) ***Authorization of One Hundred Year Taxable Borrowing***

That the President be authorized to:

a. Issue a taxable one hundred year borrowing in one or more series in an aggregate principal amount not to exceed $860 million plus financing costs (the "Bonds") with an interest rate not to exceed 5.5 percent, to be issued under the University's general revenue bond indenture. As long as the Bonds are outstanding, the campuses receiving such proceeds and the Office of the President shall satisfy the following requirements:

i. Campuses receiving proceeds shall maintain general revenues in amounts sufficient to pay the debt service and to meet the related requirements of the authorized financing.

ii. The Office of the President will maintain its budget to pay debt service and to meet the related requirements of the authorized financing on any amount initially borrowed by the Office of the President until such time as that amount is allocated to a campus project and thereafter the requirement of paragraph a.i., shall apply.

iii. Uses of bond proceeds shall comply with all applicable

University policies with respect to capital projects, including without limitation environmental review, provided, however, that any specific authorization of the Regents to use proceeds of a borrowing for a specific project shall not be affected by this requirement.

b. Take all necessary actions related to the action approved above, including but not limited to approval, execution and delivery of all necessary or appropriate financing documents.

(2) ***Approval of the Affiliation Between The Regents of the University of California on Behalf of the University of California, Davis and BGI Americas Corporation, Davis Campus***

a. Authorization of an affiliation (Affiliation) between the Regents, on behalf of the University of California, Davis, and BGI Americas Corporation (BGI), which anticipates the following pursuant to a Master Agreement between the Regents and BGI: (1) BGI will perform genomics, bioinformatics and similar services for the University and third parties on Regents property located at 2921 Stockton Boulevard, Suite 1800, Sacramento, California (Premises); (2) BGI and the University will jointly conduct research and may pursue educational opportunities; (3) BGI may provide the University with equipment for the performance of sequencing and bioinformatics services for medical and human research applications in a laboratory certified under the Clinical Laboratory Improvement Amendments; and (4) the University will pay BGI specific rates and provide guarantees related to the volume of sequencing services.

b. Determination that, in accordance with the California Environmental Quality Act (CEQA), the Affiliation is exempt pursuant to CEQA Guideline Section 15061(b)(3) because it can be seen with certainty that there is no possibility that the Affiliation may have a significant effect on the environment.

c. Following consultation with the General Counsel, he be authorized (a) to approve and execute the Master Agreement and any other documents reasonably necessary to effectuate the Affiliation (other than (i) a lease of the Premises to BGI (Lease), which is subject to approval of and execution by the Chancellor pursuant to existing delegations of authority, and (ii) such other documents that would otherwise require the approval of the Regents); provided, however, that the President shall have been satisfied with the financial capability of BGI and its affiliates; and provided, further, that prior to the President's execution of the Master Agreement, the Lease shall have been executed; and (b) to approve and execute documents reasonably necessary to amend the terms of the Affiliation, provided that such amendments do not materially increase the obligations of the University.

D. The Chair of the Committee on Finance and the President of the University approved the following recommendation:

Authorization for Working Capital Borrowing and Investment of Proceeds in the State Agency Investment Fund (SAIF) Pursuant to Government Code Section 16330

The President is authorized to:

(1) Issue a taxable commercial paper borrowing in an aggregate principal amount not to exceed $200 million plus financing costs (the Commercial Paper) under the University's commercial paper indenture.

a. The anticipated repayment of the principal and financing costs (including interest expense) of the borrowing shall be from receipts of income and principal from deposits in the State Agency Investment Fund.

b. If the amount deposited in the State Agency Investment Fund is not received from the State by April 16, 2012 the President shall extend the deadline for repayment to a date no later than June 30, 2012. If the amount deposited is not received from the State by June 30, 2012, the President shall develop and present for approval a financing plan to repay the principal of the borrowing from legally permissible sources.

(2) Deposit the proceeds of the Commercial Paper borrowing in an aggregate principal amount not to exceed $200 million in the State Agency Investment Fund on investment terms acceptable to the President in his judgment, provided that the deposit shall yield no less than two percent (2%) per annum through the duration of the deposit.

(3) Take all necessary actions related to the actions approved above, including but not limited to approval, execution and delivery of all necessary or appropriate financing documents and deposit agreements.

E. The Chair of the Committee on Grounds and Buildings and the President of the University approved the following recommendation:

Amendment of the Budget for Capital Improvements and the Capital Improvement Program and Authorization for External Financing of Legal Settlement, Westwood Replacement Hospital, Los Angeles Campus

Additions shown by underscoring; deletions shown by strikethrough

(1) The 2011-12 Budget for Capital Improvements and the Capital Improvement Program be amended as follows:

Los Angeles: <u>Westwood Replacement Hospital</u> – preliminary plans, working drawings, construction and equipment – ~~$914,300,000~~ <u>$953,711,000</u> to be funded from federal funds ~~($439,700,000~~ <u>$439,699,000</u>), State matching funds ~~($44,100,000~~ <u>$43,886,000</u>), State lease revenue bond funds ~~($125,000,000~~ <u>$126,370,000</u>), State children's hospital grant funds ($29,827,000), gift funds ~~($89,285,000~~ <u>$88,181,000</u>), hospital reserves ($6,000,000), campus funds ~~($3,088,000~~ <u>$820,000</u>), external financing ~~($170,300,000~~ <u>$217,814,000</u>), and earnings from previous bond issue (~~$7,000,000~~ <u>$1,114,000</u>).

* * *

(2) The President be authorized to obtain additional external financing not to exceed $48,000,000 related to the Westwood Replacement Hospital project, subject to the following conditions:

a. As long as the debt is outstanding, the gross revenues of the UCLA Medical Center shall be maintained in amounts sufficient to pay the debt service and to meet related requirements of the authorized financing.

b. The general credit of the Regents shall not be pledged.

(3) The President be authorized to execute all documents necessary in connection with the above.

F. The Chair of the Committee on Compensation and the President of the University approved the following recommendations:

(1) ***Extension of Term Appointment, Reduction in Appointment Percentage, and Total Compensation for David H. Hosley as Interim Vice Chancellor – University Relations, Merced Campus***

Background to Recommendation

Action under interim authority was requested to approve: (1) an extension of the term appointment for David H. Hosley as Interim Vice Chancellor – University Relations, Merced campus, effective January 1, 2012 through June 30, 2012, or until the appointment of a new Vice Chancellor – University Relations, whichever occurs first; and (2) a reduction in Mr. Hosley's appointment percentage from 100 percent time to 50 percent time. This action maintained the annualized salary of $201,000 but reduced his actual salary to $100,500.

The exclusive source of funding for this position will be State funds.

Mr. Hosley assumed the position of Interim Vice Chancellor on February 1, 2010 with a term expiring January 31, 2012. He recently accepted a 50 percent time appointment as the Executive Director of the Sierra Nevada Research Institute (SNRI) effective January 1, 2012.

To ensure a smooth transition and continued oversight of a number of critical and time-sensitive projects, Mr. Hosley has agreed to maintain a 50 percent time appointment as Interim Vice Chancellor until the appointment of a new Vice Chancellor can be completed. The SNRI appointment will become a full-time position when Mr. Hosley is able to vacate the position of Interim Vice Chancellor – University Relations. A search is under way to fill the Vice Chancellor position.

Mr. Hosley's new position as Executive Director of the SNRI does not require Regental approval because it is not in the Senior Management Group (SMG) and therefore not subject to SMG policy.

Interim authority is requested due to the fact that Mr. Hosley's new position as Executive Director of the SNRI started January 1, 2012.

Recommendation

The following items were approved in connection with the term appointment extension, reduction in appointment percentage, and total compensation for David H. Hosley as Interim Vice Chancellor – University Relations, Merced campus:

a. Extension of the interim term appointment of David H. Hosley as Interim Vice Chancellor – University Relations through June 30, 2012, or until the appointment of a new Vice Chancellor – University Relations, whichever occurs first.

b. Reduction in appointment percentage from 100 percent time to 50 percent time effective January 1, 2012, through June 30, 2012, or until the Vice Chancellor – University Relations position is filled, whichever occurs first.

c. Per policy, continued annualized base salary of $201,000 at SLCG Grade 107 (Minimum $172,300, Midpoint $218,700, Maximum $265,000). Actual salary at 50 percent time is $100,500.

d. Per policy, continued standard pension and health and welfare benefits.

COMPARATIVE ANALYSIS

<u>Recommended Compensation</u>
Effective Date: January 1, 2012
Annualized Base Salary: $201,000
(actual base salary at 50 percent time is $100,500)
Target Cash Compensation: $201,000
Grade Level: SLCG Grade 107
(Minimum $172,300, Midpoint $218,700, Maximum $265,000)
Funding Source: Fully State-funded position

<u>Budget &/or Prior Incumbent Data</u>
Title: Interim Vice Chancellor – University Relations
Annual Base Salary: $201,000
Target Cash Compensation: $201,000
Grade Level: SLCG Grade 107
(Minimum $172,300, Midpoint $218,700, Maximum $265,000)
Funding Source: Fully State-funded position

COMPETITIVE ANALYSIS

	BASE SALARY MARKET PERCENTILES				
Percentiles	25th	50th	Mean	75th	90th
Market Data	$248.8	$316.9	$321.8	$412.3	$472.4
% Difference from Market	-19.2%	-36.6%	-37.5%	-51.2%	-57.4%

The compensation described above shall constitute the University's total commitment until modified by the Regents and shall supersede all previous oral and written commitments. Compensation recommendations and final actions will be released to the public as required in accordance with the standard procedures of the Board of Regents.

Submitted by: **UC Merced Chancellor Leland**

Reviewed by: **President Yudof**
Committee on Compensation Chair Ruiz
Office of the President, Human Resources

(2) ***Contract Compensation Parameters for Eric Yarber as Assistant Football Coach, Intercollegiate Athletics, Los Angeles Campus***

Background to Recommendation

Approval under interim authority was requested for the contract compensation of Eric Yarber as assistant football coach, Intercollegiate Athletics, Los Angeles campus.

On December 22, 2011, under interim authority, compensation parameters were approved for the recruitment of three assistant football coaches at the Los Angeles campus. The approved parameters allowed the campus to act during the fast-moving negotiations at the end of the college football season.

The campus identified an additional highly desirable candidate, Eric Yarber, to serve as assistant football coach. Two components of Mr. Yarber's contract require approval by the Regents.

Approval was requested for a 76.3 percent increase between the first and second year of the contract, thereby exceeding the 30 percent threshold established by the Regents in September 2008. Because Mr. Yarber will be paid by his former employer, a National Football League (NFL) team, through year one of his contract with the University, the campus was able to reduce his guaranteed compensation for that year to a level that will result in a significant savings to the University, while preventing him from incurring a financial penalty from his previous employer's contract. Specifically, Mr. Yarber will be paid $156,000 in guaranteed compensation during his first year and $275,000 in his second year. But for the savings afforded by the NFL buyout, the contract increase between the first and second year would have been within the approved parameters.

Approval also was requested for annual maximum incentive pay up to a total of $100,000 consistent with the maximum incentive pay previously authorized for the other three assistant football coaches.

All other terms negotiated for Mr. Yarber are within the parameters of campus authority previously established by the Regents.

The exclusive source of funding for Mr. Yarber's contract will be athletic department revenues and private fundraising. No UC general funds provided by the State will be used.

Action was requested under interim authority as approval needed to be secured before the next regularly scheduled meeting of the Regents in March.

Recommendation

The following items were approved in connection with the contract compensation parameters for Eric Yarber as assistant football coach, Intercollegiate Athletics, Los Angeles campus:

a. Guaranteed compensation. The annualized base salary and talent fee will be as follows:

	Year 1	Year 2
Base Salary:	$156,000	$250,000
Talent Fee:	$ 0	$ 25,000
Guaranteed Compensation:	$156,000	$275,000

The payment of talent fees will be predicated on professional activities, including various appearances and speaking engagements on television and radio broadcasts of UCLA football games and sports shows dedicated to UCLA sports, promotional endorsements, and consultation contracts with athletic shoe, athletic apparel, athletic equipment, and other sport manufacturers.

b. Approval of an annual maximum performance-based incentive of up to a total of $100,000 which may be earned for such accomplishments as the following, subject to contract negotiation:

i. Pac-12 finish, final national ranking, number of regular season wins, Bowl appearances.

ii. Achieving the national championship, participation in national championship game, participation in the Bowl Championship Series, or participation in the Pac-12 championship game.

Compensation recommendations and final actions will be released to the public as required in accordance with the standard procedures of the Board of Regents.

Submitted by: **UCLA Chancellor Block**
Reviewed by: **President Yudof**
Committee on Compensation Chair Ruiz
Office of the President, Human Resources

(3) ***Contract Compensation Parameters for Six Assistant Football Coaches, Intercollegiate Athletics, Los Angeles Campus***

Background to Recommendation

Approval under interim authority was requested to negotiate a maximum performance-based incentive of up to a total of $100,000 for six assistant football coaches, Intercollegiate Athletics, Los Angeles campus.

The Regents established compensation parameters applicable to certain coaches and other athletic personnel in the Amendment of Regents' Delegation of Authority for Recruiting and Negotiation Parameters for Certain Athletic Positions and Coaches, Systemwide, which the Regents approved in September 2008. Those parameters apply to these six assistant football coaches because their total cash compensation could exceed the Indexed Compensation Level, which is currently set at $291,000.

On December 22, 2011, alternative compensation parameters for recruitment of three other assistant football coaches at the Los Angeles campus were approved under interim authority. The approved parameters included authority to negotiate an annual maximum performance-based incentive of up to a total of $100,000.

The campus requested similar authority to negotiate an annual maximum performance-based incentive of up to a total of $100,000 for the six assistant coaches in the football program at UCLA who are not covered by the December 22, 2011 Regents' interim action.

All other terms being negotiated for these six positions are within the parameters previously established by the Regents.

The compensation provided under the contracts for these six assistant coaches will be funded exclusively from athletic department revenues and private fundraising. No UC general funds provided by the State will be used.

Action was requested under interim authority as contract negotiations are currently under way and approval must be secured before the Regents' next regularly scheduled meeting in March.

Recommendation

The following item was approved in connection with the delegation of authority to the Chancellor, Los Angeles campus, to negotiate and agree on the following contract compensation parameters for six assistant football coaches, Intercollegiate Athletics, Los Angeles campus:

An annual maximum performance-based incentive of up to a total of $100,000 may be earned by each assistant coach for such accomplishments as:

a. Pac-12 finish, final national ranking, number of regular season wins, Bowl appearances.

b. Achieving the national championship, participation in the national championship game, participation in the Bowl Championship Series, or participation in the Pac-12 championship game.

Compensation recommendations and final actions will be released to the public as required in accordance with the standard procedures of the Board of Regents.

Submitted by: **UCLA Chancellor Block**
Reviewed by: **President Yudof**
Committee on Compensation Chair Ruiz
Office of the President, Human Resources

9. **REPORT OF COMMUNICATIONS RECEIVED**

Secretary and Chief of Staff Kelman reported that, in accordance with Bylaw 16.9, Regents received a summary of communications in reports dated January 26, 2012, February 9, 2012 and March 5, 2012.

10. **REPORT OF MATERIALS MAILED BETWEEN MEETINGS**

Secretary and Chief of Staff Kelman reported that, on the dates indicated, the following were sent to the Regents or to Committees:

To Members of the Committee on Compliance and Audit

A. From the President, required audit of Hastings College of the Law for the year ended June 30, 2011. (February 2, 2012)

To Members of the Committee on Finance

B. From the President, Annual Report on Debt Capital and External Finance Approvals for fiscal year 2010-11. (January 25, 2012)

C. From the President, Annual Report on University Employee Housing Assistance Programs for 2010-11. (February 2, 2012)

To Members of the Committee on Health Services

D. From the President, Medical Center Activity and Financial Status Report for the Six Months Ended December 31, 2011. (March 1, 2012)

To Members of the Committees on Long Range Planning and Educational Policy

E. From the President, Annual Accountability Sub-Report on Admissions and Enrollments. (March 5, 2012)

To the Regents of the University of California

F. From the President, fall 2012 application data. (January 11, 2012)

G. From the Secretary and Chief of Staff, summaries of communications received between December 1, 2011 and December 31, 2011. (January 26, 2012)

H. From the President, announcement of Vice President Bruce Darling’s departure and new position as Executive Officer of the National Academy of Sciences and National Research Council. (January 27, 2012)

I. From the Secretary and Chief of Staff, summaries of communications received in January 2012. (February 9, 2012)

J. From the Secretary and Chief of Staff, appointments to the Special Committee on the Selection of the 2013-14 Student Regent. (February 24, 2012)

K. From the Chair of the Committee on Oversight of the Department of Energy Laboratories, 2011 annual reports from the Lawrence Livermore National Security, LLC and Los Alamos National Security, LLC Boards of Governors. (February 27, 2012)

L. From the Secretary and Chief of Staff, summaries of communications received in February 2012. (March 5, 2012)

M. From the Secretary and Chief of Staff, appointments to the Committee on Governance for 2012-13. (March 8, 2012)

N. From the President, informational summary of External Relations activities. (March 9, 2012)

11. **GG REPORT**

A. ***Amendment of Bylaw 21.5 – Senior Vice President - Chief Compliance and Audit Officer, Standing Order 100.1 – Officers of the University, Bylaw 12.3 – Committee on Finance, and Bylaw 12.5 – Committee on Investments***

At the January 2012 meeting of the Regents of the University of California, Regent Varner served notice that at the next regular meeting he would move amendment of Bylaw 21.5 – Senior Vice President – Chief Compliance and Audit Officer, Standing Order 100.1 – Officers of the University, Bylaw 12.3 – Committee on Finance, and Bylaw 12.5 – Committee on Investments as shown below.

Additions shown by underscoring; deletions shown by strikethrough

BYLAW 21.5

SENIOR VICE PRESIDENT – CHIEF COMPLIANCE AND AUDIT OFFICER

21.5 Senior Vice President - Chief Compliance and Audit Officer.

The Senior Vice President - Chief Compliance and Audit Officer<u>, who shall also be an Officer of the University,</u> shall develop and maintain the University's Corporate Ethics and Compliance and Audit Programs, functioning as an independent and objective office that reviews and evaluates compliance and audit issues and concerns within the University. This position will monitor and report as to the Board itself, the administration, faculty, and employees on compliance with rules and regulations of regulatory agencies, University policies and procedures, and the University’s Statement of Ethical Values and Standards of Ethical Conduct. This position is authorized to implement all necessary actions to ensure achievement of the objectives of effective, accountable ethics and compliance and audit programs.

STANDING ORDER 100.1

OFFICERS OF THE UNIVERSITY
DESIGNATION AND TO WHOM RESPONSIBLE

100.1 Designation and to Whom Responsible

***

(b) The President shall be responsible directly to the Board. All other Officers shall be responsible to the President directly or through designated channels, with the exception of the General Counsel and Vice President for Legal Affairs, the Chief Investment Officer and Vice President for Investments, and the Senior Vice President – Chief Compliance and Audit Officer, ~~both~~ all of whom shall have dual responsibility to the Board and to the President.

BYLAW 12.3

COMMITTEE ON FINANCE

12.3 Committee on Finance

The Committee on Finance shall:

***

n. Consider and recommend to the Board the annual budget of the ~~Treasurer~~ Chief Investment Officer of The Regents upon recommendation of the ~~Treasurer~~ Chief Investment Officer following review and recommendation by the Committee on Investments with respect to the portion to be charged to investment assets.

***

BYLAW 12.5

COMMITTEE ON INVESTMENTS

12.5 Committee on Investments

The Committee on Investments shall:

***

e. Consider and recommend to the Committee on Finance upon recommendation of the ~~Treasurer~~ Chief Investment Officer the portion of the annual budget of the Office of the ~~Treasurer~~ Chief Investment Officer charged to investment assets.

***

B. ***Amendment of Bylaw 12.7 – Committee on Health Services***

At the January 2012 meeting of the Regents of the University of California, Regent Varner served notice that at the next regular meeting he would move amendment of Bylaw 12.7 – Committee on Health Services as shown below.

Additions shown by underscoring; deletions shown by strikethrough

BYLAW 12.7

COMMITTEE ON HEALTH SERVICES

12.7 Committee on Health Services

The Committee on Health Services shall:

***

(d) Consider matters relating to the University's hospitals' and student health and counseling clinical programs', including self-insured student health programs, licensure, accreditation, planning, patient care, medical staff matters, quality assurance, and relationships with schools of health sciences.

(e) Consider and recommend to the Board policies in connection with the operation and governance of University hospitals and student health and counseling clinical programs, including self-insured student health programs.

***

Upon motion of Regent Wachter, duly seconded, the amendment of Bylaw 21.5 – Senior Vice President – Chief Compliance and Audit Officer, Standing Order 100.1 – Officers of the University, Designation and to Whom Responsible, Bylaw 12.3 – Committee on Finance, Bylaw 12.5 – Committee on Investments, and Bylaw 12.7 – Committee on Health Services, was approved.

The meeting adjourned at 10:15 a.m.

Attest:

Secretary and Chief of Staff

Audit Reports and Services

Audit Scope

PricewaterhouseCoopers has adopted a consistent approach for our audit procedures. We scope our work to perform an audit of the various financial statements. Overall we must achieve sufficient coverage to express an opinion on the University's consolidated financial statements as a result of our audit conducted in accordance with GAAS and GAS as well as on the individual Medical Center and employee benefit plan and related trust financial statements.

A-133 Reporting

Additional procedures are required for performing an audit of compliance with requirements applicable to each major federal program in accordance with GAS. At the time of preparing this report, we have identified two major programs (research and development and student financial aid) that will be subject to our OMB Circular A-133 audit for the year ending June 30, 2012. We expect that one or two additional programs requiring audit as part of the 2012 A133 work will be identified as part of the preparation of the 2012 Schedule of Expenditures and Federal Awards. Should additional major programs be identified that are required to be audited as part of the 2012 A-133 audit, we will alert the Committee of this.

PwC Services to the University

In addition to our audits, we provide advice on emerging accounting and reporting issues and provide certain other services including those listed below. Prior to commencing any services, we are required to obtain preapproval from the Committee or the Committee's designee pursuant to the University’s preapproval policy for its independent auditor.

Audit Opinions	■ Report on the consolidated financial statements of the University of California ■ Reports on the financial statements of each of the five Medical Centers ■ Report on the University of California Retirement System ■ Reports in accordance with OMB Circular A-133, including: - Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards* - Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance

Internal Control Observations	■ Report to the Committee on control and process deficiencies and observations, including material weaknesses and significant deficiencies (Regents Letter) ■ Reports to the campus Chancellors on control and process deficiencies and observations (Chancellor Letters)
Agreed-Upon Procedures	■ Agreed-upon Procedures related to the sale of Mortgage Origination Program and Supplemental Home Loan Program loans ■ Agreed-upon Procedures related to the 415(m) plans ■ Agreed-upon Procedures on Intercollegiate Athletic Departments (NCAA requirements) for six campuses
Other Services	■ Reviews in connection with bond offerings ■ Accounting consultations and other assistance associated with emerging accounting and reporting issues and complex transactions
Committee Reporting	■ Audit and communications plan ■ Results of audits and required communications

PricewaterhouseCoopers
Audit Fees

	Actual 2010	Actual 2011	2012
Core Audit, including expenses			
UC	$ 3,992,000	$ 3,619,000	$ 3,619,000
National Laboratories	69,400	62,000	62,000
	4,061,400	3,681,000 (2)	3,681,000
Required Scope Changes:			
Recurring - see detail below	50,000	-	(58,100) (1)
3.5% increase			126,800 (3)
Sub-total Core Audit Cost	4,111,400	3,681,000	3,749,700
Expanded Scope at the National Laboratory (Berkeley)	132,600	-	-
Total Audit Cost	$ 4,244,000	$ 3,681,000	$ 3,749,700

(1) Ongoing scope changes originating in each year are included in the Core Audit costs for the following year. They are:

Scope changes	2010	2011	2012
New GASB pronouncements	$ 50,000		
Changes in audit scope			(58,100) (4)
	$ 50,000	$ -	$ (58,100)

(2) For FY11 PwC has agreed to reduce fees by net of 10% over the FY10 fees. After applying the 5% fee increase originally approved by the Regents for FY11, fees were reduced by 15%, resulting in a net reduction of approximately 10% as compared to FY10.

(3) For FY12, UC agreed to increase the fees by 3.5% over the FY11 fees.

(4) Reduction in fee due to report changes made by University of California for the benefit plan reports. Additionally, the bond audit report is no longer required.

Attachment 3

PricewaterhouseCoopers
Audit and Consulting Fees [1]
2010 and 2011

Year	Core Audit	Other Audits	Audit Related	Consulting	Ratio of Consulting to Core Audit	Ratio of Consulting to Core Audit, other Audit and Audit Related Services
2010	4,111,400 [1]	920,509 [2]	896,659 [3]	160,738 [5]	4%	3%
2011	3,681,000 [1]	851,431 [2]	309,969 [4]	47,537 [5]	1%	1%

(1) Fees are generally allocated to the fiscal year under audit for audit services and to the year performed for consulting projects, if any. Ongoing scope changes originating in each year are included in the core audit costs for the following years.

(2) Primarily fees related to auditing the campus foundations and ASUCLA.

(3) Relates primarily to tax compliance, LBNL expanded procedures, UCSF compliance attestation engagement, West Village leasing consultation, UCSF MC IT cost review and UCI MC Eclipsys implementation assessment.

(4) Relates primarily to tax compliance, CFIA audits, and agreed upon procedures

(5) Relates to Payroll Assessment/Activity Analysis Survey.

Additions shown by underscoring; deletions shown by strikethrough

University of California – Regents Policy 7702

Senior Management Group Performance Management Review Process

Approved July 17, 2008
Amended September 16, 2010

Responsible Officer: Vice President–Human Resources

Responsible Office: Executive Compensation and Performance Management

Effective Date: ~~July 1, 2008~~ April 1, 2012

Next Review Date: The Responsible Officer will review the policy annually for update purposes, and will conduct a full review at least every three years.

Who Is Covered: All employees whose position is designated to be in the Senior Management Group ~~inclusive of Officers of the University per *Regents Standing Order 100.1.a.*~~ , including the President and Principal Officers of The Regents.

~~*Deans are excluded from the Five-Year Senior Leadership Development Assessment portion of this policy at this time since they are subject to the regular academic review process. Subject to review and approval by The Regents, Principal Officers of The Regents may be included in this policy at a future date with a similar review process being developed after consultation with The Regents.*~~

CONTENTS

I. POLICY SUMMARY

This policy provides the direction and authority for a performance review process that establishes goals and expectations, and reviews the accomplishments of the Senior Management Group members of the University, including the President and Principal Officers of The Regents.

II. POLICY DEFINITIONS

Executive Officer: The University President, Chancellor, or Laboratory Director.

Exceptions: Actions that exceed what is allowable under current policy or that are not expressly provided for under policy. Any such actions must be treated as exceptions.

Senior Management Group: Individuals whose career appointment is in the Senior Management Group (SMG) personnel program. SMG ~~E~~employees ~~with a~~ who also hold dual academic appointment at 0 percent shall be considered to possess a career appointment in the Senior Management Group.

Top Business Officer: Executive Vice President–Business Operations for the Office of the President, Vice Chancellor for Administration, or the position responsible for the location's financial reporting and payroll as designated by the Executive Officer.

III. POLICY TEXT

A. Five-Year Senior Leadership Development Assessment

A Leadership Development Assessment will be conducted once every five years. The purpose of this assessment is to provide the Senior Management Group (SMG) member with feedback from a broader perspective than is usual with an annual performance evaluation. This is a managerial coaching and development exercise, rather than an evaluation of achievement toward specific goals. Individuals who have direct and specific knowledge of a SMG member's performance and contribution will be consulted to collect their input and feedback relevant to the SMG member's performance. Those consulted should include individuals, as appropriate, from among the following constituents: the Academic Senate, academic unit heads, staff (including subordinates), deans, other administrators within the University, ~~and~~ other pertinent external groups and, in the case of the President and Principal Officers of the University, Regents.

The process for conducting the leadership development assessment, the format and any related materials may be developed by each location. The official document of record will reside with each location; however, a copy of the document will be provided to the Office of the President. The Chancellor will determine the appropriate contributors to the assessment of campus SMG members. The Leadership Development

Assessment will be initiated by the direct supervisors at each location. As processes are developed, proper consultation with the Academic Senate will occur, where appropriate. For those positions reporting to the President and/or the Regents, the Office of the President will be responsible for establishing a process consistent with this policy.

B. Annual Performance Evaluation

Performance evaluations will be conducted annually by the direct supervisor for each SMG member on the *University of California Performance Management for Senior Administrators* evaluation form. For campus positions, the Chancellor shall determine the key components in the performance evaluation process, which may include self-appraisals; internal and external sources of information, including client feedback; and input from key stakeholders. The official document of record will reside with each location; however, a copy of the document will be provided to the Office of the President and the overall rating will be recorded in the Senior Leadership Information System (SLIS).

For Principal Officers of the Regents reporting to both the Board of Regents and the President, the incumbent will complete a self-assessment and the President will collect input from the Chair of the Board and the designated Regent. The President will develop agreement on the overall assessment and then meet with the Principal Officer to provide the overall performance assessment.

For the President and Principal Officers of the Regents reporting solely to the Board of Regents, the Chair of the Board will develop the overall assessment and then meet with the President or Principal Officer to provide the overall performance assessment.

The designated Regent for the General Counsel is the Chair of the Board. The designated Regent for the Chief Investment Officer is the Chair of the Investment Committee. The designated Regent for the Chief Compliance Officer is the Chair of the Committee on Compliance and Audit.

Goals and objectives will be established for each employee holding a position which has been designated as a participant at the commencement of or during the performance period. Goals and objectives are to clarify and delineate accountability, create opportunity for the individual to add value to the work of the unit and/or campuses, be aligned with higher level objectives and strategies established by University leadership, and encourage growth and development of the individual. Performance will be measured relative to the attainment of the stated goals and objectives, and significant accomplishments related to the strategic goals and objectives of the University.

C. Annual Performance Review Standards and Competencies

~~These s~~Standards and competencies will be incorporated into the annual performance management and review process to measure performance in such areas as vision, leadership, people management, creativity and innovation, interpersonal and communication skills, work productivity and quality, resource management and financial budget, diversity, client service, health service, and principles of community.

- ~~Accountability and Governance: Demonstrates execution of goals and objectives which provide opportunities for growth of the SMG member and supports the overall success of the strategic objectives of the organization, both locally and systemwide. These goals and objectives will include compliance with applicable regulatory and university requirements. Adheres to University principles of transparency and openness in working with all constituents.~~
- ~~Collaboration and Communication: Demonstrates a proactive approach to establishing effective relationships with key internal (local and systemwide) and external constituencies; understands the diverse needs and agendas of various stakeholder groups; creates and fosters an environment that ensures collegiality and information sharing, while recognizing the need for timely decision making. Effectively communicates with leadership, faculty, and staff.~~
- ~~People Leadership: Provides an environment of growth and career development, recognizing and utilizing skills of others through clear, specific, and timely performance feedback; recruits, develops, and retains talented managers and employees; provides effective coaching, delegates effectively, and rewards superior performance.~~
- ~~Inspiring Innovation and Leading Change: Inspire and develop opportunities for new and innovative approaches in the disciplines covered, better ways of teaching students, and greater contributions to research and dissemination of the knowledge developed at the University. Drives change initiatives by defining measurable outcomes, energizing others at all levels and ensuring continuing commitment when faced with new initiatives; confronts and works through resistance with various stakeholders.~~
- ~~Resource Management and Financial Budget: Develops strategic goals and objectives to achieve accountability and efficient stewardship of University resources (operational, financial, and human) in a manner consistent with systemwide objectives and initiatives. Adheres to established budget and resource allocations, ensuring optimal and efficient use of all resources.~~
- ~~Diversity: Demonstrates an active and engaged commitment to diversity. Works to establish a climate in the University that welcomes, celebrates and promotes respect for diversity of race, color, national origin, religion, sex, gender identity, pregnancy, physical or mental disability, medical condition (cancer-related or genetic characteristics), ancestry, marital status, age, sexual orientation, citizenship, or status as a covered veteran. Ensures equal opportunity in search and recruitment processes by ensuring diverse representation on search committees, supplemental outreach efforts, etc. Promotes equity in advancements by describing the review process for new staff and administrators, encouraging participation in career advising or mentoring programs, etc.~~
- ~~Client Service: Understands that the University is a large, complex organization with many internal and external clients. Carries out the University's organizational~~

~~philosophy to provide the best possible services in support of its mission of teaching, research, and public service.~~

- ~~Health and Safety: Understands that safety and environmental issues are essential elements of ensuring the continued success of UC and its employees. Maintains a safe, healthy, and environmentally sound workplace.~~
- ~~Principles of Community: Fosters a positive working and learning environment by maintaining a climate of collaboration, fairness, cooperation, and professionalism. Practices and integrates these basic principles in all interactions.~~

D. Standardized Overall Performance Rating

To provide a standard University-wide format and rating system for Senior Management Group members, the following scale will be incorporated into the review:

Overall Performance Rating:

- **Exceptional Performance** is significant overachievement of expectations.
- **Above Expectations Performance** is often beyond expectations.
- **Satisfactory Performance** consistently fulfills expectations.
- **Improvement Needed Performance** is inconsistent performance, with expectations only partially achieved. Deficiencies should be addressed in the performance appraisal.
- **Unsatisfactory Performance** is the failure to achieve the majority of expectations. Deficiencies should be addressed in the performance appraisal.

IV. Approval Authority

A. Implementation of the Policy

The Vice President–Human Resources is the Responsible Officer for this policy and has the authority to implement the policy. The Responsible Officer may apply appropriate interpretations to clarify policy provided that the interpretations do not result in substantive changes to the underlying policy, including modifications of the evaluation form to attain to the objectives of the review. The Office of the President Human Resources will work with the Responsible Officer to implement this policy.

B. Revisions to the Policy

The Regents is the Policy Approver for this policy and has the authority to approve any policy revisions upon recommendation by the President.

The Vice President–Human Resources has the authority to initiate revisions to the policy, consistent with approval authorities and applicable *Bylaws* and *Standing Orders* of the Regents.

The Executive Vice President–Business Operations has the authority to ensure that policies are regularly reviewed and updated, and are consistent with the [*Principles for Review of Executive Compensation* (Regents Policy 7201)] and other governance policies.

C. Approval of Actions

All actions that exceed this policy or that are not expressly provided for under any policy must be approved by the Regents.

V. COMPLIANCE

A. Compliance with the Policy

The following roles are designated at each location to implement compliance monitoring responsibility for this policy:

The Top Business Officer and/or the Executive Officer at each location will designate the local management office to be responsible for the ongoing reporting of policy compliance, including collecting all relevant compensation package activity, and creating specified regular compliance reports (such as a monthly compensation compliance report) for review by the location's Top Business Officer.

The Top Business Officer establishes procedures to collect and report information, reviews the specified regular compliance reports (such as a monthly compensation compliance report) for accuracy and completeness, reviews policy exceptions and/or anomalies to ensure appropriate approval has been obtained, and submits a copy of the compliance report to the Executive Officer for signature.

The Executive Officer is accountable for monitoring and enforcing compliance mechanisms, ensuring monitoring procedures are in place, approving the specified regular compliance reports (such as a monthly compensation compliance report), and sending notice of final approval for the reports to the Senior Management Compensation Office, Top Business Officer, and Local Resources.

The Vice President–Human Resources is accountable for reviewing the administration of this policy. The Senior Vice President–Chief Compliance and Audit Officer will periodically monitor compliance to these policies, and results will be reported to senior management and the Regents.

B. Noncompliance with the Policy

Noncompliance with the policy is handled in accordance with the Regents' *Guidelines for Corrective Actions Related to Compensation Practices* and *Guidelines for Resolution of Compensation and Personnel Issues Resulting from the Findings of Audits and Management Reviews*.

Noncompliance is reported in the monthly compliance report from each location as approved by the Executive Officer and reviewed by the Senior Vice President–Chief Compliance and Audit Officer and the Regents at least three times per fiscal year.

REVISION HISTORY

This is a new policy and there is no revision history.

IMPLEMENTATION PROCEDURES

The Responsible Officer may develop procedures or other supplementary information to support the implementation of this policy. Such supporting documentation does not require approval by the Regents.

RELATED DOCUMENTS

- *Regents Standing Order 100.1.a.* (referenced in the **Who is Covered** section of this policy)
- *University of California Performance Management for Senior Administrators* (referenced in Section III.B. of this policy)
- *Principles for Review of Executive Compensation* (Regents Policy 7201) (referenced in Section IV.B. of this policy)
- *Guidelines for Corrective Actions Related to Compensation Practices* (referenced in Section V.B. of this policy)
- *Guidelines for Resolution of Compensation and Personnel Issues Resulting from the Findings of Audits and Management Reviews* (referenced in Section V.B. of this policy)

Attachment 5

Additions shown by underscoring; deletions shown by strikethrough

SALARY ADMINISTRATION APM - 670
Health Sciences Compensation Plan ~~and~~
~~Guidelines on Occasional Outside Professional Activities by~~
~~Health Sciences Compensation Plan Participants~~

~~July 1999~~

~~Health Sciences Compensation Plan~~
~~University of California~~

~~I. Introduction~~

~~A. Philosophy~~

~~Health Sciences education occupies a special place in American higher education with unique functions and responsibilities. In medical education, the orientation to clinical practice, essential to the teaching function, requires an emphasis on sophisticated patient care, in addition to an emphasis on research and the advancement of knowledge. In dentistry, nursing, pharmacy, and other health science education as well, clinical teaching is integrated with basic and applied research. The University of California is committed to excellence in instruction, research, and public service in the health sciences just as it is committed to the same goals in other academic disciplines. As the only public university in California authorized to grant professional doctoral degrees in the health sciences, the University has a responsibility to the State, the public, and its students to maintain the breadth and depth of its curricula, the creativity of its research efforts, and the quality of its health care services.~~

~~To ensure the level of excellence essential in the University of California, special effort must be exerted to recruit and retain the best and most dedicated faculty. Special compensation plans have been established over the years to provide for quality across academic programs in the health sciences disciplines. These health sciences compensation plans offer a competitive salary structure indispensable to the health sciences schools' recruitment and retention efforts.~~

~~Health sciences disciplines require varying compensation levels in order to remain competitive with comparable schools elsewhere in the United States. However, because University health sciences schools share some common needs and operating requirements, the University has developed a uniform Health Sciences Compensation Plan to govern compensation arrangements and account for compensation plan income to the University's Schools of Medicine, Dentistry, Nursing, Pharmacy, and other health sciences units as deemed appropriate by the President.~~

~~The Health Sciences Compensation Plan is approved, amended and repealed by and under the authority of The Regents of the University of California. Through the Plan, compensation is set as a part of the employment relationship, and as a consequence, the level of compensation and the terms and conditions of the Plan may be amended or repealed at any time by The Regents, following consultation with the Health Sciences Chancellors, Deans and appropriate Academic Senate Committee(s).~~

~~The implementation, administration and continued operation of this Plan shall be contingent on the understanding and assurance that it will not require the expenditure of more State-appropriated funds in the University budget than operation without the Plan would require.~~

670-0 **Policy**

The Health Sciences Compensation Plan (HSCP) provides a policy framework within which Implementing Procedures will be developed by each health sciences school that participates in the Plan. School Implementing Procedures must be consistent with the Plan and its philosophy (see Appendix A), reviewed by the appropriate faculty committee(s), approved by the Chancellor, and reviewed prior to implementation by the President or the President's designee.

In developing Procedures consistent with this policy, the participating health sciences schools, after discussion and comment by the participants, and consultation with the school Advisory Committee, may include provisions that are more, but not less, restrictive than those outlined herein.

670 – 2 **Purpose ~~and Goals of the Plan~~**

The purpose of this Health Sciences Compensation Plan is to provide a common administrative framework within which a participating health sciences school can compensate its faculty according to the competitive requirements of each discipline. Specific goals of this Plan are:

a.~~1~~. To provide sufficient non-State resources to recruit and retain outstanding health sciences faculty~~.~~;

b.~~2.~~ To encourage a balance among teaching, research/scholarship, clinical care, and University and public service activities ~~(including clinical practice)~~ of the quality required in the University of California~~.~~;

c.~~3.~~ To provide teaching, patient care and research incentives that encourage and recognize academic merit as well as generation of income~~.~~;

d.~~4.~~ To offer consistent benefits and privileges to participating health sciences faculty; and schools at all University of California campuses.

e.~~5.~~ To benefit the health sciences schools by providing academic and research support funds in addition to State-appropriated funds.

~~II. Review and Approval Responsibility~~

~~A. Overview~~

~~The regulations included in this Plan are intended to provide a policy framework within which operating procedures will be developed by each health sciences school that participates in the Plan. Campus procedures and revisions in such procedures must be consistent with the Plan, reviewed by the appropriate faculty committee(s), and approved by the Chancellor and the President.~~

~~In developing campus procedures consistent with these regulations, the participating health sciences schools may include provisions that are more, but not less, restrictive than those outlined herein.~~

670-6 **Responsibility**

a.~~B.~~ Roles of The Regents and the President

After consultation with the Health Sciences Chancellors, Deans and the appropriate Academic Senate committee(s), and upon recommendation by the President, The Regents may amend or repeal any portion of or the entire Plan.

The President or the President's designee shall review Implementing Procedures for those schools electing participation in the Plan. ~~have the authority to:~~

- ~~approve the inclusion or exclusion of a health sciences school, discipline or specialty in the Plan.~~
- ~~approve campus procedures and revisions of approved campus procedures within the limitations of this Plan.~~
- ~~approve individual exceptions to the provisions of this Plan to meet special teaching, research or clinical service requirements.~~
- ~~issue administrative regulations and procedures further refining this Plan.~~

The President shall report to The Regents total compensation for any Plan participant which is greater than four times the highest step on the Professor Series Fiscal Year Salary Scale.

b. Role of the Chancellor

The Chancellor shall have operational authority over the development and – subsequent to review and approval by the President or the President's designee – implementation and monitoring of the school Implementing Procedures for administration of this Plan.

The Chancellor shall be responsible for assuring that affected Plan participants and the appropriate division Academic Senate committees shall be afforded the opportunity to review and comment on the proposed school Implementing Procedures.

c.~~C.~~ Role of the Academic Senate

The President shall consult with the appropriate Academic Senate committee(s) concerning proposed revisions of this Plan. ~~before submitting such revisions to The Regents for approval.~~

The appropriate division of the Academic Senate and other committee(s) ~~campus faculty committee~~ shall be provided the opportunity to review and comment on any proposed exceptions to ~~campus~~ School Implementing P~~p~~rocedures which the Chancellor intends to submit to the President or the President's designee for review. ~~approval.~~

~~D. Role of the Chancellor~~

~~The Chancellor shall have operational authority over the development and, subsequent to approval by the President, implementation and monitoring of the campus procedures for administration of this Plan. The Chancellor shall be responsible for assuring that affected Plan participants and the appropriate Academic Senate committees shall be afforded the opportunity to review and comment on the proposed campus implementing procedures.~~

d. **Role of the Advisory Committee**

A school-specific Advisory Committee which includes Senate and non-Senate faculty members representative of the disciplines participating in the Plan shall be established to assist the Dean in resolving the issues that may arise from implementing the Plan.

The Committee assists in assuring compliance with and resolving issues on outside professional activities, conflict of interest, and conflict of commitment. The Committee also reviews the submissions of individual department or unit Implementing Procedures.

The composition of the Committee, method for selecting members, terms of service defined to ensure rotation of service, Committee responsibilities, and procedures (including those for receiving and hearing faculty complaints) shall be specified in school Implementing Procedures. No more than fifty percent of the voting members will be appointed by the Dean and the remaining members of the Advisory Committee are elected by Plan members. All voting members of the Committee must have a faculty appointment. The Committee's functions shall include advising the Dean on:

1) Development of the school Implementing Procedures, including the

establishment of Good Standing Criteria, Academic Programmatic Unit (APU) assignments, and APU Scales. (See APM – 670-18-b for more information on APUs.)

2) Departmental Implementing Procedures including methods for obtaining faculty input and for determining consistency with school Implementing Procedures.

3) Review of potential conflicts between a Plan participant's commitment to generating revenue within the Plan and his or her outside professional activities.(See APM - 670-19-c)

4) Review of faculty appeals regarding implementing and administering the Plan that are not resolved at the department or school levels or are submitted to the Advisory Committee as a result of a determination of loss of Good Standing. S enate faculty members may pursue their grievance rights before the Privilege and Tenure Committee under Senate Bylaw 335. Non-Senate faculty may request a hearing under the terms of APM - 140.

The Advisory Committee will provide an annual summary report on its activities to Plan participants, the Dean, and the Chancellor.

670-10 **Standards/Criteria/Qualifications**

Good Standing Criteria

a. Written Good Standing Criteria shall be established at the School or Department level and shall be included in the school Implementing Procedures. Good Standing Criteria must include: 1) a definition of Good Standing, 2) a description of the administrative review process that occurs when a member is determined to be out of Good Standing, 3) consequences for not being in Good Standing, and 4) the process by which a faculty member may return to Good Standing. (See role of the Advisory Committee in APM - 670-6-d-1.)

b. Health sciences research and clinical practice are characterized by considerable diversity in sources of funding and are dependent on revenue streams that can be interrupted due to external circumstances, sometimes beyond the control of faculty. In support of the health sciences school's central function, a major responsibility of the Administration is to provide the faculty with conditions hospitable to the pursuits of teaching, research/scholarship, clinical care, and University and public service. The faculty member is responsible for performing the duties assigned at the time of hire, as well as reasonable new duties assigned by the department.

   Good Standing Criteria for health sciences faculty will include expectations related to their academic series, departmental expectations related to service, and expectations related to generation of salary support and to shared expenses.

   Plan participants must satisfy the Good Standing Criteria in order to be allowed to earn and/or retain income from professional, non-clinical activities. Good Standing Criteria might include, for example, keeping appropriate licensure and clinical privileges current, or meeting requirements for clinical coverage, teaching obligations, participation in departmental activities, or revenue generation. A pathway to return to Good Standing, should it be lost, must be defined. Prior to implementing or revising Good Standing Criteria, affected Plan participants and the Advisory Committee representatives shall be provided the opportunity to review and comment on the proposed criteria.

   All members of the Health Sciences Compensation Plan should be deemed to be in Good Standing until they encounter some circumstance in which their capacity to earn income is impaired. A faculty member may fail to be in Good Standing only for conduct which significantly and negatively impacts the health sciences school's central functions of teaching, research/scholarship, clinical care, and University and public service. Reasons for loss of Good Standing might include, for example, a negative five-year review, instances of misconduct, inability to participate in the generation of salary, refusal to participate in assigned duties, failure to participate in mandatory training, loss of clinical privileges, or loss of licensure and/or credentials.

A determination that a faculty member is not in Good Standing may affect the amount of negotiated additional compensation [Y; see APM - 670-18-c(1)] and/or Incentive/Bonus compensation [Z; see APM - 670-18-c(2)] that the faculty member may earn. If a faculty member is unable to practice at a specific site due to revocation of clinical privileges, for example, that faculty member must be willing to undertake new duties as assigned, or otherwise must forfeit the compensation from that assignment. Faculty who are not in Good Standing must obtain advance approval from the Department Chair to engage in any unassigned professional activities. If approved, the income from all such approved activities shall accrue to the Plan and not to the faculty member.

Exceptions may be approved in writing in accordance with school Implementing Procedures. A determination that a faculty member is not in Good Standing must be approved by the Dean, and any faculty member who is found not in Good Standing shall be notified in writing by the Department Chair of the reasons for that determination and what steps must be taken in order to return to Good Standing. A faculty member who believes that Good Standing Criteria have been applied unfairly may appeal to the Advisory Committee (described in APM - 670-6-d) in accordance with school Implementing Procedures.

670-14 **Eligibility**

~~III.~~ Membership in the Health Sciences Compensation Plan

a.~~A.~~ Membership Requirements

Individuals in health sciences schools, disciplines or specialties that have been approved for participation in this Plan shall be members of this Plan if they hold a University appointment at greater than 50 percent of full time, funded by one or more of the participating health sciences units, in any of the following title series:

1)~~.~~ Professor

2)~~.~~ Professor In Residence

3)~~.~~ Professor of Clinical ____________(e.g., Medicine)

4)~~.~~ Adjunct Professor

5)~~.~~ Acting Professor

~~6. C linical Professor~~

6)~~7.~~ Visiting Professor

7) Health Sciences Clinical Professor

8)~~.~~ Health Sciences School Dean titles~~.~~

9)~~.~~ Any other title series approved for membership in this Plan by the President or the President's designee~~.~~

A member of the faculty who was appointed in a health sciences school at the time of their retirement may be recalled to participate in the Health Sciences Compensation Plan yet may not exceed a maximum total per each month of 43 percent of full time. Please refer to APM – 205, Recall for Academic Appointees for terms and conditions for Plan membership for recall appointees. All other faculty participating in the Plan must hold appointments greater than 50 percent of full time.

Deans and other faculty administrators in Plan schools shall be members of the Plan if they hold an underlying Health Sciences Compensation Plan faculty title; however, salary and reporting requirements are defined by the personnel policies governing the administrative appointments.

Membership in the Plan is a term and condition of employment. All new and continuing eligible Plan members shall receive a copy of this Plan document, the ~~campus~~ school Implementing P~~p~~rocedures and any related school or D~~d~~epartmental G~~g~~uidelines setting forth ~~Regental,~~ campus~~,~~ and departmental policy applicable to faculty covered by the Plan.

Membership in the Plan shall continue while the Plan continues to be in effect. Separation from an eligible appointment will terminate membership in the Plan.

Faculty holding any of the titles 1 through 9 above with an appointment in more than one department will participate in the Plan if their appointment is more than 50 percent in a department participating in the Plan and funded by one or more of the participating health sciences units. If included in the Plan, they will be subject to continued membership and to all requirements of the Plan. Determination of and responsibility for the faculty member's salary must be jointly agreed to in writing by the Chairs of the affected Departments and approved annually by the Dean(s). The Departments participating in the Plan are responsible for administering compensation including health and welfare benefits.

b)~~B.~~ Exceptions to Membership Requirements

~~As specified at Section II.B, the President~~ The Chancellor may approve exceptions to membership requirements in individual circumstances to meet special teaching, research, clinical care, or University and public service requirements.

The ~~President~~ Chancellor shall review and ~~has authority~~ is authorized to approve specific provisions in campus procedures, and requests by ~~Chancellors~~ Deans ~~in specific cases,~~ for inclusion in the Plan of individuals in a health sciences school whose appointments are in the series listed in ~~Section III.A,~~ APM – 670-14-a, regardless of percentage of ~~time~~appointment.

670-18 **Salary**

~~IV. Compensation~~

~~The Income Limitation Arrangement is not an option for compensation of health sciences faculty except as provided in Appendix A. No single member professional corporations, or any other form of professional corporation, partnership or other entity(s) for the provision of professional health care shall be permitted for faculty under the Plan without the express written approval of the President.~~

a.~~A.~~ Total Compensation

Faculty members participating in this Plan shall:

1) receive base salary as described in Section b~~B~~, below~~,~~;

2) be eligible for optional additional compensation as described in Section c~~C~~, below~~,~~;

3) be permitted to retain the other miscellaneous income as described in ~~Section D, below.~~APM – 670-19~~,~~;

Payment under the Health Sciences Compensation Plan will be made directly to the Plan participant in his/her individual capacity and will not, absent prior approval from the President or the President's designee, be made to any professional corporation or other legal entity maintained by the Plan participant.

Generally, off-scale salaries are not awarded. No State funds shall be used for the portion of base salary that exceeds the Fiscal Year Salary Scales for the Plan member's rank and step or for optional University additional compensation as described at Section c ~~C~~, below. This portion of compensation shall be funded using Compensation Plan funds and other non-State funds in compliance with any related fund source restrictions.

b.~~B.~~ Base Salary (X and X') and Academic Programmatic Unit (APU)

Base salary ~~for an individual~~ is the approved rate on one of the Health Sciences Compensation Plan Salary Scales~~,~~ associated with ~~that~~ a faculty member's academic rank, step and assigned APU.~~academic programmatic unit.~~ Base salary shall equal at least the approved rate on the Fiscal Year Salary Scale (HSCP Scale 0) for the faculty member's rank and step (X). ~~The b~~Base salary is covered under the University of California Retirement Plan (UCRP) up to the amount permissible under Internal Revenue Code provisions ~~law~~ and in accordance with UCRP policy and provisions ~~and regulations~~. ~~Salary scales shall be assigned to academic programmatic units~~ Plan participants' APU scale assignments shall be approved by the Dean and assignments may be changed in accordance with guidelines issued by the Chancellor ~~President~~. The differential between X (Scale 0) and the faculty member's APU is designated X-prime (X').

1) For the purpose of determining the Health Sciences Base Salary Rate, each Department shall establish at least one APU to which the faculty shall be assigned. An APU shall comprise faculty with similar clinical, teaching and research responsibilities. The Department Chair shall recommend an appropriate APU assignment for each member of the Plan, based on clinical, teaching and research responsibilities. Each APU shall be assigned to an HSCP Salary Scale, according to school Implementing Procedures.

2) In keeping with the responsibility of the University to ensure consistency of compensation by creation of APUs or assignment of faculty to APUs:

   a) Deans are authorized to approve the faculty composition of each APU and assignment of a salary scale to that unit, subsequent to the Department Chair's recommendation.

b) Deans must receive advance approval from the Chancellor or the Chancellor's designee for an APU comprising fewer than four members. The request for approval shall include the criteria for composition of the APU, and the name, series, rank, and step of each member.

c) An APU must remain at its assigned HSCP Salary Scale for at least one year before being assigned to a higher or lower scale.

d) An APU may move to a higher HSCP Salary Scale by a maximum of one scale per year. An APU typically moves down no more than one scale at a time.

No individual faculty member may be moved from one APU to another without a significant change in duties or a change in department. Department chairs shall report annually to the Dean the name of any faculty member who has moved from one APU to another and the reason for the transition.

C. Optional Additional Compensation

School Implementing Procedures and department, division and/or APUs ~~Local compensation procedures (that is campus, department, division and/or academic programmatic unit procedures)~~ may provide for the payment of additional compensation. Prior to ~~the implementation~~ implementing or ~~revision~~ revising ~~of local compensation~~ Implementing P~~p~~rocedures, affected Plan participants and the Advisory Committee shall be afforded the opportunity to review and comment on the proposed P~~p~~rocedures. ~~Local p~~ Implementing Procedures shall specify how additional compensation will be calculated, when it ~~will~~ may be paid, and the title(s) of person(s) authorized to approve individual compensation agreements. Additional compensation may be paid, in accordance with fund source restrictions, as follows:

1)~~.~~ Negotiated additional compensation ("Y")

Plan members may receive a negotiated amount of additional compensation. This component of pay is beyond the base salary and is not covered compensation for the University of California Retirement Plan, but may be eligible for optional disability and life insurance programs where applicable. ~~and for the Health Sciences Severance Pay Plan (HSSPP), as described at Section V.B.~~

2)~~.~~ Incentive/Bonus compensation ("Z")

Plan members may receive incentive/bonus compensation. This incentive/bonus compensation is not covered compensation for UCRP. ~~the University of California Retirement Plan, but may be eligible for the Health Sciences Severance Pay Plan, as described at Section V.B.~~

Departmental Implementing Procedures will describe the manner in which faculty members within a department, division, or APU may earn incentive compensation beyond base and negotiated compensation, upon approval by the Dean.

3) Administrative Stipends

Plan members may receive administrative stipends, defined as payments by the University for responsibilities related to University administration beyond normal responsibilities.

D. Other Outside ~~Miscellaneous~~ Income Which May be Retained by Plan Members

a. Patient care activities must be provided within the University setting, or as part of an approved affiliation agreement or professional service agreement. All clinical income is due to the Plan. In no case will Plan participants be allowed to retain income from patient care activities.

b. Certain categories of income accruing from occasional service, as described below, may be retained by Plan members. Department Implementing Procedures shall address whether members can deposit remuneration from miscellaneous outside activities into an academic enrichment account, and the terms and conditions for those accounts. The Department Chair and/or Dean shall monitor the frequency of individual activity in these areas:

1)~~.~~ Income from occasional outside professional activity (other than patient care) in accordance with the Guidelines on Occasional Outside Professional Activities by Health Sciences Compensation Plan Participants issued by the President or the President's designee, School ~~and campus~~ I~~I~~mplementing P~~p~~rocedures, and APM – 025 (see also Appendix B);~~.~~

2)~~.~~ Prizes, defined as gifts in recognition of personal achievements and not for services rendered;~~.~~

3)~~.~~ Royalties, defined as shares of proceeds for contributions as authors or inventors, as allowed under the University's copyright and patent policies;~~.~~

4)~~.~~ Honoraria, defined as payments by agencies outside the University for occasional lectures and similar public appearances beyond normal academic responsibilities to the University of California and which are not in return for other services, whether given directly or indirectly;~~.~~

5)~~.~~ University honoraria, defined as payment for occasional lectures or similar services performed on a University of California campus as permitted by Academic Personnel Policy;~~.~~

~~6. Administrative stipends, defined as payments by the University for responsibilities related to University administration beyond normal academic responsibilities.~~

6)~~7.~~ Income from a profession or activity unrelated to the training and experience which is the individual's qualification for University appointment as determined by the Department Chair~~person~~ in consultation with the Dean.

c. **Complaints and Appeals**

A faculty member who has a complaint about an issue related to outside professional activities should first try to resolve the issue at the departmental level. If the complaint cannot be resolved through discussions, the faculty member's complaint and the Department Chair's response should be documented. If the faculty member disagrees with the departmental decision, s/he should file a formal complaint with the Dean. The Dean will charge the Advisory Committee with fact-finding. Both the Chair or the Chair's designee and the faculty member will have the right to be heard by the Committee. The Committee will issue a formal recommendation for resolution to the Dean. The Dean makes the decision based on this recommendation. Senate faculty may pursue their grievance rights under the terms of Senate Bylaw 335. Non-Senate faculty may request a hearing under the terms of APM - 140.

670-20 Use/Terms of Employment/Conditions of Employment

~~V.~~ Benefits

No campus may offer faculty benefits beyond those which have been approved by The Regents. All benefits shall be provided in accordance with policies and/or guidelines issued or approved by the Office of the President. Each h~~H~~ealth s~~S~~ciences s~~S~~chool and respective a~~A~~ccounting o~~O~~ffice shall develop and provide a funding mechanism for support of all benefits made available under the provisions of this

Plan, and this mechanism shall be included in the school Implementing ~~campus~~ P~~p~~rocedures established for administration of the Plan.

All such benefits as described below and in related policies shall be provided uniformly within departments or divisions, as reviewed by their participants and as approved by the Dean.

a~~A.~~ Base Salary-Related Benefits

Base salary-related benefits are associated with an individual's salary from one of the Health Sciences Salary Scales. These benefits include participation in the UCRP, health care benefits, ~~insurance,~~ disability benefits, ~~insurance,~~ regular term life coverage ~~insurance~~, and other benefits as may be approved by The Regents. Base salary-related benefits will be made available to faculty members who are members of this Plan on the same basis as to all other members of the University faculty.

b.~~B.~~ Optional Benefits on Additional Compensation

The Regents have authorized disability and life insurance ~~some~~ benefit programs related to health sciences additional compensation beyond the base salary.~~:~~
~~1. Disability and life insurance programs~~
These programs must be approved by the Office of ~~Employee Benefits/~~Human Resources, Office of the President. Policies governing optional disability and life insurance programs on additional compensation are available from that office. ~~the Office of Employee Benefits/Human Resources, Office of the President.~~

~~2. Health Sciences Severance Pay Plan (HSSPP)~~
~~Presidential Guidelines for the Health Sciences Severance Pay Plan are available from the Office of the Provost and Senior Vice President – Academic Affairs.~~

c.~~C.~~ Paid Leave

Plan members who are eligible for sabbatical leave, leave with salary, or extended illness leave ~~vacation leave, or who are granted sick leave (including parental leave)~~ may be granted such leave paid at least ~~at~~ the Health Sciences Scales Base Salary rate (X, X') ~~or total negotiated salary rate~~ as set forth in local I~~i~~mplementing P~~p~~rocedures. A Plan member who leaves University service or transfers from a vacation-accruing title to a non-accruing title shall be paid for accrued vacation at the Plan member's total negotiated salary rate at the time of separation.

With the exception of the two provisions below, or where explicitly stated in policy, members of the Plan are eligible for leaves as defined in APM - 710 - 760. Schools or departments that include provisions in Implementing Procedures for leaves shall clearly define the rate of pay, i.e. whether any additional leave will be paid more than the minimum base salary rate. In the absence of specific Implementing Procedures, the leave provisions as described in APM - 710 – 760 will be used.

~~All such benefits as described above shall be provided uniformly within campus departments, divisions, or academic programmatic units as approved by the Dean.~~

1) **Extended Illness**

Members of the Plan who are appointed full-time to at least a twelve-month term who are unable to work for reasons of extended personal illness, injury, or disability shall be granted paid medical leave of a minimum of six (6) weeks of consecutive or intermittent paid medical leave at the approved base salary. Any additional compensation under the HSCP shall be paid in accordance with campus policies.

a) Extended illness leave may not exceed the maximum time period allowable under APM - 710-11-a and b.

b) Authority to review and approve requests for extended illness leave rests with the Chancellor. This authority may be redelegated.

2) **Childbearing and Childrearing**

Childbearing and childrearing leaves shall be approved consistent with APM - 760-25. In no case shall childbearing and childrearing leave be less than the minimum time period or base salary rate of pay as allotted under APM - 760-25b.

670-22 **Funds**

The management and reporting of professional services income and expenses under this Plan must be consistent with campus accounting and budgeting methods as outlined in Appendix C of this policy.

~~**VI. Campus Accounting and Budgeting Methods**~~

~~A. Management and Reporting of Professional Services Income and Expenses~~

~~1. University Management~~

~~All professional services income generated by Compensation Plan members shall be managed by, accounted for and reported as revenue of the University; the only exception to this requirement shall be income which the Plan participant is allowed to retain in accordance with Section IV.D. All compensation paid by the University to Plan members will be subject to Federal and State withholding and reported on a W-2 form as wages. Campus procedures shall include billing and accounting procedures necessary to assure accountability for all funds. All financial transactions shall be approved, documented, and otherwise processed or executed in accordance with University policies, procedures and delegations of authority.~~

~~a) Professional fee billing and collection activities shall be conducted by University billing groups, by external vendors with which the University has contracted, or as otherwise permitted by University procedures. All such fees shall be deposited upon receipt by the University or by an external vendor in a University bank account established in accordance with University delegations of authority.~~

~~b) Contracts with external billing vendors shall be processed and executed in accordance with delegated authority and University purchasing policies and procedures. They shall contain standard University-approved clauses, be subject to audit, and provide for monthly transmission of billings and receipt information to the University. Specific Universitywide regulations may be developed for such contracts as needed to assure that funds are accounted for, safeguarded, and appropriately managed.~~

~~2. Reports~~

~~The accounting standards specified in the University of California Accounting Manual must be used in reporting income and expenses in all compensation arrangements.~~

~~B. Fund Accounts and Sources~~

~~Each campus shall establish one or more school Compensation Plan fund account(s) (or, with the approval of the Chancellor on recommendation of the~~

~~Dean, a department, division, or academic programmatic unit fund account for each such unit participating in this Plan). All fund accounts shall be separate University accounts and shall receive Plan income from the following sources:~~

1. ~~Income from professional services.~~

2. ~~Amounts paid by University hospitals or affiliated institutions for professional and managerial services rendered to the hospitals by participants in the Plan, excluding stipends in IV.D.6.~~

3. ~~Such other funds as are required by the Chancellor or President to be included in fund accounts.~~

~~Certain other sources of University income may be available to support faculty compensation and benefits but are not recorded in Compensation Plan fund accounts, such as:~~

1. ~~Funds made available for salaries from University-administered grants and contracts.~~

2. ~~Funds made available from unrestricted, non-State fund accounts within the school.~~

3. ~~Gifts and other funds available for such purposes, as allocated by the Dean or Chancellor.~~

~~C. Assessment of Professional Services Income.~~

~~As an aid in the administration, budgeting, and allocation of professional services income, gross Plan income shall be assessed using a rate(s) annually recommended by the Dean and approved by the Chancellor for each school or~~

~~department. The income categories specified in Section IV.D. are not subject to assessment.~~

~~D. Contingency in Event of Inadequacy of Health Sciences Fund Accounts~~

~~Campus procedures shall require the establishment of one or more reserve fund(s) and shall specify whether such reserve funds will be established at the school, department, division or academic programmatic unit level. The purpose of the reserve(s) is to provide the funds necessary to pay Plan expenses, including the agreed-upon compensation to each Plan participant, in the event~~

~~that the current year income of the Plan is insufficient to do so. If the funds in the appropriate reserve account are insufficient for the purpose, the Chancellor may seek support from another non-State fund account (or other non-State fund accounts) within the school. If such support is not forthcoming, then the campus will reduce the participants' additional compensation in a uniform manner in accordance with any fund source restrictions across the school, department, division, or academic programmatic unit as determined by the Chancellor.~~

~~Although funds may be transferred from one fund account to another within a health sciences school in accordance with University accounting and budgeting policies and procedures, fund accounts on each campus shall be maintained as financially independent for administrative purposes.~~

~~E. Budgeting~~

~~Subject to approval by the Chancellor on recommendation of the Dean, each campus shall develop a process to annually budget for and monitor expenditures from the Health Sciences Compensation Plan fund accounts. Expenditures shall be budgeted for and funded in the following order of priority:~~

1. ~~Clinical practice operating expenses, defined as costs incurred by the University for billing and collection of fees for clinical services; for faculty use of University-owned and/or -leased practice facilities; and for related professional operating activities.~~

2. ~~To the extent that funds remain after expenditures for clinical practice costs indicated in 1., above, compensation may be paid to eligible participants in the Plan. Base salary and related benefits, including any required contribution on behalf of University of California Retirement Plan covered compensation, shall be funded before additional compensation.~~

3. ~~To the extent that funds remain after the foregoing expenditures, benefits approved in accordance with Sections V.B. and V.C. may be paid.~~

4. ~~To the extent that funds remain after all the foregoing expenditures, funds shall be contributed to the reserve(s) for contingencies in an amount recommended by the Dean and approved by the Chancellor.~~

5. ~~When a health sciences fund account has accumulated a surplus beyond that required for expenditures and reserves as provided in all the above categories, the surplus shall be used as follows:~~

~~a) At least one-half for academic purposes in the department or division of origin (including but not limited to salaries for support personnel) as recommended by the Chair and approved by the Dean;~~

~~b) The remainder may be used for other purposes in the school or campus as recommended by the Department Chair and the Dean and approved by the Chancellor.~~

~~VII. Implementation and Transition Arrangements~~

~~Campus procedures for implementing this Plan shall be submitted for the President's review and approval within one year of approval of this Plan by The Regents. Campus procedures may be made effective as of the effective date of this Plan, or at any time thereafter, as approved by the President.~~

~~Each school, discipline or specialty participating in the Medical School Clinical Compensation Plan or the General Health Sciences Compensation Plan at the time this Plan is approved by The Regents shall automatically be approved for participation in this Plan. Until campus procedures for implementing this Plan are approved by the President, the plan or plans currently in use on a campus shall remain in effect.~~

~~Chancellors may approve the inclusion in this Plan of individuals who are participating in the Medical School Clinical Compensation Plan or the General Health Sciences Compensation Plan at the time this Plan is adopted but whose title is not in the series listed at Section III.A.~~

670-24 **Authority**

a. **The President**

1) The President or the President's designee shall have the authority to issue administrative guidelines and procedures further refining this Plan.

2) The President or the President's designee shall approve the inclusion or exclusion of a health sciences school, discipline, or specialty in the Plan, subsequent to the Chancellor's recommendation.

b. **The Chancellor**

1) The Chancellor shall submit school Implementing Procedures to the President or the President's designee for approval. Such authority may not be redelegated.

2) The Chancellor shall submit revisions to school Implementing Procedures within the limitations of the Plan to the President or the President's designee for approval. Such authority may not be redelegated.

3) The Chancellor shall approve exceptions to the provisions of the Plan to meet special teaching, research, or clinical service requirement.

670-80 **Procedures/Review Procedures**

a. **Annual Notification**

Once per fiscal year, the Department Chair or Unit Head shall provide each member of the Plan a written notification of the member's total annual compensation. This notification shall include:

1) The amount of UCRP-covered salary (X, and if applicable, X');

2) Which HSCP Salary Scale has been assigned to the Plan member's APU (X, X');

3) The amount of negotiated additional compensation (Y); and

4) The payment schedule for Incentive/Bonus compensation (Z) payments and the departmental and/or school assessment policy for Z payments.

b. **Implementation**

1) Revisions to school Implementing Procedures that are necessitated by revisions to the Plan shall be submitted for the President's or the President's designee's review within one year of approval of said Plan revisions. School Implementing Procedures may be made effective as of the effective date of such revisions to the Plan, or at any time thereafter, as authorized by the President or the President's designee.

2) The Dean is responsible for implementing and administering the school Plan, including the resolution of complaints and appeals.

APPENDIX A

~~**Requirements for Continuation of the Income Limitation Arrangements**~~

~~Upon the request of a Chancellor, the President may approve continuation of an individual or a group of individuals employed and operating under Income Limitation Plan arrangement policies prior to November 1993. In order for an individual or group of individuals to be approved, that individual's or group's practice must be examined by outside experts in health care professional compensation and tax and regulatory requirements. These experts shall advise the President whether the Income Limitation Plan arrangement policies and practices for an individual or group are in conformance with legal requirements. To the extent that an individual's or group's practice fails to conform with either tax laws or federal or state regulatory statutes, consultation shall occur with appropriate representatives of the campus regarding steps necessary to comply with tax laws and statutes governing physician reimbursement. Where such requirements cannot be met, the individual or group shall become members of the Health Sciences Compensation Plan.~~

Philosophy

Health Sciences education occupies a special place in American higher education with unique functions and responsibilities. In health sciences education, the orientation to clinical practice, essential to the teaching function, requires an emphasis on sophisticated patient care, in addition to an emphasis on research and the advancement of knowledge. In medicine, dentistry, nursing, pharmacy, and other health sciences education as well, clinical teaching is integrated with basic and applied research. The University of California is committed to excellence in instruction, research, and public service in the health sciences just as it is committed to the same goals in other academic disciplines. Health sciences faculty members are expected to act as professional role models for all. As a public university in California authorized to grant professional doctoral degrees in the health sciences, the University has a responsibility to the State, the public, and its students to maintain the breadth and depth of its curricula, the creativity of its research efforts, and the quality of its health care services.

To ensure the level of excellence essential in the University of California, special effort must be exerted to recruit and retain the best and most dedicated faculty. Special compensation plans have been established over the years to provide for quality across academic programs in the health sciences disciplines. These health sciences compensation plans must offer a competitive salary structure indispensable to the health sciences schools' recruitment and retention efforts.

Health sciences disciplines require varying compensation levels in order to remain competitive with comparable schools elsewhere in the United States. However, because University health sciences schools share some common needs and operating requirements, the University has developed a uniform Health Sciences Compensation Plan to govern compensation arrangements and account for compensation plan income to the University's Schools of Medicine, Dentistry, Nursing, Pharmacy, and other health sciences units as deemed appropriate by the President or the President's designee.

Health sciences compensation plans must be clear and justify calculation of compensation and contain a mechanism for impartial review to protect the rights of individual faculty.

The Health Sciences Compensation Plan is approved, amended and repealed by and under the authority of The Regents of the University of California. Through the Plan, compensation is set as a part of the employment relationship, and as a consequence, the level of compensation and the terms and conditions of the Plan may be amended or repealed at any time by the President, following consultation with the Health Sciences Chancellors, Deans, and the appropriate Academic Senate Committee(s).

The implementation, administration and continued operation of this Plan shall be contingent on the understanding and assurance that it will not require the expenditure of more State-appropriated funds in the University budget than operation without the Plan would require.

~~UC Office of the President~~
Appendix B

a.~~I.~~ Introduction

1)~~A.~~ Overview of Office of the President Guidelines

These G~~g~~uidelines may be amended or repealed by the President following consultation with the Health Sciences Chancellors, Deans, and the appropriate Academic Senate Committee(s). Questions about these guidelines should be directed to the Provost and Executive ~~Senior~~ Vice President–Academic Affairs.

These G~~g~~uidelines are intended to provide a framework within which I~~i~~mplementing P~~p~~rocedures will be developed by each health sciences school that participates in the Plan. Additional I~~i~~mplementing P~~p~~rocedures may be developed for individual departments or organized research units. These additional P~~p~~rocedures must be consistent with the school I~~i~~mplementing P~~p~~rocedures and approved by the Dean. ~~Throughout these guidelines, the term "campus implementing procedures" is a generic term used to refer to school, department and organized research unit implementing procedures.~~

Compensation Plan participants may engage in occasional outside professional activities (other than patient care) and retain the related income only in accordance with these G~~g~~uidelines and ~~campus~~ school I~~i~~mplementing P~~p~~rocedures. In addition to these G~~g~~uidelines, Plan participants must comply with other pertinent policies including:

- Regents' Standing Order 103.1(b) Service Obligations
- Policy on the Requirement to Submit Proposals and to Receive Awards for Grants and Contracts through the University.
- University Conflict of Interest Code, adopted pursuant to the requirements of the Political Reform Act of 1974.
- APM – 020, Special Services to Individuals and Organizations

- ~~University Regulation No. 4 (Special Services to Individuals and Organizations).~~

2)~~B.~~ School Implementing Procedures and Faculty Consultation

School I~~i~~mplementing P~~p~~rocedures must be consistent with these G~~g~~uidelines, reviewed by the appropriate division Academic Senate committee(s), ~~and approved~~ reviewed by the Chancellor and approved prior to implementation by the President or the President's designee. Affected Plan participants shall be provided with the opportunity to review and comment on proposed ~~campus~~ school I~~i~~mplementing P~~p~~rocedures. In addition, as described ~~at Section II.C.5.,~~ in APM – 670-6-d of the Plan, an Advisory C~~c~~ommittee which includes faculty representatives shall advise the Dean on ~~campus~~ school I~~i~~mplementing P~~p~~rocedures developed in accordance with ~~Section II.C.~~ these Guidelines.

b.~~II.~~ Requirements on Outside Professional Activities by Compensation Plan Participants

1)~~A.~~ General

School ~~Campus~~ I~~i~~mplementing P~~p~~rocedures shall include Guidelines ~~requirements~~ on outside professional activities by c~~C~~ompensation p~~P~~lan p~~P~~articipants. The University-wide S~~s~~tandard R~~r~~equirement described ~~at II.B.~~ in section b-2 below shall apply to Plan participants unless an A~~a~~lternative O~~o~~ption is approved in accordance with s~~S~~ection ~~II.C.~~ b-3 below, for implementation in the Plan participant's school, department or organized research unit. The mechanisms for addressing potential conflicts of commitment, described ~~at~~ in s~~S~~ection ~~II.C.4,~~ b-3(d) below are applicable in schools, departments or organized research units which operate under an A~~a~~lternative O~~o~~ption, but are not required in schools, departments or units which operate under the University-wide S~~s~~tandard R~~r~~equirement.

2)~~B.~~ University-wide Standard Requirement

The University-wide S~~s~~tandard R~~r~~equirement is that Plan participants shall be allowed to retain payments from 21 days of service (other than patient care) per fiscal year to governmental agencies, to non-profit health- or education-related organizations, to continuing health education programs administered by the University, or to University Extension, if such service has been approved by the Dean and the Chancellor.

3)~~C.~~ **Alternative Options**

a~~1.~~ General Overview

Chancellors, after consultation with the appropriate division Academic Senate Committee(s), may submit to the President or the President's designee for approval provisions in school I~~i~~mplementing P~~p~~rocedures which would modify the University-wide S~~s~~tandard R~~r~~equirement (as described above in ~~Section II.B.~~Appendix B-b-2) to allow Plan participants in all or selected departments or units to retain additional types of income and/or income from more than 21 days of compensated outside professional activities. If an A~~a~~lternative O~~o~~ption is proposed, the school I~~i~~mplementing P~~p~~rocedures must meet minimum criteria, as described below, with regard to:

- a limit on the number of days devoted to compensated outside professional activity~~,~~;
- a description of types of professional income that may be retained~~,~~; and
- mechanisms for addressing potential conflicts of commitment~~,~~.~~and~~
- ~~an advisory committee.~~

b)2. Limit on the Number of Days Devoted to Compensated Outside Professional Activity

School I~~i~~mplementing P~~p~~rocedures or Guidelines must specify the maximum number of days which Plan participants may devote to compensated outside professional activity. The maximum number of days allowed must not exceed the time limits established for compensated outside professional activities in APM - ~~Academic Personnel Policy~~ 025. The school P~~p~~rocedures may allow departments or organized research units to set more restrictive limits, but such limits shall not be less than 21 days of compensated outside professional activity. Prior to implementing or revising a limit on the number of days devoted to compensated outside professional activities, affected Plan participants shall be provided an opportunity to review and comment on the proposed limit.

c)~~3.~~ Description of Types of Professional Income that May be Retained

School I~~i~~mplementing P~~p~~rocedures must clearly describe the types of professional income that Plan members may be allowed to retain. Patient care activities must be provided within the University setting, or as part of an approved affiliation agreement or professional service agreement. All clinical income is due to the Plan. In no case will Plan participants be allowed to retain income from patient care activities. In addition to the types of income specified in the University-wide S~~s~~tandard R~~r~~equirement, school I~~i~~mplementing P~~p~~rocedures may allow Plan participants in all or selected departments or organized research units to retain additional types of professional income, such as:

1)~~a.~~ Consulting income from non-profit and for-profit entities, and/or

2)~~b.~~ Income from consulting or testifying as an expert or professional witness.

School ~~Campus~~ I~~i~~mplementing P~~p~~rocedures must also reference: 1) the University's Conflict of Interest Code, adopted pursuant to the requirements of the Political Reform Act of 1974, which requires designated University employees to disqualify themselves from participating in University decisions in which they have a personal financial interest; and 2) the Policy on the Requirement to Submit Proposals and to Receive Awards for Grants and Contracts through the University. Since a faculty member's compensated outside activities may create an obligation for the faculty member to disclose a financial interest before making or participating in certain University decisions, ~~campus~~ school I~~i~~mplementing P~~p~~rocedures should also specify where ~~on-campus faculty can~~ to obtain information on the disclosure and disqualification requirements of the Political Reform Act of 1974, including the Academic Decision Regulation.

d)~~4.~~ Mechanisms for Addressing Potential Conflicts of Commitment

School I~~i~~mplementing P~~p~~rocedures shall include mechanisms to identify and resolve potential conflicts between a Plan participant's commitment to generating revenues within the Plan and his or her outside professional activities. These mechanisms shall apply to all departments or units in which the University-wide S~~s~~tandard R~~r~~equirement on occasional professional activity (as described in ~~Section II.B~~Appendix B-b-2) has been modified to allow Plan participants to retain additional types of income and/or income from more than 21 days of service. Responsibilities of the Department Chair that are discussed below shall be assumed by the Dean with respect to oversight of the outside professional activities of Department Chairs.

1)~~a.~~ *Reporting of Outside Professional Activities*

Each Plan participant shall be required to submit to his or her Department Chair an annual report describing the previous year's outside professional activities from which the Plan participant retained income and an attestation of adherence to procedures implementing these G~~g~~uidelines. It is the responsibility of the Plan participant to bring to the attention of his or her Department Chair those activities which require advance approval pursuant to ~~Sections II.C.4.b. and c., below~~ APM – 670-10.

~~b. Good Standing Criteria~~

~~Written good standing criteria shall be established at the school, department or organized research unit level. Plan participants must satisfy the good standing criteria in order to be allowed to earn and/or retain income from professional activities. Good standing criteria might include, for example, requirements for clinical coverage, teaching obligations, participation in departmental activities and revenue generation. Prior to the implementation or revision of good standing criteria, affected Plan participants shall be provided the opportunity to review and comment on the proposed criteria.~~

~~Faculty who are not in good standing must obtain advance approval from the Department Chair to engage in any unassigned professional activities, and the income from all such approved activities shall accrue to the Compensation Plan, not to the Plan participant. Exceptions may be approved in writing in accordance with campus procedures. Any faculty member who is not in good standing shall be notified in writing by the Department Chair of the reasons for that determination. Faculty who believe the good standing criteria have been applied unfairly may appeal to the Advisory Committee (described at section II.C.5. below) in accordance with campus procedures.~~

2)~~c.~~ *Annual Outside Professional Earnings Approval Threshold*

An annual outside professional earnings approval threshold shall be established at the school, department or organized research unit level. A Plan participant who has satisfied the G~~g~~ood S~~s~~tanding C~~c~~riteria established in accordance with ~~Section II.C.4.b.,~~ APM – 670-10, who has not exceeded the limit on the number of days devoted to compensated outside professional activities established in accordance with Appendix B-b-3(b) ~~Section II.C.2~~, and whose annual earnings from all outside professional activities will be less than the approval threshold is allowed to engage in outside professional activities (other than patient care) in accordance with all applicable University policies without having to request prior approval from his or her Department Chair. ~~to engage in the activities.~~ The approval threshold must not exceed the maximum approval threshold set by the Provost ~~President~~. Effective with the issuance of these guidelines, the maximum annual outside professional earnings approval threshold set by the President shall be $4~~2~~0,000 or 20 percent of the Health Sciences Compensation Plan salary scale for an individual faculty member's rank, step, and APU ~~academic programmatic unit~~, whichever is greater.[1] This approval threshold may be adjusted for inflation on a periodic basis by the Provost ~~Office of the President,~~ in accordance with the California Consumer Price Index (CPI). ~~and campuses may adjust their local thresholds accordingly.~~ The adjusted threshold will be published in the Academic Salary Scales and campuses may adjust their local thresholds accordingly. The maximum approval threshold may also be re-evaluated periodically by the Provost ~~Office of the President~~ in consultation with campus management. ~~and the Academic Senate. The first re-evaluation will be three to five years after these guidelines are issued.~~ Prior to ~~the implementation~~ implementing or ~~revision of~~ revising a school, department or unit approval threshold, affected Plan participants shall be provided an opportunity to review and comment on the proposed threshold.

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[1]For example, under this provision, using the salary scales effective on 10/1/~~99~~2011, a Professor Step IX on the Health Sciences Compensation Plan salary scale 9 (the highest salary scale) could be permitted to earn and retain up to $76,320~~64,840~~ (20 percent of $381,600~~324,200~~) before having to request approval to engage in outside professional activities.

Each Plan participant shall be responsible for maintaining a running total of his or her annual earnings from all outside professional activities. If the Plan participant wishes to engage in an activity that might reasonably be expected to cause his or her total annual earnings from all outside professional activities to exceed the approval threshold established for his or her school, department or organized research unit, then the Plan participant must request approval to engage in the activity. To request approval, the Plan participant is required to provide to his or her Department Chair, in writing, relevant details about the engagement including: the nature of the services to be provided; the person or entity who will receive and/or pay for the service;[2] the anticipated period of service and/or days to be devoted to the activity; the total expected income from the activity; and the amount by which the participant's total annual earnings from outside activities are expected to exceed the threshold. Department Chairs shall forward to the Dean any request which requires review by the Dean and/or Chancellor in accordance with school ~~campus~~ Implementing P~~p~~rocedures and Guidelines. ~~If a Plan participant's request is approved, the Plan participant may retain the entire amount of income from that activity, including the portion which exceeds the approval threshold.~~ If a request is not approved, the Department Chair will advise the Plan participant whether: 1) the activity may be undertaken, but with all related income accruing to the Compensation Plan; or 2) the activity may not be undertaken at all. After a Plan participant has received approval to engage in an activity which may cause his or her total annual earnings from outside professional activities to exceed the established approved threshold, he or she must request the Chair's approval for any subsequent engagement(s). If such engagements are allowed, they shall be undertaken with all related income accruing to the Compensation Plan unless an exception is approved in writing in accordance with school ~~campus~~ Implementing Procedures or Guidelines. ~~procedures.~~

Department Chairs and/or Deans may approve Plan participants' requests to engage in outside professional activities in accordance with school ~~campus~~ Implementing Procedures or Guidelines. ~~procedures.~~ However, school ~~campus~~ Implementing Procedures or

[2]When required to ensure appropriate patient confidentiality, the person or entity to be reported as recipient/payer for professional witness activities is the attorney or law firm requesting the services.

Guidelines ~~procedures~~ shall state that only the Chancellor has authority to approve any request which involves a Plan participant retaining earnings that exceed the maximum annual outside professional earnings approval threshold set by the Provost ~~President~~ ~~(~~[see above in Appendix B-b-3(d)(2)] . ~~Section II.C.4.c.). R equests approved by the Chancellor shall be in writing with a copy to the President.~~

Plan participants shall notify Department heads immediately if they inadvertently exceed the dollar threshold or if any of the information they provided in an approval request changes or is found to be inaccurate;~~becomes inaccurate;~~ for example, a participant should immediately notify his or her Department Chair if the initial estimate of earnings from an outside professional activity turns out to be understated. Plan participants are subject to corrective action and disciplinary measures as outlined above in Appendix B-d ~~Section IV~~ for violation, neglect or manipulation of Compensation Plan requirements.

~~5. Advisory Committee~~

~~An advisory committee which includes faculty representatives shall be established to assist the Dean in resolving issues on outside professional activities which arise from implementation of these guidelines. The composition of the committee, method for selecting members, term of service, and procedures (including those for receiving and hearing faculty complaints) shall be specified in the school implementing procedures. At least half of the committee's voting members shall be elected by members of the Compensation Plan. The committee's functions shall include advising the Dean on:~~

~~a. School implementing procedures, including the establishment of good standing criteria and approval thresholds.~~

~~b. Processes for developing departmental and organized research unit implementing procedures including methods for obtaining faculty input and for determining consistency with school implementing procedures.~~

~~c. Faculty grievances with regard to the implementation and administration of these guidelines.~~

c.~~III.~~ Limitations on Use of University Resources in Connection with Outside Professional Activities

The use of University staff, laboratories, facilities, or other University resources in connection with outside professional activities is subject to limitations. The Faculty Code of Conduct, Part II, C. lists the unauthorized use of University resources or facilities on a significant scale for personal, commercial, political, or religious purposes as a type of unacceptable conduct (see ~~Academic Personnel Policy~~ APM - 015, Section II). In general, when faculty retain income from professional consulting or expert witness activities, particularly when the activities are conducted for third party for-profit entities or private individuals, the costs associated with the consulting or witness activities should be borne by the third party or the faculty member, not by the University. In addition, the University's liability coverage does not extend to certain faculty consulting and expert witness activities. For example, University malpractice/professional liability coverage does not generally extend to expert witness activities when the faculty member retains the related income. Questions about the appropriate use of University resources and coverage under University liability programs should be discussed with the faculty member's department or unit head, who may consult with the Dean. The Dean will, if necessary, refer the questions to other appropriate University officers.

d.~~IV.~~ Monitoring and Enforcement

The primary means of monitoring compliance will be review by Department Chairs of information provided by the faculty member in annual reports on outside professional activities. If a Department Chair has any concerns about whether a Compensation Plan member is meeting the established standards, the matter may be referred to the Dean of the appropriate School. The responsibility for oversight of the outside professional activities of Department Chairs shall reside with the Dean.

School ~~Campus~~ I~~i~~mplementing P~~p~~rocedures or Guidelines shall clearly state that the University reserves the right to take corrective action and disciplinary measures toward ~~against~~ any Compensation Plan member who fails to comply with Compensation Plan I~~i~~mplementing P~~p~~rocedures on outside professional activities. Situations where Compensation Plan members will be considered out of compliance include, but are not limited to:

- Failure to turn over income due to the Plan as required by school ~~campus~~ I~~i~~mplementing P~~p~~rocedures or Guidelines.

- Failure to accurately disclose and describe the nature and scope of outside professional activities as required by school ~~campus~~ I~~i~~mplementing P~~p~~rocedures or Guidelines.

If the Department Chair or the Dean has reason to believe that a Plan member has not complied with the school ~~campus~~ I~~i~~mplementing P~~p~~rocedures or Guidelines on outside professional activities, the Dean may take appropriate corrective action. A procedure for hearing and resolving disputes about corrective action shall be provided in school I~~i~~mplementing P~~p~~rocedures. Corrective action refers to the discontinuation of certain privileges available only to Plan members, in particular the opportunity to earn and receive compensation above the fiscal year salary scale through the Compensation Plan, because of noncompliance. For example, corrective actions may include:

- Incentive or bonus compensation (commonly referred to as "Z" compensation) may be discontinued until such time as the Plan member complies with the Compensation Plan provisions, or~~.~~

- Additional negotiated compensation (commonly referred to as "Y" compensation) may be set with consideration of the Plan member's prior performance, including compliance with guidelines on outside professional activities.

Compensation established in accordance with the specialized H~~h~~ealth S~~s~~ciences S~~s~~alary S~~s~~cales (commonly referred to as "X" compensation) shall not be reduced as a corrective action unless the Plan member is placed, by Chancellorial ~~Presidential~~ exception, on the fiscal year salary scale.

Reductions in compensation are not always the result of corrective action and may also occur for other reasons such as insufficiency of current year income and contingency reserves (see Appendix C ~~Health Sciences Compensation Plan, Section VI. D.~~). Whenever reductions in compensation are the result of corrective action, faculty shall be so notified in writing.

In addition, corrective action will not preclude sanctions or disciplinary measures in accordance with the Faculty Code of Conduct and Academic Senate Bylaws. Violations by Plan members of either the time limits or approval thresholds on outside professional activities represent an unauthorized use of University resources and/or retention of funds belonging to the University. Such violations are subject to discipline in accordance with the Faculty Code of Conduct.

An Academic Senate member who is subject to corrective action has available to him or her a grievance process through the Privilege and Tenure Committee as described in Academic Senate Bylaw 335. Other faculty may grieve through the provisions of Academic Personnel Policy 140.

Appendix C

Campus Accounting and Budgeting Methods

a. Management and Reporting of Professional Services Income and Expenses

1) University Management

All professional services income generated by Compensation Plan members shall be considered revenue of the University; the only exception to this requirement shall be income which the Plan participant is allowed to retain in accordance with APM - 670-19. All compensation paid by the University to Plan members will be subject to Federal and State withholding and reported on a W-2 form as wages in accordance with Internal Revenue Service (IRS) Regulations and University policies and procedures. All compensation must be included in the employee's income as wages subject to withholding for applicable Federal, State and FICA taxes. Eligibility and withholding for benefits (such as the University of California Retirement Plan, Retirement Savings Programs and employee life insurance programs) will be determined based upon the University's policies and procedures. School Implementing Procedures shall include billing and accounting procedures necessary to assure accountability for all funds. All financial transactions shall be approved, documented, and otherwise processed or executed in accordance with University policies, procedures and delegations of authority.

a) Professional fee billing and collection activities shall be conducted by University billing groups, by external vendors with which the University has contracted, or as otherwise permitted by University procedures. All such fees shall be deposited upon receipt by the University or by an external vendor in a University bank account established in accordance with University delegations of authority.

b) Contracts with external billing vendors shall be processed and executed in accordance with delegated authority and University purchasing policies and procedures. They shall contain standard University-approved clauses, be subject to audit, and provide for monthly transmission of billings and receipt information to the University. Specific University-wide regulations may be developed for such contracts as needed to assure that funds are accounted for, safeguarded, and appropriately managed.

2) Reports

The accounting standards specified in the University of California Accounting Manual must be used in reporting income and expenses in all compensation arrangements.

b) Accounts and Sources

Each campus shall establish one or more school Compensation Plan account(s) in the financial accounting records for the campus or, with the approval of the Chancellor on recommendation of the Dean, an account for each such unit participating in this Plan; may also be established at the department and divisional level. Plan income from the following sources should be recorded in these accounts:

1) Income from professional services.

2) Amounts paid by University hospitals or affiliated institutions for professional and managerial services rendered to the hospitals by participants in the Plan, excluding stipends in APM - 670-18-c(3).

3) Such other funds as are required by the Chancellor or President or the President's designee to be included in fund accounts.

Certain other sources of University income may be available to support faculty compensation and benefits but are not recorded in Compensation Plan accounts, such as:

1) Funds made available for salaries from University-administered grants and contracts.

2) Funds made available from unrestricted, non-State fund accounts within the school.

3) Gifts and other funds available for such purposes, as allocated by the Dean or Chancellor.

c. Assessment of Professional Services Income

To aid in the administration, budgeting, and allocation of professional services income, gross Plan income shall be assessed using a rate(s) annually recommended by the Dean and approved by the Chancellor for each school or department. The income categories specified in APM - 670-19 are not subject to assessment.

d. Contingency in Event of Inadequacy of Health Sciences Fund Accounts

School Implementing Procedures shall require the establishment of one or more reserve account(s) and shall specify whether such reserve account(s) will be established at the school, department, or division. The purpose of the reserve(s) is to provide the funds necessary to pay Plan expenses, including the agreed-upon compensation to each Plan participant, in the event that the current year income of the Plan is insufficient to do so. If the funds in the appropriate reserve account are insufficient for the purpose, the Chancellor may seek support from another non-State account(s) within the school. If such support is not forthcoming, then the campus will reduce the participants' additional compensation in a uniform manner in accordance with any fund source restrictions across the school, department, or division, as determined by the Chancellor.

Although funds may be transferred from one account to another within a health sciences school in accordance with University accounting and budgeting policies and procedures, accounts on each campus shall be maintained as financially independent for administrative purposes.

e. **Budgeting**

Subject to approval by the Chancellor on recommendation of the Dean, each campus shall develop a process to annually budget for and monitor expenditures from the Health Sciences Compensation Plan accounts. Expenditures shall be budgeted for and funded in the following order of priority:

1) Clinical practice operating expenses, defined as costs incurred by the University for billing and collection of fees for clinical services; for faculty use of University-owned and/or -leased practice facilities; and for related professional operating activities.

2) To the extent that funds remain after expenditures for clinical practice costs indicated in 1), above, compensation may be paid to eligible participants in the Plan. Base salary and related benefits, including any required contribution on behalf of University of California Retirement Plan covered compensation, shall be funded before additional compensation.

3) To the extent that funds remain after the foregoing expenditures, benefits costs approved in accordance with APM - 670-20 may be paid.

4) To the extent that funds remain after all the foregoing expenditures, funds shall be contributed to the reserve(s) for contingencies in an amount recommended by the Dean and approved by the Chancellor.

5) When a health sciences account has accumulated a surplus beyond that required for expenditures and reserves as provided in all the above categories, the surplus shall be used as follows:

a) At least one-half may be used for academic purposes in the department or division of origin (including but not limited to salaries for support personnel) as recommended by the Chair and approved by the Dean; and

b) The remainder may be used for other purposes in the school or campus as recommended by the Department Chair and the Dean and approved by the Chancellor.

Attachment 6

*****Additions shown by underscoring; deletions shown by strikethrough*****

REGENTS POLICY 1103

POLICY ON INTERIM AUTHORITY

Approved March 14, 1975
Amended July 18, 1986

A. That authority to approve routine or emergency matters that require action between meetings of The Regents be delegated as follows:

1. The Chairman of the Board or the Chairman of The Regents' Committee having jurisdiction over the item and the President of the University or, in his absence, his designee shall be authorized to act on President's items;

2. The Chairman of the Board or the Chairman of The Regents' Committee having jurisdiction over the item and the ~~Treasurer~~<u>Chief Investment Officer</u> of The Regents shall be authorized to act on ~~Treasurer~~<u>Chief Investment Officer</u>'s items;

3. The Chairman of the Board or the Chairman of The Regents' Committee having jurisdiction over the item and the General Counsel of The Regents shall be authorized to act on General Counsel's items;

4. The Chairman of the Board or the Chairman of The Regents' Committee having jurisdiction over the item and the Secretary of The Regents shall be authorized to act on Secretary's items;

   it being understood that, in case of the inability of the Chairman of the Board to act, the Vice Chairman of the Board may act, and in case of the inability of the Chairman of a Committee of jurisdiction to act, the Vice Chairman of the Committee may act.

B. That all actions taken under this authority be reported at the next following meeting of the Board.

Attachment 7

Additions shown by underscoring; deletions shown by strikethrough

UNIVERSITY OF CALIFORNIA
RETIREMENT PLAN

INVESTMENT POLICY STATEMENT

Approved December 13, 2011
Replaces version approved March 17, 2011

UNIVERSITY OF CALIFORNIA RETIREMENT PLAN
INVESTMENT POLICY STATEMENT

TABLE OF CONTENTS

PLEASE NOTE:

*** These Appendices and Guidelines are in separate documents and are incorporated by reference.**

UNIVERSITY OF CALIFORNIA RETIREMENT PLAN
INVESTMENT POLICY STATEMENT

Introduction and Purpose

This Investment Policy Statement ("Policy" or IPS") provides the framework for the management of the investments of the University of California Retirement Plan ("UCRP" or the "Plan"). The purpose of a policy statement is to document the investment management process by

- Identifying the key roles and responsibilities relating to the ongoing management of the Plan's assets;
  - o Recognize and ameliorate the agency issues among the parties responsible for various aspects of investment management;
- Setting forth an investment structure for the Plan's assets;
  - o This structure includes various asset classes and acceptable ranges that, in aggregate, are expected to produce a sufficient investment return over the long term while prudently managing risk;
  - o This strategy should provide guidance in all market environments, and should be based on a clear understanding of worst case outcomes;
- Establishing formalized criteria to measure, monitor, and evaluate Plan performance results on a regular basis; and
- Encouraging effective communication among all fiduciaries, including external parties engaged to execute investment strategies.

The document is divided into five sections. There are also a number of Appendices, which are integral parts of this document

1. Investment Goals, Key Responsibilities, and Philosophy

The investment **goals** state the mission of the Plan and its investment program.

a. The mission of the Plan is to provide retirement benefits, as described in the Plan document, to its participants and their beneficiaries.

b. The overall investment goal of the Plan is to maximize the probability of meeting the Plan's liabilities subject to The Regents' funding policy. Other goals include:
   - To maintain the ability to pay all benefits and obligations when due
   - To maintain flexibility in determining the future level of contributions
   - To maximize return within reasonable and prudent levels of risk
   - To preserve the real (i.e. inflation adjusted) purchasing power of assets

Key **responsibilities** in the oversight and management of the Plan are as follows:

c. Under Section 11.02 of the Plan, as adopted by the Board of Regents of the University of California ("The Regents"), The Regents is the designated trustee of the assets of the Plan, which are held in the University of California Retirement Fund ("Retirement Fund"). As trustee, The Regents has full responsibility for investment of the Retirement Fund's assets.

d. Under the authority granted in University Bylaw Sections 10.1.b and 12.5.a, The Regents has appointed a standing Committee on Investments ("Committee"), which is charged with oversight responsibility for the management of investments on behalf of The Regents, which includes the establishment of investment policies for the Plan and oversight of the management of the Plan's assets.

e. Under the Bylaw Section 12.5.c, the Committee is directed to establish a system of custodianship for all securities.

f. Under University Bylaw Section 21.4, The Regents has delegated to the ~~Treasurer~~Chief Investment Officer general responsibility for all investment matters, including the implementation of investment policies established by the Committee for the Retirement Fund. References to the "~~Treasurer~~Chief Investment Officer" below shall be understood, depending on the context, to mean the "Office of the ~~Treasurer~~Chief Investment Officer."

g. Under Section 4.01 of the Plan, The Regents will authorize periodic contributions to the Retirement Fund as necessary, to "maintain the Plan on an actuarially sound basis." The Regents policy for funding the Plan is found in Appendix 3.

The **philosophy** for the management of the Retirement Fund assets is as follows.

h. The investment philosophy of the Committee is to create a management process with sufficient flexibility to capture investment opportunities as they may occur, yet maintain reasonable parameters to ensure prudence and care in the execution of the investment program.

i. The Committee seeks a return on investment consistent with levels of investment risk that are prudent and reasonable given medium- to long-term capital market conditions and the investment objectives of the Plan (see part 4 below). While the Committee recognizes the importance of the preservation of capital, it also recognizes that to achieve the Plan's investment objectives requires prudent risk-taking, and that risk is the prerequisite for generating excess investment returns. Therefore the Committee's policy regarding investment risk, consistent with modern portfolio theory, is that risk cannot be eliminated but should be managed, and that fiduciaries have the obligation to utilize risk efficiently. Risk exposures should be identified, measured, monitored and tied to responsible parties; and risk should be taken consistent with expectations for return. Further articulation of the Committee's risk policy, including appropriate budgets and ranges for various types of risk are found in Appendix 2.

The **principal risks** that impact the Plan, and the parties responsible for managing them are as follows:

j. *Capital market risk* is the risk that the investment returns (in excess of the risk-free rate) associated with the Committee's asset allocation policy are not sufficient to provide the required actuarial return. Responsibility for determining the overall level of capital market risk lies with the Committee.

k. *Investment style risk* is associated with an active management investment program. It is the performance differential between an asset class's market target and the aggregate of the managers' benchmarks within the asset class weighted according to a policy allocation specified by the ~~Treasurer~~Chief Investment Officer. This risk is an implementation risk and is the responsibility of the ~~Treasurer~~Chief Investment Officer.

l. *Manager value-added risk* is also associated with an active management investment program. It is the performance differential between the aggregate of the managers' actual (active) portfolios and the aggregate of the managers' benchmarks, both at policy allocation. This risk is an implementation risk and is the responsibility of the ~~Treasurer~~ Chief Investment Officer (and indirectly the investment managers retained by the ~~Treasurer~~Chief Investment Officer).

m. *Tactical/strategic risk* is the performance differential between (1) policy allocations for the Retirement Fund's asset categories and its investment managers and (2) the actual allocations. This risk is the responsibility of the ~~Treasurer~~Chief Investment Officer.

n. *Total active risk* refers to the volatility of the difference between the return of the Retirement Fund policy benchmark (see Appendix 1) and the actual return. It incorporates the aggregate of the risks in (k), (l) and (m) above, and is thus the responsibility of the ~~Treasurer~~Chief Investment Officer.

o. *Total investment risk* refers to the volatility of the return of the total Retirement Fund assets. It incorporates all elements of investment risk as enumerated above, and is thus the joint responsibility of the Committee and the ~~Treasurer~~Chief Investment Officer.

p. *Surplus risk* refers to the volatility of the change in the dollar value of Retirement Fund assets versus the change in the dollar value of the Plan's liabilities. The latter represents the ultimate investment objective of the Plan. Because the asset allocation articulates the Committee's risk tolerance, and because The Regents determine the Plan's benefits and liabilities, this risk is the joint responsibility of The Regents and the Committee.

q. *Peer risk* refers to the difference in Retirement Fund performance relative to peer institutions. The Committee acknowledges that similar institutions may have different liabilities and different levels of investment risk. Comparisons of performance with other institutions are meaningful *only* after adjusting for differences in investment policy and risk among peers. This risk is the responsibility of the Committee.

2. Investment Policies

The policies of the investment program establish the investment strategy and guide its implementation.

a. The investment policies of the Retirement Fund shall be based on a financial plan that will consider:

   i. The financial condition of the Plan, i.e., the relationship between the current and projected assets of the Plan and the projected benefit payments, and the current Funding Policy (see Appendix 3)

   ii. Future growth of active and retired participants; expected service costs and benefit payments; and inflation and the rate of salary increases (together these are the principal factors determining liability growth)

   iii. The expected long term capital market outlook, including expected volatility of and correlation among various asset classes

   iv. The range of possible investment outcomes associated with different policies

   v. The Committee's risk tolerance, that is, the trade-off between the desire to achieve high returns (and the associated high volatility) and the desire to avoid unacceptable outcomes (and the associated necessity for reduced volatility).

b. The Committee will consider alternative investment policies and will measure their potential impact on the financial condition of the Plan and assess their suitability in meeting the objectives of the Plan.

c. The Committee's financial plan will result in a risk budget, that is, an expected amount of volatility associated with a given expected level of investment returns offered by the capital markets including the expected active return.

d. Based on the risk budget, the Committee, with input from the ~~Treasurer~~Chief Investment Officer and other consultants, will approve a specific allocation of the investments (the asset allocation policy) among the various asset classes considered prudent given the Plan's liability structure, and considering multiple measures of investment and surplus risk. The asset allocation policy shall be expressed in terms of a normal percentage allocation, and ranges for each asset class. These normal weights and ranges are found in Appendix 1. Criteria for including an asset class in the strategic allocation are also in Appendix 1.

e. The asset allocation policy shall be sufficiently diversified to enable the appropriate fiduciary to manage risk without imprudently sacrificing return. The ~~Treasurer~~Chief Investment Officer is delegated the responsibility of managing total and active risk within the ranges set by the Committee (see Appendices 1 and 2). Within the limits of prudent diversification and established risk budgets, capital market and active risk exposures are fungible, and the ~~Treasurer~~Chief Investment Officer may allocate risk exposures within and between asset classes in order to optimize return. When necessary, the ~~Treasurer~~ Chief Investment Officer may use appropriate risk management strategies to protect portfolio value.

f. The Committee will approve performance benchmarks for each asset class, based on a pre-approved set of criteria, which are found in Appendix 1, and will approve overall investment guidelines for each asset class, which are found in Appendix 7.

g. The Plan's equity and fixed income assets shall at all times avoid the use of economic leverage. Economic leverage, in the context of portfolio management, is defined as a net dollar exposure to assets in excess of the dollar amount of invested capital, as measured by current market value. The term "net dollar exposure" is defined in the Derivatives Policy, Appendix 4. A very small, inadvertent, or temporary violation of this restriction that may occur in the normal course of portfolio management shall *not* be construed as leverage. Notwithstanding the general prohibition against leverage, leverage may be used in Private Equity, Real Estate and Absolute Return strategies, per the limits and guidelines set forth in Appendix 7 and in the conduct of the Securities Lending Program (see section 2l. below).

h. The ~~Treasurer~~Chief Investment Officer will implement the asset allocation policy as approved by the Committee. The ~~Treasurer~~Chief Investment Officer will select investment professionals ("managers") with demonstrated experience and expertise who will be responsible for managing specific portfolios consistent with the Guidelines in Appendices 6 and 7. Each investment manager will function under a formal contract that delineates its responsibilities, investment style and process, performance expectations, administrative requirements, and compensation. Where appropriate, each manager's contract will include a benchmark and range of probable outcomes relative to that benchmark. The ~~Treasurer~~Chief Investment Officer shall establish and implement procedures for the selection, monitoring, evaluation, and termination of investment managers, which are found in Appendix 6.

i. The ~~Treasurer~~Chief Investment Officer will allocate funds across managers to develop an efficient investment structure, within the constraints of the prudence requirement, for each asset class, and will monitor whether the aggregate characteristics of all portfolios in an asset class comply with the investment guidelines for that class. The ~~Treasurer~~Chief Investment Officer will determine a policy allocation for each manager to be used in the evaluation of the active management program.

j. The ~~Treasurer~~Chief Investment Officer shall establish and implement procedures to provide efficient management of liquidity (including timely payment of benefits) for the Plan.

k. The ~~Treasurer~~Chief Investment Officer shall be responsible for administering the investments of the Retirement Fund at the lowest possible cost, being careful to avoid sacrificing quality. These costs include, but are not limited to, management and custodial fees, consulting fees, transaction costs and other administrative costs chargeable to the Retirement Fund. The ~~Treasurer~~Chief Investment Officer may establish directed brokerage arrangements with the custodian for the Retirement Fund or other qualified third parties in order to reduce overall commissions cost for the Retirement Fund.

l. The ~~Treasurer~~Chief Investment Officer may participate in securities lending programs, as a means to augment income, with the custodian or other qualified third parties. Cash collateral received from borrowers will be invested by the ~~Treasurer~~Chief Investment Officer or the lending agent, in a short-term investment pool, in accordance with guidelines established by the ~~Treasurer~~Chief Investment Officer. Current guidelines are included in Appendix 7.

m. The Committee considers the active voting of proxies an integral part of the investment process. Proxy voting will occur in accordance with the Proxy Voting Policy found in Appendix 5.

n. The investment program shall comply with existing and future applicable state and federal laws and regulations and the prudence requirement.

o. All transactions undertaken on behalf of the Retirement Fund will be undertaken solely in the interests of Plan participants and their beneficiaries.

3. Fiduciary Oversight Procedures

The procedures for the management of the Retirement Fund's assets outline the specific responsibilities of the Committee and other fiduciaries.

a. The Committee, in developing the investment policy for the Retirement Fund assets, shall act with the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and with like aims.

b. The Committee will exercise its fiduciary responsibilities in regard to the investment program in accordance with the provisions of the Plan document and University Bylaws.

c. The Committee shall review the asset allocation policy, asset class guidelines, and current capital market assumptions at least annually to ensure that the current asset mix can reasonably be expected to achieve the long-term goals of the Plan.

d. The Committee will review the Plan's updated actuarial valuation and financial projection annually, including the recommended Funding Policy for each year.

e. The Committee may appoint investment consultants to review investment performance of the Retirement Fund in whole or with respect to specific asset classes, to assist in the development of the Retirement Fund's investment policies and asset allocation, to monitor and report on investment risks, and to provide independent assessment of investments proposed by the ~~Treasurer~~Chief Investment Officer.

f. The Committee has appointed a standing Investment Advisory Committee ("IAC") of selected Regents, investment professionals, faculty, and UC Foundation members to provide input to the Committee on decisions and assist in oversight of the ~~Treasurer~~Chief Investment Officer. The Chair of the Committee shall also be the Chair of the IAC.

g. The Committee shall review the investments of the Retirement Fund no less than quarterly to assess whether policy guidelines continue to be appropriate and are met. The Committee shall monitor investment risk, as well as monitor investment returns on an absolute and benchmark relative basis.

h. The ~~Treasurer~~Chief Investment Officer shall prepare quarterly and annual reports for the Committee and The Regents on the investment program, including

   i. The achievement of overall performance objectives
   ii. The type and amount of risk taken to achieve those objectives
   iii. Attribution of returns to various investment decisions and risks
   iv. Adherence to budgets set for total and active risk
   v. Compliance with policy guidelines, particularly asset allocation policy, and
   vi. The costs of managing the Retirement Fund's assets.

i. Investment performance results shall be calculated and verified at least monthly by an external, independent performance consultant.

j. The ~~Treasurer~~Chief Investment Officer, in conjunction with the various investment consultants, will monitor the investment managers for compliance with their investment guidelines, achievement of specific objectives, and individual risk exposures.

k. The ~~Treasurer~~Chief Investment Officer shall monitor the conduct of the custodian of the Retirement Fund.

l. The ~~Treasurer~~Chief Investment Officer shall adopt the CFA Institute Code of Ethics and Standards of Professional Conduct for all employees of the ~~Office of the Treasurer~~Chief Investment Officer and relevant consultants and managers. These are found at http://www.cfainstitute.org/cfacentre/pdf/English2006CodeandStandards.pdf and incorporated by reference. The ~~Treasurer~~Chief Investment Officer shall develop and enforce other ethics guidelines for the Office of the ~~Treasurer~~Chief Investment Officer as needed, consistent with other University policies and guidelines.

m. The Committee will review this Policy from time to time to determine if modifications are necessary or desirable.

4. Performance Objectives

Performance objectives shall be established for the total Retirement Fund, asset class composites and individual manager portfolios. These objectives will be incorporated in the quarterly reviews of the Retirement Fund's performance.

The investment strategy articulated in the asset allocation policy found in Appendix 1 has been developed in the context of long-term capital market expectations, as well as multi-year projections of actuarial liabilities. Accordingly, the investment objectives and strategies emphasize a long-term outlook, and interim performance fluctuations will be viewed with the corresponding perspective. The Committee acknowledges that over short time periods (i.e. one quarter, one year, and even three to five year time periods), returns will vary from performance objectives and the investment policy thus serves as a buffer against ill-considered action.

There are three principal factors that affect a pension fund's financial status: 1) contributions, 2) benefit payments and 3) investment performance. Only the last factor is dependent upon the investment policy and guidelines contained herein. However, the Committee's level of risk tolerance will take into account all three factors. At certain levels of funded status, it could be impossible for the investments to achieve the necessary performance to meet the promised liabilities. The result is that either benefits have to be reduced, contributions increased or risk tolerance changed.

Rates of return will be calculated based on a time-weighted rate of return formula as recommended by the CFA Institute. Returns will be calculated by the performance consultant and will be reported net of all fees and costs.

The performance of the overall Retirement Fund will be measured relative to:

- Actuarial rate of interest
- Funded status
- Inflation
- Policy benchmarks

a. The Retirement Fund total return objective should be at least equal to the Plan's actuarial rate of return on a consistent basis over time.
    - This objective is to achieve a rate of return equal to or greater than the Plan's actuarial interest rate. If the Plan's assets grow at a rate equal to or greater than the actuarial rate, the Plan's funding condition will be maintained. Earning a lower return will generally result in increased levels of contributions. (Maintaining the Plan's funded status is conditioned, in part, on the successful implementation of a prudent funding policy.)

b. Funded status should be in excess of 100%.
    - This objective is to maintain a status of full funding, meaning that the Plan's assets are at least as great as the Plan's liabilities, both as measured by actuarially acceptable methodologies. Full funding provides a higher level of assurance that all promised benefits can be paid from existing assets and expected investment returns.

(The ability to maintain full funding is conditioned, in part, on the successful implementation of a prudent funding policy.)

c. Total Retirement Fund return should exceed the Consumer Price Index on a consistent basis over time.
   - This objective is to achieve a positive return above inflation. The Plan's liabilities are sensitive to inflation, as benefits are partially determined by future salaries. Failing to achieve the targeted real (i.e., purchasing power) return may also increase future contributions.

d. Total Retirement Fund return should match or exceed the total Retirement Fund weighted benchmark return, net of all fees and expenses on a consistent basis over time. See Appendix 1 for the composition and calculation of the Retirement Fund policy weighted benchmark.
   - This objective is to match or exceed a passively managed fund with a similar asset mix, net of all fees and expenses. The value added above the policy benchmark measures the effectiveness of the ~~Treasurer~~Chief Investment Officer's implementation and management decisions.

Additional metrics with respect to risk are found in the Risk Policy Appendix 2.

5. Asset Class and Manager Guidelines

The general guidelines that apply to all investment managers are:

a. Subject to constraints and restrictions imposed by the manager guidelines, all decisions regarding sector and security selection, portfolio construction, and timing of purchases and sales are delegated to the investment manager.

b. The purchase of securities issued by tobacco companies is prohibited in separately managed accounts. The Regents have defined a tobacco company as "a company which derives its revenues from the manufacture and distribution of tobacco products or, if a diversified company, that no other business line contributes more revenues or earnings than tobacco products." The ~~Treasurer~~Chief Investment Officer 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. The Committee recognizes that the establishment of social investing restrictions limits investment opportunities and should be accompanied by adjusting performance evaluation standards appropriately.

c. The direct purchase of property owned or a security issued by the University, its subsidiaries and affiliates, is prohibited

d. The purchase of non-negotiable securities is prohibited in the equity and fixed income asset classes.

e. The use of derivative securities or contracts to create economic leverage in the portfolio is prohibited. Acceptable and prohibited uses of derivatives are found in the derivatives policy in Appendix 4.

f. Transactions that involve a broker acting as a "principal," where such broker or an affiliate is also the investment manager, who is making the transaction, are prohibited.

g. Transactions shall be executed at the lowest possible total cost, which includes commissions, efficiency of execution, and market impact.

h. Any investment or action with respect to an investment not expressly allowed is prohibited, unless presented to and approved prospectively by the Committee. All guidelines must be adhered to; however, if from time to time a manager shall deem an exception to the guidelines appropriate, the ~~Treasurer~~Chief Investment Officer shall seek review and approval by the Committee to make such an exception.

Managers are required to inform the ~~Treasurer~~Chief Investment Officer of significant matters pertaining to the investment of Retirement Fund assets, including at a minimum, substantive changes in investment strategy and portfolio structure; significant changes in ownership, organizational structure, financial condition or professional staffing; litigation or violation of securities regulations; significant account losses or growth of new business. Managers must inform the ~~Treasurer~~Chief Investment Officer in the event of discovering an unintended or involuntary violation of their guidelines or of any of the Policies herein pertaining to them.

Managers are required to submit periodic reports to the ~~Treasurer~~Chief Investment Officer summarizing investment activity and strategy, as per Appendices 6 and 7 and individual guidelines. Managers are required to reconcile investment returns with the custodian each month.

Specific guidelines for each major asset class will be found in Appendix 7. Manager guidelines will contain specific provisions to ensure that performance objectives and risk exposures are consistent with their particular investment mandate, which may be a style or subset of their larger asset class. However, all individual manager guidelines will be consistent with broad asset class guidelines and this Policy.

APPENDIX 1
Effective: January 1, 2012
Replaces Version Effective: March 1, 2011

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 (real estate, real assets) 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

	Current Policy Allocation	Long-Term Target Allocation	Allowable Ranges: Minimum	Allowable Ranges: Maximum
U.S. Equity	28.5 %	20.5 %	23.5	33.5
Developed Non US Equity	22.0	19.0	17	27
Emerging Mkt Equity	5.0	7.0	3	7
Global Equity	2.0	2.0	1	3
US Fixed Income	12.0	12.0	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	8.0	8.0	6	10
Private Equity	6.0	8.0	3	9
Absolute Return Strategy	6.5	8.5	1.5	11.5
Real Assets	1.0	3.0	0	2
Real Estate	4.0	7.0	1	7
Liquidity	0	0	0	10
Tail Risk Hedging Strategies	0	0	0	2
100%		100%		
Combined Public Equity	57.5	48.5	47.5	67.5
Combined Fixed Income	25.0	25.0	20	30
Combined Alternatives	17.5	26.5	10.5	24.5

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	Barclays Capital US Aggregate Index
High Yield Fixed Income	Merrill Lynch High Yield Cash Pay Index
Emg Mkt Fixed Income	Dollar Denominated: JP Morgan Emerging Markets Bond Index Global Diversified
Emg Mkt Fixed Income	Local Currency: JP Morgan Government Bond Index Emerging Markets Global Diversified
TIPS	Barclays Capital US TIPS Index
Private Equity	N/A (See below note 2.)
Absolute Return Strategy	Diversified: HFRX Absolute Return Index (50%) + HFRX Market Directional Index (50%)
Absolute Return Strategy	Cross Asset Class: Aggregate UCRP Policy Benchmark
Real Assets	Commodities: S&PGSCI Reduced Energy Index All other: N/A (See below note 3.)
Real Estate	Public: FTSE EPRA NAREIT Global Index
Real Estate	Private: NCREIF Funds Index – Open End Diversified Core Equity (ODCE), lagged 3 months

Notes on asset class benchmarks:

1. Global Equity: The ~~Treasurer~~Chief Investment Officer 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. Real Assets (all strategies ex-commodities): 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
28.5%	× Russell 3000 Tobacco Free Index
22%	× MSCI World ex-US (Net Dividends) Tobacco Free
5%	× MSCI Emerging Market Free (Net Dividends)
2%	× MSCI All Country World Index Net – IMI – Tobacco Free
12%	× Barclays Capital US Aggregate Index
2.5%	× Merrill Lynch High Yield Cash Pay Index
2.5%	× [JP Morgan Emerging Market Bond Index Global Diversified × 33%] + [JP Morgan Government Bond Index Emerging Markets Global Diversified × 67%]
8%	× Barclays Capital US TIPS Index
6%	× Actual return of private equity portfolio
6%	× [HFRX Absolute Return Index × 50%] + [HFRX Market Directional Index × 50%] [Abs. Ret. - Diversified]
0.5%	× Aggregate UCRP Policy Benchmark [Abs. Ret. - Cross Asset Class]
1%	× Aggregate Real Assets benchmark (see section B), with components weighted by their actual weights within the total real assets portfolio
4%	× Aggregate of Public and Private Real Estate benchmarks (see section B), with components weighted by their actual weights within the total real estate portfolio

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. Similar comments apply to private real estate – non-core strategies (closed end funds) and Real Assets (all strategies ex commodities).
2. The calculation of the total fund benchmark will assume a monthly rebalancing methodology.
3. 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~~Chief Investment Officer to rebalance the Fund when necessary to ensure adherence to the Investment Policy.

The ~~Treasurer~~Chief Investment Officer will monitor the actual asset allocation at least monthly. The Committee directs the ~~Treasurer~~Chief Investment Officer 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~~Chief Investment Officer may utilize derivative contracts (in accordance with Appendix 4) to rebalance the portfolio.

The ~~Treasurer~~Chief Investment Officer 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~~Chief Investment Officer may delay a rebalancing program when the ~~Treasurer~~Chief Investment Officer believes the delay is in the best interest of the Plan. Results of rebalancing will be reported to the Committee at quarterly meetings.

APPENDIX 2

RISK MANAGEMENT POLICY

RISK PHILOSOPHY

In its broadest sense, risk refers to the unpredictability of future asset value, and specifically, the chance that assets may decrease, as well as increase, in value. Investment principles and practical experience both support the notion that expected returns are proportional to market risk taken. The Committee recognizes that the assumption of risk is necessary to meet Plan objectives; that is, there are no "risk free" assets, which are sufficient to generate the Plan's required rate of return. (Even if future benefit payments were known with certainty [and they are *not*], and surplus risk could be eliminated by an appropriate mix of nominal and inflation protected bonds, such a policy would result in unacceptably larger funding costs to the University and to Plan participants). Thus Plan risk management does not require the elimination of risk, but the balancing of risk and expected return. Risk in itself is intrinsically neither good nor bad; it is a resource used to generate investment returns. The Committee recognizes that "The essence of investment management is the management of risks, not the management of returns."

RISK POLICY

The Committee's policy regarding investment risk, consistent with modern portfolio theory, is that risk cannot be eliminated but should be managed. That is, plan fiduciaries are responsible for understanding the risks in various investment strategies, ensuring that they are properly compensated for these risks, and measuring and monitoring them continually. In particular, the level of risk taken should be consistent with the return objectives of the Plan.

Fiduciaries set the framework for risk management through the investment policy and guidelines, the strategic asset allocation, and the benchmarks used for performance objectives. However, tolerance for risk (alternatively, aversion to risk) may also be expressed in the form of various metrics for risk (volatility) and acceptable budgets and ranges for those metrics. Where appropriate, the Committee shall define these metrics and budgets for risk and establish acceptable ranges for them (see below).

The ~~Treasurer~~Chief Investment Officer is responsible for managing both total and active risk and shall implement procedures and safeguards so that the combined risk exposures of all portfolios in the aggregate are kept within limits established by the Committee (see definitions in section 1 of the Policy above). Further, within limits of prudent diversification and risk budgets, total and active risk exposures are fungible, that is the ~~Treasurer~~Chief Investment Officer may allocate risk exposures within and between asset classes in order to optimize return.

Although the management of investment portfolios may be outsourced, investment oversight and risk management are primary fiduciary duties of the Committee that are delegated to and performed by the ~~Treasurer~~Chief Investment Officer. The ~~Treasurer~~Chief Investment Officer shall report on risk exposures and the values of the several risk measures to the Committee, either quarterly or annually as required below.

RISK METRICS AND BUDGETS

There are different types of risk important at each level of plan investment management and thus different risk metrics are appropriate at each level.

- Plan level
  - Surplus Risk (insufficient assets to meet liabilities)
  - Measures the risk of inappropriate investment policy and strategy
- Asset class level
  - Total Investment Risk (volatility of total return)
  - Measures the risk of ineffective implementation of strategy
- Portfolio level
  - Active Risk or "Tracking Error" (volatility of deviation from style or benchmark)
  - Measures the risk of unintended exposures or inadequate diversification

- **Surplus risk**

There are several risk measures which focus on surplus risk. The ~~Treasurer~~Chief Investment Officer shall report on these measures to the Committee periodically. However, no objective levels (budgets) will be set for these metrics due to the separation of responsibility for investment management and funding policy. Thus results will be presented for information and use in policy reviews.

  - **Metric**: Funded Ratio, defined as the ratio of plan assets to liabilities. Plan assets shall be measured at current market value as well as using actuarially smoothing. Liabilities shall be measured as the actuarial accrued liability (AAL). Liabilities, and hence this metric, are formally re-estimated only annually, but should be reviewed quarterly (change in liabilities estimated using liability duration and change in bond yields, as well as accruals for service cost and benefits paid).
  - Longer term measures of forecast surplus risk shall be presented annually, in conjunction with asset liability and asset allocation reviews
    - The funded ratio projected over a ten year forecast period, using an actuarial model of assets and liabilities
    - The expected shortfall, defined as the expected loss experienced in worst case market scenarios

- **Retirement Fund Total Investment Risk**

The basis for the risk budget at the total asset level is the Policy benchmark, or neutral position. Thus the risk budget starts with the risk of the benchmark index. Assuming an expected benefit from active management, the impact of deviations from the benchmark is added to the benchmark risk to derive the total risk budget. The ~~Treasurer~~Chief Investment Officer shall report on this metric to the Committee quarterly.

  - **Metric**: Retirement Fund Total Investment Risk is defined as the annualized standard deviation of the monthly plan returns, exponentially weighted over the previous 12 months. Benchmark Risk (i.e., the Capital Market risk of the strategic asset allocation) is measured similarly (using returns on the policy benchmark).
  - **Budget**: Retirement Fund Total Investment Risk shall be maintained at a level equal to the square root of the sum of the squares of Benchmark Risk and the Active Risk budget (see below).

- **Range**: If Retirement Fund Total Investment Risk is greater (less) than 20% above (below) the budgeted level at any quarterly measurement date, the ~~Treasurer~~Chief Investment Officer will take appropriate steps to reduce (increase) total Retirement Fund risk to its budget level, including but not limited to rebalancing asset class weights within allowable ranges. (For example, if the risk budget is 12%, the allowable range is +/- 2.4% [20% x 12%].)

- **Retirement Fund Active Risk**

There is no neutral or natural budget for active risk. The budget for active risk is determined to be consistent with the tolerance for active risk and the expectation to earn active return due to market inefficiencies and/or investment skill. This budget for active risk includes all of the following types of variation from policy:

1. Temporary asset weights different from strategic policy, but within the allowed ranges [Tactical/strategic risk]
2. Aggregate manager benchmarks different than asset class benchmark [Investment style risk]
3. Aggregate active manager risks [Manager value-added risk], including
    - Aggregate portfolio systematic exposures different from the benchmark
    - Aggregate portfolio security selection decisions
    - Aggregate portfolio currency exposures different from the benchmark

The ~~Treasurer~~Chief Investment Officer shall report on this metric to the Committee quarterly.

- **Metric**: Tracking Error is defined as annualized standard deviation of the difference between monthly Retirement Fund returns and monthly policy benchmark returns, exponentially weighted over the previous 12 months
- **Budget**: Tracking Error budget shall be 3.0% annual standard deviation. It is understood that this budget may change when there is a change in
    - asset allocation, or
    - risk tolerance
- **Range**: If Tracking Error is greater (less) than 1.0% (one percentage point) above the budget level at any quarterly measurement date, the ~~Treasurer~~Chief Investment Officer will take appropriate steps to reduce tracking error to its budget level, including but not limited to rebalancing asset class and/or manager weights within allowable ranges.

Both Total Investment Risk and Active Risk for the Retirement Fund shall be computed without the impact of Private Equity. For this calculation, it will be assumed that total fund performance excludes Private Equity performance and the total fund benchmark has no Private Equity component. Private Equity is the asset class defined in Appendix 7K.

APPENDIX 3

FUNDING POLICY

The Regents' funding policy for the Plan has been to establish annual contributions as a percentage of payroll by using the Entry Age Normal actuarial funding method. In fiscal year 1990-91, The Regents adopted a full funding policy. Under this policy, The Regents suspend contributions to the Plan when plan assets, defined as the smaller of

- Market value, or
- Actuarial value

exceed Plan liabilities, defined as the lesser of

- Actuarial accrued liability plus normal cost, or
- 150% of current liability plus normal cost.

This policy is consistent with Internal Revenue Code section 412. Also as part of this policy, The Regents redirected employee contributions to the Plan to a mandatory Defined Contribution Plan, according to the same formula as then existed.

There are three principal factors that affect a pension fund's financial status: 1) contributions, 2) benefit payments and 3) investment performance. Only the latter is dependent upon the investment policy and guidelines contained herein. However, the Committee's level of risk tolerance will take into account all three factors. At certain levels of funded status, it could be impossible for the investments to achieve the necessary performance to meet the promised liabilities. The result is that either benefits have to be reduced, contributions increased or risk tolerance changed.

Definitions:

1. Actuarial value of assets: the value of investments belonging to a retirement plan, as used by the actuary for the purpose of making contributions to the plan. Typically, the actuary calculates a smoothed value to reduce the impact on contributions of market volatility.
2. Market value of assets: the value of investments belonging to a retirement plan, valued at current market prices in accordance with generally accepted accounting principles
3. Actuarial accrued liability: the accumulated value of normal costs allocated to the years before the valuation date (for both current employees, terminated employees with vested benefits, and retirees)
4. Current liability: the actuarial present value of accumulated plan benefits
5. Normal cost: the portion of actuarial present value of plan benefits and expenses which is allocated to the current year by the actuarial cost method

Attachment 8

*****Additions shown by underscoring; deletions shown by strikethrough*****

UNIVERSITY OF CALIFORNIA
GENERAL ENDOWMENT POOL

INVESTMENT POLICY STATEMENT

Approved December 13, 2011
Replaces version dated March 17, 2011

UNIVERSITY OF CALIFORNIA GENERAL ENDOWMENT POOL
INVESTMENT POLICY STATEMENT

TABLE OF CONTENTS

PLEASE NOTE:

*** These Appendices and Guidelines are in separate documents and are incorporated by reference.**

UNIVERSITY OF CALIFORNIA GENERAL ENDOWMENT POOL
INVESTMENT POLICY STATEMENT

Introduction and Purpose

This Investment Policy Statement ("Policy" or IPS") provides the framework for the management of the investments of the University of California General Endowment Pool ("GEP"). The purpose of a policy statement is to document the investment management process by

- Identifying the key roles and responsibilities relating to the ongoing management of the GEP's assets;
  - Recognize and ameliorate the agency issues among the parties responsible for various aspects of investment management;
- Setting forth an investment structure for the GEP's assets;
  - This structure includes various asset classes and acceptable ranges that, in aggregate, are expected to produce a sufficient investment return over the long term while prudently managing risk;
  - This strategy should provide guidance in all market environments, and should be based on a clear understanding of worst case outcomes;
- Establishing formalized criteria to measure, monitor, and evaluate GEP performance results on a regular basis; and
- Encouraging effective communication among all fiduciaries, including external parties engaged to execute investment strategies.

The document is divided into five sections. There are also a number of Appendices, which are integral parts of this document.

1. Investment Goals, Key Responsibilities, and Philosophy

a. The **mission** of the GEP is to provide a common investment vehicle, which will generate a stable and continuously growing income stream, for (most but not all of) the University's endowments and quasi-endowments, for which the University is both trustee and beneficiary.

b. The overall investment **goal** of the GEP is to preserve the purchasing power of the future stream of endowment payout for those funds and activities supported by the endowments, and to the extent this is achieved, cause the principal to grow in value over time. Other goals include:
   - To maximize return within reasonable and prudent levels of risk
   - To maximize the value of the endowment while maintaining liquidity needed to support spending in prolonged down markets.

Key **responsibilities** in the oversight and management of the GEP are as follows:

c. Under the authority granted in University Bylaw Sections 10.1.b and 12.5.a, The Regents has appointed a standing Committee on Investments ("Committee"), which is charged with oversight responsibility for the management of investments on behalf of The Regents, which includes the establishment of investment policies for the GEP and oversight of the management of the GEP's assets.

d. Under the Bylaw Section 12.5.c, the Committee is directed to establish a system of custodianship for all securities.

e. Under University Bylaw Section 21.4, The Regents has delegated to the ~~Treasurer~~Chief Investment Officer general responsibility for all investment matters, including the implementation of investment policies established by the Committee for the GEP. References to the "~~Treasurer~~Chief Investment Officer" below shall be understood, depending on the context, to mean the "Office of the ~~Treasurer~~Chief Investment Officer."

The **philosophy** for the management of the GEP assets is as follows.

f. The investment philosophy of the Committee is to create a management process with sufficient flexibility to capture investment opportunities as they may occur, yet maintain reasonable parameters to ensure prudence and care in the execution of the investment program.

g. The Committee seeks a return on investment consistent with levels of investment risk that are prudent and reasonable given medium- to long-term capital market conditions and the investment objectives of the GEP (see part 4 below). While the Committee recognizes the importance of the preservation of capital, it also recognizes that to achieve the GEP's investment objectives requires prudent risk-taking, and that risk is the prerequisite for generating excess investment returns. Therefore the Committee's policy regarding investment risk, consistent with modern portfolio theory, is that risk cannot be eliminated but should be managed, and that fiduciaries have the obligation to utilize risk efficiently. Risk exposures should be identified, measured, monitored and tied to responsible parties; and risk should be taken consistent with expectations for return. Further articulation of the Committee's risk policy, including appropriate budgets and ranges for various types of risk are found in Appendix 2.

The **principal risks** that impact the GEP, and the parties responsible for managing them are as follows:

h. *Capital market risk* is the risk that the investment returns (in excess of the risk-free rate) associated with the Committee's asset allocation policy are not sufficient to provide the required returns to meet the GEP's investment objectives. Responsibility for determining the overall level of capital market risk lies with the Committee.

i. *Investment style risk* is associated with an active management investment program. It is the performance differential between an asset category's market target and the aggregate of the managers' benchmarks within the asset category weighted according to a policy allocation specified by the ~~Treasurer~~Chief Investment Officer. This risk is an implementation risk and is the responsibility of the ~~Treasurer~~Chief Investment Officer.

j. *Manager value-added risk* is also associated with an active management investment program. It is the performance differential between the aggregate of the managers' actual (active) portfolios and the aggregate of the managers' benchmarks, both at policy allocation. This risk is an implementation risk and is the responsibility of the ~~Treasurer~~Chief Investment Officer (and indirectly the investment managers retained by the ~~Treasurer~~Chief Investment Officer).

k. *Tactical/strategic risk* is the performance differential between (1) policy allocations for the GEP's asset categories and its investment managers and (2) the actual allocations. This risk is the responsibility of the ~~Treasurer~~Chief Investment Officer.

l. *Total active risk* refers to the volatility of the difference between the return of the GEP policy benchmark (see Appendix 1) and the actual return. It incorporates the aggregate of the risks in (i), (j) and (k) above, and is thus the responsibility of the ~~Treasurer~~Chief Investment Officer.

m. *Total investment risk* refers to the volatility of the return of the total GEP assets. It incorporates all elements of investment risk as enumerated above, and is thus the joint responsibility of the Committee and the ~~Treasurer~~Chief Investment Officer.

n. *Peer risk* refers to the difference in GEP performance relative to peer institutions. The Committee acknowledges that similar institutions may have different objectives and different levels of investment risk. Comparisons of performance with other institutions are meaningful *only* after adjusting for differences in investment policy and risk among peers. This risk is the responsibility of the Committee.

2. Investment Policies

The policies of the investment program establish the investment strategy and guide its implementation.

a. The investment policies of the GEP shall be based on a financial plan that will consider:
   i. The financial condition of the GEP, i.e., the relationship between the current and projected assets of the GEP, projected donor contributions, and the desired spending policy [see Appendix 3]
   ii. Future growth of faculty and students; and both general and educational inflation
   iii. The expected long term capital market outlook, including expected volatility of and correlation among various asset classes
   iv. The range of possible investment outcomes associated with different policies
   v. The Committee's risk tolerance, that is, the trade-off between the desire to achieve high returns (and the associated high volatility) and the desire to avoid unacceptable outcomes (and the associated necessity for reduced volatility).

b. The Committee will consider alternative investment policies and will measure their potential impact on the financial condition of the GEP and assess their suitability in meeting the objectives of the GEP.

c. The Committee's financial plan will result in a risk budget, that is, an expected amount of volatility associated with a given expected level of investment returns offered by the capital markets including the expected active return.

d. Based on the risk budget, the Committee, with input from the ~~Treasurer~~Chief Investment Officer and other consultants, will approve a specific allocation of the investments (the asset allocation policy) among the various asset classes considered prudent given the GEP's objectives, time horizon, and constraints, and considering multiple measures of investment risk. The asset allocation policy shall be expressed in terms of a normal percentage allocation, and ranges for each asset class. These normal weights and ranges are found in Appendix 1. Criteria for including an asset class in the strategic allocation are also in Appendix 1.

e. The asset allocation policy shall be sufficiently diversified to enable the appropriate fiduciary to manage risk without imprudently sacrificing return. The ~~Treasurer~~Chief

Investment Officer is delegated the responsibility of managing total and active risk within the ranges set by the Committee (see Appendices 1 and 2). Within the limits of prudent diversification and established risk budgets, capital market and active risk exposures are fungible, and the ~~Treasurer~~Chief Investment Officer may allocate risk exposures within and between asset classes in order to optimize return. When necessary, the ~~Treasurer~~Chief Investment Officer may use appropriate risk management strategies to protect portfolio value.

f. The Committee will approve performance benchmarks for each asset class, based on a pre-approved set of criteria, which are found in Appendix 1, and will approve overall investment guidelines for each asset class, which are found in Appendix 7.

g. The GEP equity and fixed income assets shall at all times avoid the use of economic leverage. Economic leverage, in the context of portfolio management is defined as a net dollar exposure to assets in excess of the amount of invested capital, as measured by current market value. The term "net dollar exposure" is defined in the Derivatives Policy, Appendix 4. A very small, inadvertent, or temporary violation of this restriction that may occur in the normal course of portfolio management shall *not* be construed as leverage. Notwithstanding the general prohibition against leverage, leverage may be used in Private Equity, Real Estate and Absolute Return strategies, per the limits and guidelines set forth in Appendix 7 and in the conduct of the Securities Lending Program (see section 2l. below).

h. The ~~Treasurer~~Chief Investment Officer will implement the asset allocation policy as approved by the Committee. The ~~Treasurer~~Chief Investment Officer will select investment professionals (or "managers") with demonstrated experience and expertise who will be responsible for managing specific portfolios consistent with the Guidelines in Appendices 6 and 7. Each investment manager will function under a formal contract that delineates its responsibilities, investment style and process, performance expectations, administrative requirements, and compensation. Where appropriate, each manager's contract will include a benchmark and range of probable outcomes relative to that benchmark. The ~~Treasurer~~Chief Investment Officer shall establish and implement procedures for the selection, monitoring, evaluation, and termination of investment managers, which are found in Appendix 6.

i. The ~~Treasurer~~Chief Investment Officer will allocate funds across managers to develop an efficient investment structure, within the constraints of the prudence requirement, for each asset class, and will monitor whether the aggregate characteristics of all portfolios in an asset class comply with the investment guidelines for that class. The ~~Treasurer~~Chief Investment Officer will determine a policy allocation for each manager to be used in the evaluation of the active management program.

j. The ~~Treasurer~~Chief Investment Officer shall establish and implement procedures to provide efficient management of liquidity (including timely payouts) for the GEP.

k. The ~~Treasurer~~Chief Investment Officer shall be responsible for administering the investments of the GEP at the lowest possible cost, being careful to avoid sacrificing quality. These costs include, but are not limited to, management and custodial fees, consulting fees, transaction costs and other administrative costs chargeable to the GEP. The ~~Treasurer~~Chief Investment Officer may establish directed brokerage arrangements with the custodian for the GEP or other qualified third parties in order to reduce overall commissions cost for the GEP.

l. The ~~Treasurer~~Chief Investment Officer may participate in securities lending programs, as a means to augment income, with the custodian or other qualified third parties. Cash collateral received from borrowers will be invested by the ~~Treasurer~~Chief Investment Officer or the lending agent, in a short term investment pool, in accordance with guidelines established by the ~~Treasurer~~Chief Investment Officer. Current guidelines are included in Appendix 7.

m. The Committee considers the active voting of proxies an integral part of the investment process. Proxy voting will occur in accordance with the Proxy Voting Policy found in Appendix 5.

n. The investment program shall comply with existing and future applicable state and federal laws and regulations and the prudence requirement.

o. All transactions undertaken on behalf of the GEP will be undertaken solely in the interests of the University and according to the direction of donors.

3. Fiduciary Oversight Procedures

The following procedures for the management of the GEP's assets outline the specific responsibilities of the Committee and other fiduciaries.

a. The Committee, in developing investment policy for the GEP assets, shall act with the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and with like aims.

b. The Committee will exercise its fiduciary responsibilities in regard to the investment program in accordance with the GEP Mission [see section 1.a above] and University Bylaws.

c. The Committee shall review the asset allocation policy, asset class guidelines, and current capital market assumptions at least annually to ensure that the current asset mix can reasonably be expected to achieve the long-term goals of the GEP.

d. The Committee will review the GEP's financial condition annually, and recommend a Spending Policy for each year to the Finance Committee, which is responsible for approval.

e. The Committee may appoint investment consultants to review investment performance of the GEP in whole or with respect to specific asset classes, to assist in the development of the GEP's investment policies and asset allocation, to monitor and report on investment risks, and to provide independent assessment of investments proposed by the ~~Treasurer~~Chief Investment Officer.

f. The Committee has appointed a standing Investment Advisory Committee ("IAC") of selected Regents, investment professionals, faculty, and UC Foundation members to provide input to the Committee on decisions and assist in oversight of the ~~Treasurer~~Chief Investment Officer. The Chair of the Committee shall also be the Chair of the IAC.

g. The Committee shall review the investments of the GEP no less than quarterly to assess whether policy guidelines continue to be appropriate and are met. The Committee shall monitor investment risk, as well as monitor investment returns on an absolute and benchmark relative basis.

h. The ~~Treasurer~~Chief Investment Officer shall prepare quarterly and annual reports for the Committee and The Regents on the investment program, including
   i. The achievement of overall performance objectives
   ii. The type and amount of risk taken to achieve those objectives
   iii. Attribution of returns to various investment decisions and risks
   iv. Adherence to budgets set for total and active risk
   v. Compliance with policy guidelines, particularly asset allocation policy, and
   vi. The costs of managing the GEP's assets.

i. Investment performance results shall be calculated and verified at least monthly by an external, independent performance consultant.

j. The ~~Treasurer~~Chief Investment Officer, in conjunction with the various investment consultants, will monitor the investment managers for compliance with their investment guidelines, achievement of specific objectives, and individual risk exposures.

k. The ~~Treasurer~~Chief Investment Officer shall monitor the conduct of the custodian of the GEP.

l. The ~~Treasurer~~Chief Investment Officer shall adopt the CFA Institute Code of Ethics and Standards of Professional Conduct for all employees of the ~~Office of the Treasurer~~Chief Investment Officer and relevant consultants and managers. These are found at http://www.cfainstitute.org/cfacentre/pdf/English2006CodeandStandards.pdf and incorporated by reference. The ~~Treasurer~~Chief Investment Officer shall develop and enforce other ethics guidelines for the employees of the ~~Office of the Treasurer~~Chief Investment Officer as needed, consistent with other University policies and guidelines.

m. The Committee will review this Policy from time to time to determine if modifications are necessary or desirable.

4. Performance Objectives

Performance objectives shall be established for the total GEP, asset class composites and individual manager portfolios. These objectives will be incorporated in the quarterly reviews of the GEP's performance.

The investment strategy articulated in the asset allocation policy found in Appendix 1 has been developed in the context of long-term capital market expectations, as well as multi-year projections of contributions, spending, and inflation. Accordingly, the investment objectives and strategies emphasize a long-term outlook, and interim performance fluctuations will be viewed with the corresponding perspective. The Committee acknowledges that over short time periods (i.e. one quarter, one year, and even three to five year time periods), returns will vary from performance objectives and the investment policy thus serves as a buffer against ill-considered action.

There are four principal factors that affect an endowment fund's financial status: 1) contributions from donors, 2) annual payout to endowment recipients, 3) inflation, and 4) investment performance. Only the last factor is dependent upon the investment policy and guidelines contained herein. However, the Committee's level of risk tolerance will take into account all four factors. At certain levels of assets and a given spending policy, it could be impossible for the investments to achieve the necessary performance to meet desired spending. The result is that either spending policy has to be changed, contributions increased or risk tolerance changed.

Rates of return will be calculated based on a time-weighted rate of return formula as recommended by the CFA Institute. Returns will be calculated by the performance consultant and will be reported net of all fees and costs.

The performance of the overall GEP will be measured relative to:

- Inflation
- Policy benchmarks

a. Total GEP return should exceed the Consumer Price Index on a consistent basis over time.
   - This objective is to achieve a positive return above inflation. The GEP's assets are invested with an infinite time horizon, and failure to keep pace with inflation may jeopardize the endowments' intended purposes.

b. Total GEP return should match or exceed the total GEP weighted benchmark return, net of all fees and expenses on a consistent basis over time. See Appendix 1 for the composition and calculation of the GEP policy weighted benchmark.
   - This objective is to match or exceed a passively managed fund with a similar asset mix, net of all fees and expenses. The value added above the policy benchmark measures the effectiveness of the ~~Treasurer~~Chief Investment Officer's implementation and management decisions. The policy benchmark should also be adjusted for the costs of passive investing.

Additional metrics with respect to risk are found in the Risk Policy Appendix 2.

5. Asset Class and Manager Guidelines

The general guidelines that apply to all investment managers are:

a. Subject to constraints and restrictions imposed by the manager guidelines, all decisions regarding sector and security selection, portfolio construction, and timing of purchases and sales are delegated to the investment manager.

b. The purchase of securities issued by tobacco companies is prohibited in separately managed accounts. The Regents have defined a tobacco company as "a company which derives its revenues from the manufacture and distribution of tobacco products or, if a diversified company, that no other business line contributes more revenues or earnings than tobacco products." The ~~Treasurer~~Chief Investment Officer 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. The Committee recognizes that the establishment of social investing restrictions limits investment opportunities and should be accompanied by adjusting performance evaluation standards appropriately.

c. The direct purchase of property owned or a security issued by the University, its subsidiaries and affiliates, is prohibited

d. The purchase of non-negotiable securities is prohibited in the equity and fixed income asset classes.

e. The use of derivative securities or contracts to create economic leverage in the portfolio is prohibited. Acceptable and prohibited uses of derivatives are found in the derivatives policy in Appendix 4.

f. Transactions that involve a broker acting as a "principal," where such broker or an affiliate is also the investment manager, who is making the transaction, are prohibited.

g. Transactions shall be executed at the lowest possible total cost, which includes commissions, efficiency of execution, and market impact.

h. Any investment or action with respect to an investment not expressly allowed is prohibited, unless presented to and approved prospectively by the Committee. All guidelines must be adhered to; however, if from time to time a manager shall deem an exception to the guidelines appropriate, the ~~Treasurer~~Chief Investment Officer shall seek review and approval by the Committee to make such an exception.

Managers are required to inform the ~~Treasurer~~Chief Investment Officer of significant matters pertaining to the investment of GEP assets, including at a minimum, substantive changes in investment strategy and portfolio structure; significant changes in ownership, organizational structure, financial condition or professional staffing; litigation or violation of securities regulations; significant account losses or growth of new business. Managers must inform the ~~Treasurer~~Chief Investment Officer in the event of discovering an unintended or involuntary violation of their guidelines or of any of the Policies herein pertaining to them.

Managers are required to submit periodic reports to the ~~Treasurer~~Chief Investment Officer summarizing investment activity and strategy, as per Appendices 6 and 7 and individual guidelines. Managers are required to reconcile investment returns with the custodian each month.

Specific guidelines for each major asset class will be found in Appendix 7. Manager guidelines will contain specific provisions to ensure that performance objectives and risk exposures are consistent with their particular investment mandate, which may be a style or subset of their larger asset class. However, all individual manager guidelines will be consistent with broad asset class guidelines and this Policy.

APPENDIX 1
Effective: January 1, 2012
Replaces Version Effective: March 1, 2011

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 (real estate, real assets) 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

	Current Policy Allocation	Long-Term Target Allocation	Allowable Ranges	
			Minimum	Maximum
U.S. Equity	20.0%	18.5%	15	25
Developed Non US Equity	18.5	16.0	13.5	23.5
Emerging Mkt Equity	5.0	6.0	3	7
Global Equity	2.0	2.0	1	3
US Fixed Income	7.5	5.0	4.5	10.5
High Yield Fixed Income	3.0	2.5	2	4
Emerging Mkt Fixed Income	3.0	2.5	2	4
TIPS 4.0		2.5	2	6
Private Equity	7.0	9.0	4	10
Absolute Return	24.0	25.5	19	29
Real Assets	1.0	3.0	0	2
Real Estate	5.0	7.5	2	8
Liquidity 0		0	0	10
Tail Risk Hedging Strategies	0	0	0	2
100%		100%		
Combined Public Equity	45.5	42.5	35.5	55.5
Combined Fixed Income	17.5	12.5	12.5	22.5
Combined Alternatives*	37.0	45.0	27.0	47.0

* Alternatives category including, but not limited to: Real Estate, Private Equity, Real Assets, 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	Barclays Capital US Aggregate Bond Index
High Yield Fixed Income	Merrill Lynch High Yield Cash Pay Index
Emg Mkt Fixed Income	Dollar Denominated: JP Morgan Emerging Markets Bond Index Global Diversified
Emg Mkt Fixed Income	Local Currency: JP Morgan Government Bond Index Emerging Markets Global Diversified
TIPS	Barclays Capital US TIPS Index
Private Equity	N/A (See below note 2.)
Absolute Return	Diversified: HFRX Absolute Return Index (50%) + HFRX Market Directional Index (50%)
Absolute Return	Cross Asset Class: Aggregate GEP Policy Benchmark
Real Assets	Commodities: S&PGSCI Reduced Energy Index All other: N/A (See below note 3.)
Real Estate	Public: FTSE EPRA NAREIT Global Index return
Real Estate	Private: NCREIF Funds Index – Open End Diversified Core Equity (ODCE), lagged 3 months

Notes on asset class benchmarks:
1. Global Equity: The ~~Treasurer~~Chief Investment Officer 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. Real Assets (all strategies ex-commodities): 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
20.0%	× Russell 3000 Tobacco Free Index
18.5%	× MSCI World ex-US Net Tobacco Free
5.0%	× MSCI Emerging Market Free Net
2.0%	× MSCI All Country World Index Net – IMI – Tobacco Free
7.5%	× Barclays Capital US Aggregate Bond Index
3.0%	× Merrill Lynch High Yield Cash Pay Index
3.0%	× [JP Morgan Emerging Market Bond Index Global Diversified × 33%] + [JP Morgan Government Bond Index Emerging Markets Global Diversified × 67%]
4.0%	× Barclays Capital US TIPS Index
7.0%	× Actual return of private equity portfolio
23.5%	× [HFRX Absolute Return Index × 50%] + [HFRX Market Directional Index × 50%] [Abs. Ret. - Diversified]
0.5%	× Aggregate GEP Policy Benchmark [Abs. Ret. - Cross Asset Class]
1.0%	× Aggregate Real Assets benchmark (see section B), with components weighted by their actual weights within the total real assets portfolio
5.0%	× Aggregate of Public and Private Real Estate benchmarks (see section B), with components weighted by their actual weights within the total real estate portfolio

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 calculation of the Total Fund benchmark will assume a monthly rebalancing methodology.
3. 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~~Chief Investment Officer to rebalance the GEP when necessary to ensure adherence to the Investment Policy.

The ~~Treasurer~~Chief Investment Officer will monitor the actual asset allocation at least monthly. The Committee directs the ~~Treasurer~~Chief Investment Officer 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~~Chief Investment Officer may utilize derivative contracts [in accordance with Appendix 4] to rebalance the portfolio.

The ~~Treasurer~~Chief Investment Officer 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~~Chief Investment Officer may delay a rebalancing program when the ~~Treasurer~~Chief Investment Officer believes the delay is in the best interest of the GEP. Results of rebalancing will be reported to the Committee at quarterly meetings.

APPENDIX 2

RISK MANAGEMENT POLICY

RISK PHILOSOPHY

In its broadest sense, risk refers to the unpredictability of future asset value, and specifically, the chance that assets may decrease, as well as increase, in value. Investment principles and practical experience both support the notion that expected returns are proportional to market risk taken. The Committee recognizes that the assumption of risk is necessary to meet GEP objectives; that is, there are no “risk free” assets, which are sufficient to generate the return needed to support planned spending. Thus GEP risk management does not require the elimination of risk, but the balancing of risk and expected return. Risk in itself is intrinsically neither good nor bad; it is a resource used to generate investment returns. The Committee recognizes that “The essence of investment management is the management of risks, not the management of returns.”

RISK POLICY

The Committee’s policy regarding investment risk, consistent with modern portfolio theory, is that risk cannot be eliminated but should be managed. That is, GEP fiduciaries are responsible for understanding the risks in various investment strategies, ensuring that they are properly compensated for these risks, and measuring and monitoring them continually. In particular, the level of risk taken should be consistent with the return objectives of the GEP.

Fiduciaries set the framework for risk management through the investment policy and guidelines, the strategic asset allocation, and the benchmarks used for performance objectives. However, tolerance for risk (alternatively, aversion to risk) may also be expressed in the form of various metrics for risk (volatility) and acceptable budgets and ranges for those metrics. Where appropriate, the Committee shall define these metrics and budgets for risk and establish acceptable ranges for them (see below).

The ~~Treasurer~~Chief Investment Officer is responsible for managing both total and active risk and shall implement procedures and safeguards so that the combined risk exposures of all portfolios in the aggregate are kept within limits established by the Committee (see definitions in section 1 of the Policy above). Further, within limits of prudent diversification and risk budgets, total and active risk exposures are fungible, that is the ~~Treasurer~~Chief Investment Officer may allocate risk exposures within and between asset classes in order to optimize return.

Although the management of investment portfolios may be outsourced, investment oversight and risk management are primary fiduciary duties of the Committee that are delegated to and performed by the ~~Treasurer~~Chief Investment Officer. The ~~Treasurer~~Chief Investment Officer shall report on risk exposures and the values of the several risk measures to the Committee, either quarterly or annually as required below.

RISK METRICS AND BUDGETS

There are different types of risk important at each level of GEP investment management and thus different risk metrics are appropriate at each level.

- GEP level
  - Spending Risk (insufficient assets to meet planned spending)
  - Measures the risk of inappropriate investment policy and strategy
- Asset class level
  - Total Investment Risk (volatility of total return)
  - Measures the risk of ineffective implementation of strategy
- Portfolio level
  - Active Risk or "Tracking Error" (volatility of deviation from style or benchmark)
  - Measures the risk of unintended exposures or inadequate diversification

- **Spending risk**

The ~~Treasurer~~Chief Investment Officer shall report on this measure to the Committee annually, in conjunction with endowment financial reviews. However, no objective levels (budget) will be set for this metric due to the separation of responsibility for investment management and spending policy, and the unpredictability of donor contributions. Thus results will be presented for information and use in policy reviews.

  - **Metric**: Projected year-to-year change in real spending per student, over a long term forecast horizon

- **GEP Total Investment risk**

The basis for the risk budget at the total asset level is the Policy benchmark, or neutral position. Thus the risk budget starts with the risk of the benchmark index. Assuming an expected benefit from active management, the impact of deviations from the benchmark is added to the benchmark risk to derive the total risk budget. The ~~Treasurer~~Chief Investment Officer shall report on this metric to the Committee quarterly.

  - **Metric**: GEP Total Investment Risk, defined as the annualized standard deviation of the monthly GEP returns, exponentially weighted over the previous 12 months. Benchmark Risk (i.e., the Capital Market risk of the strategic asset allocation) is measured similarly (using returns on the policy benchmark).
  - **Budget**: GEP Total Investment Risk shall be maintained at a level equal to the square root of the sum of the squares of Benchmark Risk and the Active Risk budget (see below).
  - **Range**: If GEP Total Investment Risk is greater (less) than 20% above (below) the budgeted level at any quarterly measurement date, the ~~Treasurer~~Chief Investment Officer will take appropriate steps to reduce (increase) total GEP risk to its budget level, including but not limited to rebalancing asset class weights within allowable ranges. (For example, if the risk budget is 12%, the allowable range is +/- 2.4% [20% x 12%].)

- **GEP Active Risk**

There is no neutral or natural budget for active risk. The budget for active risk is determined to be consistent with the tolerance for active risk and the expectation to earn active return due to market inefficiencies and/or investment skill. This budget for active risk includes *all of the following* types of variation from policy:

1. Temporary asset weights different from strategic policy, but within the allowed ranges [Tactical/strategic risk]

2. Aggregate manager benchmarks different than asset class benchmark [Investment style risk]
3. Aggregate active manager risks [Manager value-added risk], including
   - Aggregate portfolio systematic exposures different from the benchmark
   - Aggregate portfolio security selection decisions
   - Aggregate portfolio currency exposures different from the benchmark

The ~~Treasurer~~Chief Investment Officer shall report on this metric to the Committee quarterly.

- **Metric**: Tracking Error, defined as annualized standard deviation of the difference between monthly GEP returns and monthly policy benchmark returns, exponentially weighted over the previous 12 months
- **Budget**: Tracking Error budget shall be 3.0% annual standard deviation. It is understood that this budget may change when there is a change in
  - asset allocation, or
  - risk tolerance
- **Range**: If Tracking Error is greater (less) than 1.0% (one percentage point) above the budget level at any quarterly measurement date, the ~~Treasurer~~Chief Investment Officer will take appropriate steps to reduce tracking error to its budget level, including but not limited to rebalancing asset class and/or manager weights within allowable ranges.

Both Total Investment Risk and Active Risk for the GEP shall be computed without the impact of Private Equity. For this calculation, it will be assumed that Total Fund performance excludes Private Equity performance and the Total Fund benchmark has no Private Equity component. Private Equity is the asset class defined in Appendix 7K.

APPENDIX 3

SPENDING POLICY

The Regents have adopted a Total Return Policy, that is, annual spending may be comprised of income, realized capital gains, or unrealized capital gains, or any combination thereof.

Annual spending shall be calculated as: a percentage times the average of the past 60 months market value of endowment assets, where the percentage may range between 4.35% and 4.75%, inclusive. Even with this smoothing of the impact of investment returns, there is a possibility that both nominal and inflation adjusted spending may experience year-to-year declines.

There are four principal factors that affect an endowment fund's financial status: 1) contributions from donors, 2) annual payout to endowment recipients, 3) inflation, and 4) investment performance. Only the latter is dependent upon the investment policy and guidelines contained herein. However, the Committee's level of risk tolerance will take into account all four factors. At certain levels of assets and a given spending policy, it could be impossible for the investments to achieve the necessary performance to meet the desired spending. The result is that either spending policy has to be changed, contributions increased or risk tolerance changed.

Attachment 9

*****Additions shown by underscoring; deletions shown by strikethrough*****

REGENTS POLICY 6103

POLICY ESTABLISHING THE INVESTMENT ADVISORY GROUP

Adopted November 19, 1999
Amended July 19, 2007, September 20, 2007, and September 16, 2010

Function: The Investment Advisory Group shall function in an oversight and evaluative role providing advice to The Regents with respect to establishment of investment policies and investment performance, including, but not limited to, investment strategies, policies and procedures; investment performance; investment personnel ~~in the Office~~ of the ~~Treasurer~~<u>Chief Investment Officer</u>; external investment managers; and <u>the budget of the </u>~~Office of the Treasurer~~<u>Chief Investment Officer</u>~~ budget~~.

Authority: The Committee on Investments has authority under Regents Bylaw 12.5 for management of investments of the Corporation, and the Advisory Group shall have no management or action authority. In addition, the Investment Advisory Group shall have no authority for selection of specific investments, including the selection of investment managers or individual investments.

Composition: (a) The Advisory Group shall have not more than seven and not fewer than four members, appointed by the Board of Regents upon recommendation of the Committee on Governance, in consultation with the Chair of the Committee on Investments. (b) Except as provided in subsection (c), membership is limited to investment professionals, faculty, and UC Foundation members not currently serving as Regents. (c) Notwithstanding subsection (b), one member of the Advisory Group shall be a represented employee of the University of California with expertise in investments. (d) Members of the Advisory Group shall serve for an initial term of four years and may serve a second term of four years.

Meetings: Members of the Advisory Group shall meet only as non-voting advisors in meetings of The Regents' Committee on Investments, which are noticed and conducted in accordance with the provisions of the Bagley-Keene Open Meeting Act.

Reports: The Advisory Group may request the ~~Treasurer~~<u>Chief Investment Officer</u>, other University of California staff, and such external sources as the Group shall determine advisable to provide reports on investment matters.

Consultant: The Advisory Group may recommend to the Committee on Investments that one or more consultants be retained from time to time to advise the Advisory Group and the Committee on Investments.

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

Expenses: Members of the Advisory Group shall receive no compensation for their services. They shall be reimbursed for expenses associated with service on the Advisory Group in accordance with policies applicable to members of the Board.

*****Additions shown by underscoring; deletions shown by strikethrough*****

REGENTS POLICY 6104

POLICY ON CONFLICT OF INTEREST REGARDING ASSETS MANAGED BY THE ~~TREASURER~~CHIEF INVESTMENT OFFICER

Adopted September 22, 2005
Amended July 19, 2007, November 15, 2007, and March 20, 2008

The Regents has adopted Investment Policy Statements for the University of California Retirement Plan and General Endowment Pool, which assign limited roles and responsibilities to investment fiduciaries, with appropriate checks and balances.

The existing governance process has avoided the potential for and the appearance of conflicts of interest with respect to the selection of individual investments or investment managers by maintaining a separation of roles and responsibilities.

The Regents' Committee on Investments is responsible for oversight of the management of investments on behalf of The Regents. This involves the establishment of investment policies and oversight of the management of the assets with advice from the Investment Advisory Group. These responsibilities include approving an asset allocation policy, performance benchmarks, risk budgets, and investment guidelines.

The ~~Treasurer~~Chief Investment Officer is responsible for implementing the approved investment policies and the development of investment processes and procedures for asset allocation, risk management, investment manager selection and termination, allocation, monitoring and evaluation, and the identification of management strategies that will improve the investment efficiency of the Fund assets.

Individual Regents and members of the Regents' Investment Advisory Group (IAG) are prohibited from contacting the ~~Treasurer's Office~~ Chief Investment Officer, including any officer of that office, to offer advice or recommendations with respect to the selection of specific investments, investment managers, or investment management firms. The General Counsel is responsible for determining, pursuant to the following procedures, that the ~~Treasurer~~Chief Investment Officer's responsibilities for selecting investment managers have been exercised free of any such prohibited efforts to influence the ~~Treasurer's Office~~ the Chief Investment Officer. The ~~Treasurer's Office~~Chief Investment Officer will advise the General Counsel~~'s Office~~ if ~~it~~any employee of that office is contacted by a Regent or an IAG member in connection with the choice of investments, investment managers, or investment management firms. The Office of the General Counsel will then determine whether the communication was prohibited pursuant to this policy. In the event such a prohibited effort to influence ~~a Treasurer's Office~~the Chief Investment Officer's selection of investments, investment managers, or investment management firms is identified, the General Counsel shall immediately bring the matter to the attention of the Chair of the Regents' Committee on Investments.

In order to maintain the highest fiduciary standards and to continue to comply with institutional investment best practices, this Policy explicitly separates the roles and responsibilities of various UC fiduciaries to ensure the continuance of sound investment practice and the protection against real or perceived conflict of interest, especially with regard to the selection of individual investments or investment managers. By separating the duties of investment policy-making and investment implementation, The Regents' Committee on Investments has created an institutional framework to uphold the California Political Reform Act of 1974, which provides that public officials shall not make, participate in making, or influence a governmental decision in which the official has a financial interest.

*****Additions shown by underscoring; deletions shown by strikethrough*****

REGENTS POLICY 6105

POLICY ON DISCLOSURE OF UNIVERSITY OF CALIFORNIA RETIREMENT PLAN AND GENERAL ENDOWMENT POOL INVESTMENT-RELATED INFORMATION

Approved May 26, 2005

This document sets forth the policy of The Regents on disclosure of information relating to the investments of the University of California Retirement Plan (the UCRP) and the General Endowment Pool (the GEP). The purpose of this policy statement is to make clear how and what investment-related information will be routinely disclosed to participants in the UCRP and the general public.

(1) The ~~Treasurer~~Chief Investment Officer provides investment-related information on the UCRP and the GEP to The Regents' Committee on Investments and the Investment Advisory Committee in a manner consistent with the requirements outlined in the Investment Policy Statement for the University of California Retirement Plan approved by The Regents on November 18, 2004 and the Investment Policy Statement for the General Endowment Pool approved by The Regents on March 17, 2005. Current and historical materials are publicly available on The Regents' website within the section on Meeting Agendas and Schedule.

(2) A report on private equity internal rates of return is publicly available on the ~~Treasurer~~Chief Investment Officer's website on a quarterly basis.

(3) The ~~Treasurer~~Chief Investment Officer's Annual Report for the most recent fiscal year is also available on the ~~Treasurer~~Chief Investment Officer's website. The report provides asset allocation and performance of the UCRP, the GEP, and other UC investment funds.

(4) As soon as practicable after each calendar year, a complete listing of all assets held by the UCRP and the GEP at calendar year end will be posted on the ~~Treasurer~~Chief Investment Officer's website. Each listing will include the asset's market value at the end of the year. The assets will be grouped in the standard categories used by the custodian bank to group the assets in the asset reports provided to the ~~Treasurer~~Chief Investment Officer.

Attachment 12

Effective Date: January 1, 2011
Replaces Version: April 1, 2010

TOTAL RETURN INVESTMENT POOL (TRIP)
INVESTMENT GUIDELINES

The purpose for these performance objectives ("Objectives") and management guidelines (Guidelines") is to clearly state the investment approach, define performance objectives and to control risk in the management of the University's Total Return Investment Pool, or TRIP ("Program"). These Objectives and Guidelines shall be subject to ongoing review by the Committee on Investments. Capital market conditions, changes in the investment industry, new financial instruments, or a change in the Committee on Investments' risk tolerance, are among factors to be considered in determining whether the Guidelines shall be revised.

1. Investment Policy

a. Background:

The TRIP is an investment pool established by The Regents and is available to UC Campuses and the UC Office of the President. The TRIP allows Campuses to maximize return on their long-term working capital, subject to an acceptable level of risk, by taking advantage of the economies of scale of investing in a larger pool and investing across a broad range of asset classes.

b. Incorporation of Regents Investment Policies

1. Investment governance, philosophy, policies and oversight procedures for this Program will be similar to those for the University of California Retirement Plan (UCRP) and General Endowment Pool (GEP), as specified in the Investment Policies for the UCRP.

2. Relevant policies from Sections 1-3 of the UCRP Investment Policy Statement are incorporated by reference into this Policy.

c. Investment Objective

The Objective of the Program is to generate a rate of return, after all costs and fees, in excess of the policy benchmark, and consistent with liquidity, cash flow requirements, and risk budget. See Section 2 for asset allocation and benchmark. As its name implies, TRIP is managed according to a total return objective, and will be subject to interest rate risk, credit risk, and equity risk. It is appropriate for longer-term investors who can accept this volatility in exchange for higher expected return.

d. Investment Strategy

The Program shall be implemented by the ~~Treasurer's Office~~ Chief Investment Officer, using a combination of internal and external management ("Managers"), employing actively managed strategies where appropriate. Active strategies will include both sector allocation and security selection. The ~~Treasurer~~Chief Investment Officer will monitor the Program's adherence to these Guidelines.

e. Risk Objective

The Program shall be managed so that its annualized tracking error budget shall be 300 basis points. This budget is consistent with the ±10% ranges around the combined asset classes (see 2a below), and incorporates both sector allocation and security selection differences from the aggregate benchmark.

Each Manager or asset class segment will have a unique active risk budget, relative to its asset class benchmark, which is appropriate to its individual strategy, and specified in its guidelines, and which will reflect the risk-return profile of its specific investment objectives.

f. Other Constraints and Considerations

- Managers shall comply with applicable State and Federal laws and regulations
- Managers shall at all times act with the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and with like aims
- Managers shall act solely in the interest of the Program's owners.

2. Investment Guidelines

The portfolio will be invested primarily in marketable, publicly traded equity and fixed income securities denominated in (or hedged back to) U.S. dollars.

a. Strategic Asset Allocation and Allowable Ranges

Target	Allocation
US Fixed Income – Government	5%
US Fixed Income – Credit	45%
US Fixed Income – Securitized	5%
High Yield Debt	10%
US Equity - All Cap	15%
REITS	5%
Non US Equity (hedged)	15%
Liquidity	0%

Combined Asset Classes	Target Allocation	Minimum	Maximum
Public Equity	35%	25%	45%
US Fixed Income	65%	55%	75%
Liquidity	0%	0%	10%
Total	100%		

b. Total TRIP Performance Benchmark

This is the composition of the total TRIP performance benchmark:

Percentage	Benchmark
5%	× Barclays Capital US Aggregate Government Index
45%	× Barclays Capital US Aggregate Credit Index
5%	× Barclays Capital US Aggregate Securitized Index
10%	× BofA / Merrill Lynch HY Cash Pay BB/B rated Index
15%	× Russell 3000 Index (Tobacco Free)
5%	× FTSE / NAREIT US REIT Index
15%	× MSCI World ex US Net Index (hedged) (Tobacco Free)

Notes on Total Program benchmark:

1. The calculation of the Total Program benchmark will assume a monthly rebalancing methodology.
2. 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.

c. Rebalancing Policy

There will be periodic deviations in actual asset weights from the 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~~Chief Investment Officer to rebalance the Fund when necessary to ensure adherence to the Investment Policy.

The ~~Treasurer~~Chief Investment Officer will monitor the actual asset allocation at least monthly. The Committee directs the ~~Treasurer~~Chief Investment Officer 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~~Chief Investment Officer may utilize derivative contracts (in accordance with the Derivatives Policy found in Appendix 4 of the UCRP Policy Statement) to rebalance the portfolio.

The ~~Treasurer~~Chief Investment Officer 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~~Chief Investment Officer may delay a rebalancing program when the ~~Treasurer~~Chief Investment Officer believes the delay is in the best interest of the Plan. Results of rebalancing will be reported to the Committee at quarterly meetings.

d. Asset Class Guidelines

The Program will be invested in a diversified portfolio of equity and fixed income securities. Each Segment of the Program, as defined above, will be subject to the Regents Asset Class guidelines that is appropriate and in effect for that Segment. These Guidelines are found in the

Appendices to the UC Retirement Plan Investment Policies, and are hereby incorporated by reference.

e. Restriction s

The Managers may **not:**

- Purchase securities of tobacco related companies, as per the UCRP Investment Policy, section 5b.
- Invest in mutual funds or group trusts unless specifically allowed in its guidelines
- Buy party-in-interest securities
- Buy securities restricted as to sale or transfer, except for 144A securities, which are permitted
- Buy or write structured ("levered") notes
- Employ economic leverage in the portfolio through borrowing or derivatives, or engage in derivative strategies that conflict with the Derivatives Policy

Subject to the limitations above, the Managers have complete discretion with regard to choosing sector weights, issuers, and maturities.

3. Evaluation and Review

a. Policy and Guideline Review

The ~~Treasurer's Office~~Chief Investment Officer shall review the Objectives and Guidelines at least annually, and report to the Committee on Investments on the impact of the Guidelines on the Program's performance.

b. Program performance and risk exposures shall be evaluated at multiple levels in accordance with the Objectives of the Program and individual Managers.

4. Reporting

On a quarterly basis, the ~~Treasurer's Office~~ Chief Investment Officer shall provide the following reports to the Committee on Investments:

a. A summary of Program investments and risks.
b. A summary of Program performance, on an absolute and benchmark relative basis.

Each Manager will be required to provide the ~~Treasurer~~Chief Investment Officer monthly and quarterly reports, including but not limited to:

a. Monthly accounting statements showing portfolio income, holdings and transactions
b. Quarterly review of portfolio and strategy performance including a market outlook
c. Annual statement of compliance with investment guidelines

5. Investment Operations and Restrictions

a. University Financial Management may establish limitations on Campus investments to maintain sufficient short term liquidity for University cash needs, and restrictions on withdrawals as is appropriate for the investment of longer-term assets.

b. Annual distributions of income and capital gains will be made to participating Campuses, according to a spending rate will be reviewed and approved annually by the Committee on Investments.

6. Definitions: See Appendix 8 of the UCRP Policy Statement

*****Additions shown by underscoring; deletions shown by strikethrough*****

APPENDIX 7K
Last approved: February 14, 2006
This Version: September 10, 2009
Effective Date: October 1, 2009

SHORT TERM INVESTMENT POOL (STIP) INVESTMENT GUIDELINES

The purpose for these performance objectives ("Objectives") and management guidelines (Guidelines") is to clearly state the investment approach, define performance objectives and to control risk in the management of the University's Short Term Investment Pool, or STIP ("Program"). These Objectives and Guidelines shall be subject to ongoing review by the Committee. Capital market conditions, changes in the investment industry, new financial instruments, or a change in the Committee's risk tolerance, are among factors to be considered in determining whether the Guidelines shall be revised.

1. Investment Policy

a. Background:

The STIP is a cash investment pool established by The Regents and is available to all University groups, including retirement and endowment funds. The STIP allows fund participants to maximize income on their short-term cash balances by taking advantage of the economies of scale of investing in a larger pool and investing in a broader range of maturities.

b. Investment Objective

The Objective of the Program is to maximize returns consistent with safety of principal, liquidity, and cash flow requirements. The primary investment objective is to generate income from investments in short duration US dollar denominated bonds and cash equivalents. Because the liquidity needs of the University are subject to large and uncertain changes, the fund may materially increase its investments in highly liquid, cash equivalent securities from time to time.

Accordingly, the Benchmark will be a weighted average of the income return on a constant maturity two (2) year Treasury note and the return on US 30 day Treasury Bills. The weights for the two constituents will be the actual average weights of the bond and cash equivalent components of the pool. The Benchmark will be re-balanced monthly.

c. Investment Strategy

The Program shall be implemented by the ~~Treasurer~~Chief Investment Officer internal fixed income staff ("Manager"). The ~~Treasurer~~Chief Investment Officer will monitor the Program's adherence to these Guidelines.

d. Performance Objectives

The performance objective of the Program is to meet or exceed the return of the Benchmark, on a consistent basis over time, net of all costs and fees.

e. Risk Objective

The Program shall be managed so that its annualized tracking error budget shall be 75 basis points.

f. Other Constraints and Considerations

- Managers shall comply with applicable State and Federal laws and regulations and the prudence requirement described in section 3(a) of the Policy.
- Manager shall act solely in the interest of the Fund's owners.
- Implementation of this Program shall comply with the Fund's Policy.

2. Investment Guidelines

a. Asset Allocation

The portfolio will be invested primarily in marketable, publicly traded, investment grade short term fixed income instruments, notes and debentures denominated in U.S. dollars.

b. Types of Securities

The Program will be invested in a diversified portfolio of fixed income securities, subject to restrictions noted below in section 2c.

The following list is indicative of the investment classes which are appropriate for the Program, given its Benchmark and risk budget. It should not be construed to be an exhaustive list of "allowable" asset types. Security types and/or strategies not specifically enumerated, but which the ~~Treasurer~~Chief Investment Officer and Regents' Investment Consultant believe are appropriate and consistent with the Investment Policy may also be held, subject to the restrictions in 2c. and 2d. below.

The Program may purchase securities on a when-issued basis or for forward delivery.

1. Fixed income instruments
   a. Obligations issued or guaranteed by the U.S. Federal Government, U.S. Federal Agencies or U.S. government-sponsored corporations and agencies
   b. Obligations of U.S. and foreign corporations such as corporate bonds, notes and debentures, and bank loans
   c. Mortgage-backed and asset-backed securities
   d. Obligations of international agencies, supranational entities, and foreign governments (or their subdivisions or agencies)
   e. Obligations issued or guaranteed by U.S. local, city and state governments and agencies
   f. Private Placements or Rule 144A securities, issued with or without registration rights
2. Short term fixed income instruments (having maturity of less than 13 months)
   a. US Treasury and Agency bills and notes
   b. Certificates of deposit
   c. Bankers acceptances
   d. Commercial paper
   e. Repurchase and reverse repurchase agreements (must be fully collateralized with approved collateral, using approved counterparties only)
   f. Eurodollar CD's, TD's, and commercial paper

g. US and Eurodollar floating rate notes
h. Money market funds managed by the custodian

c. Restriction s

The following security types are **not** permitted:

- Interest rate derivative contracts, including options and futures
- Equity like securities, including but not limited to convertible bonds, preferred stocks, warrants, equity linked notes, and commodities
- Bonds issued in currencies other than US Dollar
- Foreign currency linked notes

The Manager may **not:**

- Purchase securities of tobacco related companies, as per the Policy, section 5b.
- Invest in mutual funds or group trusts unless specifically allowed in its guidelines
- Buy securities on margin
- Sell securities short
- Buy party-in-interest securities
- Buy securities restricted as to sale or transfer, except for 144A securities, which are permitted
- Buy or write structured ("levered") notes
- Employ economic leverage in the portfolio through borrowing or derivatives, or engage in derivative strategies that conflict with the Derivatives Policy
- Purchase or sell foreign exchange contracts

d. Diversification and Concentration

The Program's investments will be appropriately diversified to control overall risk. The following limitations apply in order to manage risk within acceptable ranges:

- **Interest rate risk**
    - No security may have a maturity of more than 5 ½ years
- **Credit risk**
    - No more than 5% of the Program's investments, measured by market value, should be below "investment grade", i.e. rated lower than the following standards or their equivalent by all major NRSRO's
        - Standard & Poor's and Fitch (BBB-)
        - Moody's (Baa3)
    - Commercial Paper must have a rating of at least A-1, P-1, D-1, or F-1
    - The Program's investments should exhibit an average credit quality of A (or equivalent) or better. Split-rated credits are considered to have the higher credit rating as long as the higher rating is given by one of the NRSRO's
    - No more than 5% of the Program's allocation to commercial paper may be invested in any single issuer.
    - Except for securities issued by the US Treasury or Agencies of the US Government, no more than 3% of the Program's market value (exclusive of commercial paper) may be invested in any single issuer.

- **Liquidity risk**
    - No more than 10% of the Program's market value may be invested in Private Placements or Rule 144A securities
    - The Programs' investments in aggregate of any security may not exceed 20% of that security's outstanding par value, without a written exception approved by the ~~Treasurer~~Chief Investment Officer.

Subject to the limitations above, the investment manager has complete discretion with regard to choosing sector weights, issuers, and maturities.

e. Managers shall employ best execution. Transactions shall be directed to brokers/dealers designated by the ~~Treasurer~~Chief Investment Officer at the Manager's discretion when best execution is available.

3. Evaluation and Review

a. Policy and Guideline Review

The ~~Treasurer~~Chief Investment Officer shall review the Objectives and Guidelines at least annually, and report to the Committee on the impact of the Guidelines on the Program's performance.

b. Program performance and risk exposures shall be evaluated at multiple levels in accordance with the Objectives of the Program and individual Managers.

4. Reporting

On a quarterly basis, the ~~Treasurer~~Chief Investment Officer shall provide the following reports to the Committee:

a. A summary of Program investments and risks.
b. A summary of Program performance, on an absolute and benchmark relative basis.

Manager will be required to provide the ~~Treasurer~~Chief Investment Officer monthly and quarterly reports, including but not limited to:

a. Monthly accounting statements showing portfolio income, holdings and transactions
b. Quarterly review of portfolio and strategy performance including a market outlook
c. Annual statement of compliance with investment guidelines

5. Definitions: See Appendix 8

*****Additions shown by underscoring; deletions shown by strikethrough***

REGENTS POLICY 6110

POLICY ON DISCLOSURES REGARDING USE OF PLACEMENT AGENTS FOR UNIVERSITY OF CALIFORNIA RETIREMENT SYSTEM INVESTMENTS

Approved July 14, 2011

Each External Manager proposing an investment to be made by or on behalf of the University of California Retirement System must comply with one of the following two requirements:

(1) If the External Manager will not use any Placement Agents in connection with the proposed investment, the External Manager must provide the ~~Treasurer~~Chief Investment Officer with a written statement to that effect.

(2) If the External Manager will use a Placement Agent in connection with the proposed investment, the External Manager must disclose the following information in writing to the ~~Treasurer~~Chief Investment Officer:

- A description of the relationship between the External Manager and any Placement Agents for the investment for which funds are being raised.

- Whether the Placement Agent's mandate includes the Regents of University of California as trustee/custodian.

- A description of the services performed by the Placement Agent.

- A description of any and all payments of any kind provided or agreed to be provided to a Placement Agent by the External Manager with regard to investments by the Regents as a plan trustee or custodian of retirement or savings plan assets.

- Upon request, the resume for each officer, partner or principal of the Placement Agent detailing the person's education, professional designations, regulatory licenses, and investment and work experience.

- A statement as to whether the Placement Agent, or any of its affiliates, is registered with the Securities Exchange Commission.

- A statement as to whether the Placement Agent, or any of its affiliates, is registered as a lobbyist under California law.

The ~~Treasurer~~Chief Investment Officer will only enter into agreements to invest in or through External Managers that agree to comply with the Regents' Policy on Disclosures Regarding the

Use of Placement Agents for University of California Retirement System Investments. The ~~Treasurer~~Chief Investment Officer will rely on the written statements made by the External Manager.

For purposes of this Policy:

"External Manager" means a (i) person who is seeking to be, or is, retained by the Regents to manage a portfolio of securities or other assets for compensation or (ii) a person managing an investment fund who offers or sells, or has offered or sold, an ownership interest in the investment fund.

"Placement Agent" means a person directly or indirectly hired, engaged or retained by, or serving for the benefit of or on behalf of, an External Manager or an investment fund managed by an External Manager, who acts, or has acted, for compensation as a finder, solicitor, marketer, consultant, broker or other intermediary in connection with the offer or sale to the Regents of either the investment management services of the External Manager or an ownership interest in an investment fund managed by the External Manager. Any exceptions to this definition of "Placement Agent" available under Sections 7513.8 or Section 82047.3 of the California Government Code will apply under this Policy.

*****Additions shown by underscoring; deletions shown by strikethrough*****

REGENTS POLICY 6201

INVESTMENT POLICY FOR THE UNIVERSITY OF CALIFORNIA CAMPUS FOUNDATIONS

Approved March 19, 2009

The Regents authorizes the Committee on Investments to review the investment policies and practices of campus foundations and conduct an annual review of statements of investment policy and reports of investment performance in a format approved by the Committee on Investments, together with the annual financial reports of campus foundations as audited by certified public accountants. The ~~Treasurer~~<u>Chief Investment Officer</u> of The Regents is available to provide investment management services, without charge, for any campus foundation which requires such service.

Delegation to Campus Foundations and Statement of Policy

The Administrative Guidelines for Campus Foundations provide that each Campus Foundation Board of Directors has the duty to develop an appropriate investment policy for such Foundation. It is the policy of the Regents that each Campus Foundation shall develop and follow an appropriate investment policy, and shall act as a prudent investor in accordance with applicable law, using a portfolio approach in making investments and considering the risk and return objectives of the endowment funds. A Campus Foundation may hold and invest endowments and funds functioning as endowments on a long-term basis. All such investments must be consistent with the terms of the gift instrument. Investment operations shall be conducted in accordance with prudent, sound practices to ensure that gift assets are protected and enhanced and that a reasonable return is achieved, and with due regard for the fiduciary responsibilities of the Foundation's governing Board and the Regents. Financial activities of a Campus Foundation shall be administered and reported in accordance with prudent business practices and generally accepted accounting principles.

Reporting from Campus Foundations

The Regents' generalist investment consultant shall review investment procedures and results annually and report the findings to the Regents. The Administrative Guidelines for Campus Foundations require the following reports from the Campus Foundations to the generalist investment consultant:

- A Campus Foundation's enabling documents (e.g., articles of incorporation, bylaws, constitution) shall be provided, and any amendments shall be forwarded promptly following any revision.

- Within 90 days of the close of each fiscal year, a Campus Foundation shall submit a detailed report comparing budgeted to actual administrative expenditures by fund source.

- Copies of the Foundation's report to the State Registry of Charitable Trusts, tax returns, and a current list of Foundation officers, directors or trustees, and legal counsel shall be provided promptly each year.

- The external auditor shall furnish a copy of the audit report, including the letter to management with management's response, promptly following the completion of the audit each year.

- Copy of each Foundation's investment policy shall be provided, and any amendments thereto shall be forwarded promptly following any revision.

- A copy of each investment performance report shall be provided 45 days following the close of each quarter.

Review by Investment Consultant

The Regents' generalist investment consultant shall review, initially and at the time of any change, each Foundation's investment policy, asset allocation policy, and performance on an annual basis, including:

- Asset allocation relative to its policy, and

- Performance by asset class and relative to its benchmarks, and provide a report to the Committee on Investments annually on their findings.

- In addition, on an annual basis, beginning with the Fiscal Year 2006-2007, the Regents' investment consultant will review the written investment policies and governance structure of each Foundation to ensure that each set of written policies includes, at a minimum:

- Asset allocation target percentages,

- Ranges for each asset class,

- Policy benchmarks for each asset class and in total, and

- Investment guidelines for each asset class.

The Regents' generalist investment consultant will raise any issues of concern with the campus foundations, and subsequently, if necessary, with the Committee on Investments.

If any Foundation approves changes to its investment policy (including but not limited to asset allocation targets and policy benchmarks), it must communicate such change to the Regents' generalist investment consultant prospectively before the effective date of such change.

*****Additions shown by underscoring; deletions shown by strikethrough*****

REGENT POLICY 6301

POLICY TO EXCLUDE SECURITIES OF COMPANIES MANUFACTURING TOBACCO PRODUCTS FROM INDEX FUNDS AND TO CONTINUE EXISTING EXCLUSION FROM ACTIVELY MANAGED FUNDS

Adopted January 18, 2001

(1) The ~~Treasurer~~Chief Investment Officer, using the standards established for the Russell 3000 Tobacco Free Index and the MSCI EAFE Tobacco Free Index, shall continue the current practice of not directly investing in tobacco products companies.

(2) The Russell 3000 Tobacco Free Index and the MSCI EAFE Tobacco Free Index, which exclude the stocks of tobacco products companies, be adopted as the index funds authorized by the Asset Allocation Plan.

(3) Should the ~~Treasurer~~Chief Investment Officer determine at any time that The Regents' investment objectives are compromised by this policy, a report describing the circumstances shall be prepared by the ~~Treasurer~~Chief Investment Officer with appropriate recommendations.

*****Additions shown by underscoring; deletions shown by strikethrough*****

REGENTS POLICY 6302

POLICY ON DIVESTMENT OF UNIVERSITY HOLDINGS IN COMPANIES WITH BUSINESS OPERATIONS IN SUDAN

Approved March 16, 2006
Amended November 20, 2008 and March 19, 2009

A. Divest all shares of the following nine companies: Bharat Heavy Electricals Ltd., China Petroleum and Chemical Corp. (Sinopec), Oil & Natural Gas Co. Ltd., PECD Bhd., PetroChina Company Ltd., CNPC Hong Kong, MISC Berhad (Petronas), Lundin Petroleum, and AREF Investment Group held within separately managed equity portfolios of the University of California Retirement Plan (UCRP) and the General Endowment Pool (GEP). The proposed policy would apply to both indexed and actively managed, publicly-traded equity portfolios

B. Prohibit future purchase of shares in the above nine companies until such time as the ~~Office of the Treasurer~~<u>Chief Investment Officer</u> reports to the Committee on Investment that either there is compelling information that a company has materially improved its operation and is no longer thought to be contributing to the suffering in the Darfur region of Sudan, or that the situation in the Darfur region has improved to such a point that the prohibition on investment is no longer thought to be in the best interests of the people of Sudan.

C. Condition implementation of the proposed divestment policy upon enactment by the California legislature and signature by the Governor of legislation providing indemnification for past, present, and future individual Regents, and the University, its officers, agents, and employees, for all costs and defense of any claim arising from the decision to divest.

D. Instruct the ~~Office of the Treasurer~~<u>Chief Investment Officer</u> to contact the management of several other companies identified by the Sudan Divestment Study Group to ask them to ensure that their business operations in Sudan, while providing beneficial effects for the people of Sudan, do not inadvertently contribute to the campaign of genocide.

E. Instruct the ~~Office of the Treasurer~~<u>Chief Investment Officer</u> to report on the status of this policy to the Committee on Investments as part of the annual review of the Investment Policies for the UCRP and GEP.

F. Divest all shares held in the nine companies within an 18-month period commencing once indemnification legislation has been enacted.

G. Communicate the decision to divest shares held in the nine companies to the managers of commingled accounts in which assets of the UCRP and GEP are invested, with a request that they consider the University's stand on this issue as they make their investment decisions.

H. Communicate the decision to divest shares held in the nine companies to the Investment Committees of the Campus Foundations so that they may consider adopting similar policies for their Funds.

Attachment 18

Additions shown by underscoring; deletions shown by strikethrough

STANDING ORDER 110.2

MATTERS RELATING TO RESIDENCY

~~*Includes amendments through November 2010*~~

~~(a) The residence of each student shall be determined in accordance with the rules governing residence prescribed by the provisions of Sections 68000, 68011-68012, 68014-68018, 68022-68023, 68040-68044, but excluding the words "classified as a nonresident seeking reclassification" from Paragraph 1 and substituting the words "seeking classification" and excluding Paragraph 3 of Section 68044; 68050, 68060-68062, but excluding the words "including an unmarried minor alien" from 68062(h); 68070-68075.5, 68076-68078, 68083, 68085, amended to read: "Notwithstanding any other provisions, a student who resides in California and is 19 years of age or under at the time of enrollment, and who is currently a dependent or ward of the state through California's child welfare system, or was served by California's child welfare system and is no longer being served either due to emancipation or aging out of the system, shall be entitled to a resident classification as long as he or she remains continuously enrolled"; and 68133-68134 of the Education Code of the State of California. Each nonresident student at the University of California shall pay a nonresident tuition fee for each term of attendance at the University, except that such fee, with the approval of the President of the University, may be remitted or waived in whole or in part in the case of any student who qualifies as a graduate student with a distinguished record, a foreign student, a teaching assistant or teaching fellow, or a research assistant; or in the case of a nonresident student who is an unmarried dependent son or daughter under age twenty-one, or a spouse or registered domestic partner of a member of the University faculty who is a member of the Academic Senate. A student who is a spouse or registered domestic partner or child of a resident law enforcement officer or fire fighter killed on active duty shall be exempted from nonresident tuition and mandatory systemwide fees in accordance with Section 68120 and 68120.5 of the Education Code of the State of California. A student who is the child or dependent of a deceased or disabled veteran, or who is the dependent of or the surviving spouse who has not remarried or registered domestic partner (who has not subsequently married or registered as a domestic partner) of any member of the California National Guard who was killed or permanently disabled while in active service of the state, shall not be exempted from nonresident tuition fees, but may be exempted from mandatory systemwide fees in accordance with Section 66025.3 of the Education Code of the State of California. A student meeting the requirements of Section 68130.5 of the Education Code of the State of California shall be exempt from paying nonresident tuition. For purposes of defining financial independence pursuant to Section 68044, a student shall be considered "financially independent" if the applicant: a) is at least 24 years of age by December 31 of the year the applicant requests residence classification; b) is a veteran of the U.S. Armed Forces; c) is a ward of the court or both parents are dead; d) has legal~~

~~dependents other than a spouse or registered domestic partner; e) is married, or in a registered domestic partnership, or a graduate student or professional student, and will not be claimed as an income tax deduction by any individual other than his or her spouse or domestic partner for the tax year immediately preceding the request for residence classification; or is a single undergraduate student, and was not claimed as an income tax deduction by his or her parents or any other individual for the two years immediately preceding the request for residence classification, and demonstrates self-sufficiency for two years. The student is considered self-sufficient if he or she had total income and other resources of at least $4,000. The two years used to demonstrate self-sufficiency are the two years immediately preceding the request for residence classification. Nonresident tuition fees shall be payable at the time of registration.~~

~~(b) A student classified as a nonresident shall retain that status until that student makes application in the form prescribed by the University and has been reclassified.~~

~~(c) A student classified as a resident shall be classified as a nonresident whenever there are found to exist circumstances which would have caused that student to be classified as a nonresident. If the cause of incorrect classification is due to any concealment of facts or untruthful statements, the student shall be required to pay all tuition fees which would have been charged but for such erroneous classification and shall be subject also to appropriate University discipline.~~

~~(d) Out-of-State Employees and Non-University Employees at Los Alamos and Lawrence Livermore National Laboratories (LANL and LLNL)~~

~~(1) An individual who is a full-time University employee assigned to work outside the State of California, or the dependent child, spouse, or registered domestic partner of such an employee, shall be entitled to resident classification for tuition purposes.~~

~~(2) So long as the University continues to participate as a member of a limited liability company holding the contract for the management of LANL or LLNL, an individual who is an employee of such company, or a dependent child, spouse, or registered domestic partner of such an employee, shall be entitled to resident classification for tuition purposes to the same extent as if the employee were an employee of the University assigned to work outside of California.~~

~~(3) An individual who is a full-time employee of the University assigned to work at LANL or elsewhere outside of California, or who is a full-time employee of a company described in (2) above in which the University is a principal, and who transfers without a break in service to full-time University employment within the state of California, shall be entitled to resident classification for tuition purposes. Any dependent child, spouse or registered domestic partner of such an employee also would be entitled to resident classification for tuition purposes.~~

~~a. An individual who is a full-time University employee at LANL or LLNL, or any dependent child, spouse or registered domestic partner of such an employee, and who is enrolled as a student in a degree-granting program at a UC campus at such time as the University contract to manage LANL or LLNL expires and the University's participation in the management of LANL or LLNL ceases, shall be exempted from payment of nonresident tuition fees for the remainder of the current quarter or semester.~~

~~(4) The General Counsel of The Regents may implement this Standing Order by promulgating regulations in accordance therewith.~~

<u>The Regents shall establish policies governing the determination of California residence for purposes of University of California's tuition and fees and the exemption or waiver of such tuition and fees. The President, in consultation with the General Counsel of The Regents, shall implement such policies by establishing all necessary regulations.</u>

POLICY ON RESIDENCY

1. The residence of each student at the University of California shall be determined in accordance with rules governing residence as set forth below. (All statutory references herein, unless otherwise noted, are to the California Education Code.)

   A. Legislative Matters: Legislative intent, Legal action, and Applicability to the University: as provided in Sections 68000, 68133, and 68134.

   B. Residence Procedures: Student classification; Information and evidence concerning residence; Oath or affirmation; Person administering oath or affirmation; Nonresident not obtaining residence as a result of maintaining continuous attendance; and Nonresident tuition: as provided in Sections 68040-68043, and 68050.

   C. Residence Definitions: "Institution"; "District"; "District governing board"; "Governing board"; "Parent"; "Student"; "Continuous attendance"; "Resident"; "Nonresident"; "Resident classification"; "Residence determination date": as provided in Sections 68011-68012, 68014-68018, and 68022-68023.

   D. Physical Presence and Intent: Every person has a residence; Residence of persons who are married or 18 years of age; Determination of place of residence: as provided in Sections 68060-68062.

   E. Financial Independence: Rules and regulations concerning student's classification:

      (1) As provided in Section 68044, but excluding the words "classified as a nonresident seeking reclassification" from Paragraph 1 and substituting the words "seeking classification," and excluding Paragraph 3 of Section 68044.

      (2) In addition to the provisions of Section 68044, as amended by this policy, a student shall be considered financially independent if the applicant:

         a. is at least 24 years of age by December 31 of the year the applicant requests residence classification;

         b. is a veteran of the U.S. Armed Forces;

         c. is a ward of the court or both parents are dead;

         d. has legal dependents other than a spouse or registered domestic partner;

e. is married, or in a registered domestic partnership, or a graduate student or professional student, and will not be claimed as an income tax deduction by any individual other than his or her spouse or domestic partner for the tax year immediately preceding the request for residence classification; or

f. is a single undergraduate student, and was not claimed as an income tax deduction by his or her parents or any other individual for the two years immediately preceding the request for residence classification, and demonstrates self-sufficiency for two years. The two years used to demonstrate self-sufficiency are the two years immediately preceding the request for residence classification.

2. Each nonresident student at the University shall pay a nonresident tuition fee for each term of attendance at the University, except that such fee, with the approval of the President of the University, may be remitted or waived in whole or in part in the case of any student who qualifies as a graduate student with a distinguished record, a foreign student, a teaching assistant or teaching fellow, or a research assistant; or in the case of a nonresident student who is an unmarried dependent son or daughter under age twenty-one, or a spouse or registered domestic partner, of a member of the University faculty who is a member of the Academic Senate.

3. The following exceptions shall grant students a resident classification for purposes of tuition and fees:

A. Minor under age 18 who is a student who remains in California after his or her parent moves elsewhere; Self-supporting student; Minor who has not been an adult more than one year preceding residence determination date; Student under care of adult: as provided in Sections 68070-68073.

B. Dependent of member of the Armed Forces; Member of Armed Forces; Armed Forces members; Remaining in state following discharge: as provided in Sections 68074-68075.5.

C. Dependent of California resident of more than one year; Parent residing in California for one year and contributing court-ordered support for student: as provided in Section 68076.

D. Graduate of California school operated by the United States Bureau of Indian Affairs: as provided in Section 68077.

E. Student holding credential; Other conditions: as provided in Section 68078.

F. Amateur student athlete in training at a U.S. Olympic Training Center: as provided in Section 68083.

G. Student 19 years of age or under; Current or former dependent or ward of state: as provided in Section 68085, amended to read: "Notwithstanding any other provisions, a student who resides in California and is 19 years of age or under at the time of enrollment, and who is currently a dependent or ward of the state through California's child welfare system, or was served by California's child welfare system and is no longer being served either due to emancipation or aging out of the system, shall be entitled to a resident classification as long as he or she remains continuously enrolled."

Attachment 20

POLICY ON WAIVER OF TUITION AND FEES

1. The University of California shall exempt students from tuition and/or fees or waive tuition and/or fees, as set forth below. (All statutory references herein, unless otherwise noted, are to the California Education Code.)

   A. Tuition and fees excused; Surviving spouses or children of employed or contracted law enforcement and fire suppression personnel: a student who is the surviving spouse or registered domestic partner or child of a resident law enforcement officer or fire fighter killed on active duty shall be exempted from nonresident tuition and mandatory systemwide fees in accordance with Section 68120.

   B. Dependents, children, or surviving spouse of deceased or disabled veterans: a student who is the child or dependent of a deceased or disabled veteran, or who is the dependent of or the surviving spouse who has not remarried or registered domestic partner (who has not subsequently married or registered as a domestic partner) of any member of the California National Guard who was killed or permanently disabled while in active service of the state, shall not be exempted from nonresident tuition fees, but may be exempted from mandatory systemwide fees in accordance with Section 66025.3.

   C. Nonresident tuition at California State University and California Community Colleges; Payment exemptions; Requirements: as provided in Section 68130.5 (AB 540).

   D. Students who have obtained a “T” or “U” nonimmigrant visa and otherwise would meet the requirements of Section 68130.5 shall be exempt from paying nonresident tuition at the University until they are eligible to establish a resident classification pursuant to Regents Policy 3401.

   E. In the case of out-of-state employees and non-University employees at Los Alamos and Lawrence Livermore National Laboratories (LANL and LLNL):

      (1) An individual who is a full-time University employee assigned to work outside the State of California, or the dependent child, spouse, or registered domestic partner of such an employee, shall be entitled to resident classification for tuition purposes.

      (2) So long as the University continues to participate as a member of a limited liability company holding the contract for the management of LANL or LLNL, an individual who is an employee of such company, or a dependent child, spouse, or registered domestic partner of such an employee, shall be entitled to resident classification for tuition purposes to the same extent as

if the employee were an employee of the University assigned to work outside of California.

(3) An individual who is a full-time employee of the University assigned to work at LANL or elsewhere outside of California, or who is a full-time employee of a company described in (2) above in which the University is a principal, and who transfers without a break in service to full-time University employment within the State of California, shall be entitled to resident classification for tuition purposes. Any dependent child, spouse or registered domestic partner of such an employee also would be entitled to resident classification for tuition purposes.

(4) An individual who is a full-time University employee at LANL or LLNL, or any dependent child, spouse or registered domestic partner of such an employee, and who is enrolled as a student in a degree-granting program at a UC campus at such time as the University contract to manage LANL or LLNL expires and the University's participation in the management of LANL or LLNL ceases, shall be exempted from payment of nonresident tuition fees for the remainder of the current quarter or semester.

Attachment 21

*****Deletions shown by strikethrough*****

POLICY ON SECURITY CLEARANCE FOR ACCESS TO FEDERAL CLASSIFIED INFORMATION

For the purposes of security clearance for matters involving federal classified information, the positions listed below shall be known as Key Management Personnel (KMP). These positions have authority and responsibility with respect to the entirety of the University and, included therein, for the negotiating, execution, and administration of United States Government contracts as described in the National Industrial Security Program Operating Manual (NISPOM). In such positions, a KMP ordinarily has access, absent exclusion, to all information in possession of the University, including classified information and/or special nuclear material. Pending issuance of the required access authorization, a KMP shall be excluded from all access to classified information and/or special nuclear material and shall not participate in any decision or other matter pertaining to the protection of classified information and/or special nuclear material.

- Ex-Officio Regents – the Governor, Lieutenant Governor, Speaker of the Assembly, Superintendent of Public Instruction, President and Vice President of the Alumni Associations of the University of California, and the President of the University of California;

- Regents appointed by the Governor;

- Student Regent appointed by the Regents;

- Faculty representatives – the Chair and Vice Chair of the Academic Council;

- The Principal Officers of The Regents – the Secretary and Chief of Staff, the Chief Investment Officer and Vice President for Investments, the General Counsel and Vice President for Legal Affairs, and the Senior Vice President - Chief Compliance and Audit Officer, including such deputies, associates and assistants of the Principal Officers as are designated Officers of the Corporation by the Principal Officers in their respective areas of responsibility pursuant to Bylaw 20.2; and

- Certain other Officers of the University – the Provost and Executive Vice President for Academic Affairs, and the Executive Vice President for Business Operations.

Any individual appointed or assuming a KMP position shall be immediately excluded by resolution of the Board from access to classified information and shall not participate in any decision or other matter pertaining to the protection of classified information and/or special nuclear material until receipt of the required access authorization, unless such individual currently possesses a personnel security clearance at the level of the University's facility clearance.