A. ***University of California Retirement Plan Asset Allocation Review and Recommendations***

The Committee recommended that the amendments to Appendix One of the University of California Retirement Plan Investment Policy Statement be adopted as shown in Attachment 4, effective April 1, 2013.

B. ***Amendment of Investment Policy Statements of the University of California Retirement Plan and the General Endowment Pool to Establish Investment Guidelines for Opportunistic Equity Strategies and Cross Asset Class Strategies***

The Committee recommended that the Investment Guidelines for Opportunistic Equity Strategies and Cross Asset Class Strategies, (as shown in Attachments 5 and 6) be approved for addition to the Appendices to Investment Policy Statements of the University of California Retirement Plan and the General Endowment Pool, effective April 1, 2013.

Upon motion of Regent Gould, duly seconded, the recommendations of the Committee on Investments were approved.

10. **REPORT OF THE SPECIAL COMMITTEE TO CONSIDER THE SELECTION OF A PRESIDENT**

The Committee presented the following from its meeting of March 13, 2013:

Criteria for Selection of the President of the University

LEADERSHIP

The President of the University of California must be a visionary leader with the judgment, creativity, and courage to enhance the quality and reputation of the University as one of the preeminent public research universities in the world. The President represents the University in its role as an international, national, and state exemplar in the education policy arena. The President will inspire public support of the University in its three missions of education, research, and public service, and demonstrate a commitment to excellence, diversity and inclusion, affordability, and accessibility. To provide this leadership, the President must understand and have demonstrated support for outstanding scholarship and possess the highest intellectual capacity; have extraordinary communication skills; exhibit the leadership qualities necessary to instill the highest ethical standards and conduct throughout the University; have the experience and reputation to command the respect of all the University's constituents; and maintain limitless energy and enthusiasm, courage, and stamina. The new President will have the capacity to lead change; have the ability to listen to those affected and make a decision; and the dexterity to identify a path forward and motivate others to follow. The President will have a vision for where the University is going (e.g. global innovations; application and uses of new and different technologies; social, economic, and health challenges), as well as the ability to be the face of the University and a strong spokesperson who will explain to all Californians why the University is of particular importance to the social, political, and economic vibrancy of the State.

MANAGEMENT

The quality and complexity of the University, a multi-dimensional, public research, land-grant institution which includes ten campuses, five academic medical centers, the management of three distinguished national laboratories, and an agricultural division with operations in all 58 counties in California, requires a President who has the ability to attract and retain an exceptional, dedicated, and ethical management team whose members come from prestigious careers in both the public and private sectors. In a cooperative environment, the President will develop and implement long-range plans and policies and build teams across the University system. The President should have a proven ability and commitment to attract, promote, maintain, and support staff, as demonstrated by leadership of an organization with best practices in recruitment, retention, and financial support for staff professional development. The President needs to exhibit a comprehension of the magnitude and complexity of the University's financial environment and be able to utilize the resources available to the University effectively and efficiently. This includes recognizing that UC, and public universities in general, have seen a gradual, but continued and significant reduction in financial support by the state over many years. The President must be innovative in addressing this constraint through private fundraising and creative revenue generation, administrative and educational delivery efficiencies, and many other solutions in order to maintain the mission and excellence of the University of California. The ability to provide an affordable education for students within this overall financial environment is a critical component. To provide management excellence, the President must be able to inspire, mobilize, and consult effectively with the chancellors, faculty, students, staff, and alumni; guide the accurate allocation of authorities and responsibilities between the campuses and the Office of the President; be committed to the University's tradition of shared governance with the Academic Senate; have respect for the collective bargaining process; and execute timely and full consultation on issues of concern to the Regents while recognizing the appropriate division of authority between the Board of Regents and the administration.

EXPERIENCE

These necessary leadership and management skills will be most effective in a President who has demonstrated an ability to anticipate and direct change; who has experience interacting successfully with both state and federal government, and is able to establish effective relationships with the Governor, the Legislature, federal officials, and all government agencies important to the success of the University, as well as with other public policymakers and California's business community; who has the ability to increase public and private funding for the University; who has served as an effective representative and speaker in a variety of public settings; who has the ability to communicate effectively with the public and the media, the capacity to inspire all of UC's internal constituent groups, the political acumen to develop, sustain, and encourage effective working relationships with the Regents, policymakers, the press, and stakeholder groups, including those who may oppose or be critical of administrative actions, and the intellectual stature to command the respect of the faculty.

Upon motion of Regent Lansing, duly seconded, the recommendation of the Special Committee to Consider the Selection of a President was approved.

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

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

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

A. ***Change in Personnel Program for Thomas McAfee, Dean – Clinical Affairs and President of the Medical Group, San Diego Campus***

Background to Recommendation

Approval was requested to transfer the position of Dean – Clinical Affairs and President of the Medical Group, San Diego campus, held by Thomas McAfee, from the Senior Management Group (SMG) to the Academic Personnel Program, effective January 1, 2013.

Administrative oversight of the faculty practice continues to be a part of Mr. McAfee's position, but he has also assumed academic responsibilities. Mr. McAfee's position now has a much greater emphasis on the campus educational and research missions, with a clinical and teaching component involving clinical rounds, presentation at conferences, clinical teaching at the School of Medicine and other scholarly activities including publications. Mr. McAfee's position also has an academic administrative component which includes participation in the Health Science Academic Compliance Group and a faculty mentorship program. His position and current responsibilities are more closely aligned with that of clinical faculty than the SMG.

Mr. McAfee's position is comparable to the positions held by the UCLA CEO for the Faculty Practice Group and Executive Vice President of the Health System, and the UC Davis Director of the Practice Management Board. Both these individuals hold salaried faculty appointments with respect to their faculty practice leadership roles rather than SMG positions.

This action is intended to achieve consistency with Mr. McAfee's peers who are classified within the Academic Personnel Program and governed by the academic personnel policies and to recognize the primarily academic nature of his role.

Funding for this position will come exclusively from Practice Plan and Clinical funds. No State or UC general funds will be used.

Recommendation

The following items were approved in connection with the change in personnel program for Thomas McAfee, Dean – Clinical Affairs and President of the Medical Group, San Diego campus:

(1) Change in personnel program of Thomas McAfee as Dean – Clinical Affairs and President of the Medical Group from the Senior Management Group to the Academic Personnel Program. This action includes moving Mr. McAfee out of the current Market Reference Zone structure to an appropriate salary grade in the academic structure in effect at the San Diego campus.

(2) Beginning with the 2012-13 plan year, Mr. McAfee will no longer be a participant in the Clinical Enterprise Management Recognition Program (CEMRP). To be consistent with his peers, he will be eligible to participate in the Health Sciences Compensation Plan (HSCP). Mr. McAfee's "Z" component of HSCP is negotiated as a true incentive with objectives that will be completely aligned with the objectives of the CEMRP.

(3) Concurrent with this action, all Senior Management Group benefits, including senior management life insurance, executive salary continuation for disability, and participation in the Senior Management Supplemental Benefit Program will be terminated.

(4) All other employment, compensation, benefits and other human resources related actions for Mr. McAfee will be governed by Academic Personnel Policies.

(5) This action is effective January 1, 2013.

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 San Diego Chancellor Khosla**
Reviewed by: **President Yudof**
Committee on Compensation Chair
Office of the President, Human Resources

B. ***Establishment of a New Position in the Senior Management Group: Associate Vice President – Chief Procurement Officer, Office of the President***

Background to Recommendation

Action under interim authority was requested to approve the establishment of a new position within the Senior Management Group: Associate Vice President – Chief Procurement Officer. This position will be in Level Two of the Senior Management Group; authority for appointment and compensation is delegated to the President within certain parameters.

The benchmark percentiles for the proposed Market Reference Zone (MRZ) for the position of Associate Vice President – Chief Procurement Officer are as follows: 25th percentile – $234,000, 50th percentile – $274,000, 60th percentile – $298,000, 75th percentile – $333,000, and 90th percentile – $378,000. The sources used to establish the proposed MRZ are the Radford Executive Benchmark Survey, Towers Watson Top Management Survey, and Mercer Benchmark Database Survey.

The Associate Vice President – Chief Procurement Officer will report directly to the Executive Vice President – Chief Financial Officer. The Associate Vice President – Chief Procurement Officer will have primary responsibility for functional leadership of UC systemwide procurement activity including procurement strategy and planning, strategic sourcing, category management, technology, and change initiatives. The Associate Vice President – Chief Procurement Officer will provide executive leadership and guidance to the campus procurement leaders and teams to effectively develop and manage procurement across the UC system, driving value and efficiency. One of the primary responsibilities of the position will be to oversee the finalization of the strategic vision and drive the execution of the P200 program. P200, part of UC's Working Smarter Initiative, is a systemwide procurement services program whose goal is to deliver $200 million in annual cost savings within five years.

Action under interim authority was necessary as the final decision and offer to the finalist was made too late for inclusion in the January Regents meeting and the expected start date will be in advance of the March meeting.

Funding for this position will come partially or fully from State funds.

Recommendation

The following items were approved in connection with the establishment of a new position in the Senior Management Group: Associate Vice President – Chief Procurement Officer, Office of the President:

(1) Establishment of a new Senior Management Group position: Associate Vice President – Chief Procurement Officer, Office of the President. This position will be in Level Two of the Senior Management Group.

(2) The establishment of a Market Reference Zone for the position of Associate Vice President – Chief Procurement Officer with the following benchmark percentiles: 25th percentile – $234,000, 50th percentile – $274,000, 60th percentile – $298,000, 75th percentile – $333,000, and 90th percentile – $378,000.

Submitted by: **Executive Vice President – Chief Financial Officer Taylor**
Reviewed by: **President Yudof**
Committee on Compensation Chair Ruiz
Office of the President, Human Resources

C. ***Retention Salary Adjustment for Horst Simon, Deputy Laboratory Director, Lawrence Berkeley National Laboratory***

<u>Background to Recommendation</u>

Action under interim authority was requested for a retention salary adjustment for Horst Simon as Deputy Laboratory Director, Lawrence Berkeley National Laboratory (LBNL), effective upon approval.

This request for action under interim authority was in response to the immediate need to retain Mr. Simon after he received an offer with significantly higher compensation from a competing institution.

In an effort to retain Mr. Simon, the Laboratory proposed an annual base salary of $373,152 for Mr. Simon. This represents a 9.2 percent increase over his current base salary of $341,712. According to the market reference zone (MRZ) for the Associate Laboratory Director position, the 60th percentile base salary for a comparable position is $321,000, and the 75th percentile base salary for a comparable position is $372,000. The proposed base salary of $373,152 is 16.2 percent above the 60th percentile base salary, and 0.3 percent above the 75th percentile base salary.

The Deputy Laboratory Director reports to the Laboratory Director and is responsible for the overall integration of scientific goals and objectives consistent with the Director's vision and the Laboratory's mission.

Since assuming the role in September 2010, Mr. Simon has established himself as an effective and trusted Deputy Director. He has provided key support to the Laboratory Director, as well as valuable regular consultation and advice on all laboratory management issues. He has been active in the Department of Energywide group of Chief Research Officers of the National Laboratories, and he is well-regarded by the Associate Laboratory Directors and the Division Directors.

Retaining Mr. Simon is especially important given his leadership role in the planning for the Berkeley Laboratory Richmond Bay Campus, one of the most important initiatives for the future of the Laboratory. His involvement is crucial to the success of this initiative.

This position will be funded by Department of Energy (DOE) funds.

Recommendation

The following items were approved in connection with the retention salary adjustment for Horst Simon, Deputy Laboratory Director, Lawrence Berkeley National Laboratory:

(1) Continuation of the appointment of Horst Simon as Deputy Laboratory Director, Lawrence Berkeley National Laboratory at 100 percent time.

(2) An annual base salary of $373,152, which represents a 9.2 percent increase over his current base salary of $341,712.

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

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

COMPARATIVE ANALYSIS

Recommended Compensation
Effective Date: upon approval
Title: Deputy Laboratory Director
Base Salary: $373,152
Target Cash Compensation:* $373,152
MRZ: 25%: $268,000; 50%: $286,000; 60%: $321,000; 75%: $372,000; 90%: $617,000
Funding: non-State-funded

Budget &/Prior Incumbent Data:
Title: Deputy Laboratory Director
Base salary: $341,712
Target Cash Compensation:* $341,712

MRZ: 25%: $268,000; 50%: $286,000; 60%: $321,000; 75%: $372,000; 90%: $617,000
Funding: non-State-funded

* Target Cash Compensation consists of base salary, and, if applicable, incentive and/or stipend.

COMPETITIVE ANALYSIS FOR ASSOCIATE LABORATORY DIRECTOR

	MARKET REFERENCE ZONE FOR BASE SALARY				
Percentiles	25th	50th	60th	75th	90th
Market Data	$268K	$286K	$321K	$372K	$617K
% Difference From Market	39.2%	30.5%	16.2%	0.3%	-39.5%

	MARKET COMPOSITE FOR TARGET CASH COMPENSATION				
Percentiles	25th	50th	60th	75th	90th
Market Data	$273K	$286K	$320K	$372K	$1,049K
% Difference From Market	36.7%	30.5%	16.6%	0.3%	-64.4%

Survey Source: 2012 Pearl Meyer Partners Executive Senior Management Total Compensation Survey

The compensation described above shall constitute the University's total commitment until modified by the Regents, President, or Chancellor, as applicable under Regents policy and shall supersede all other 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: **Laboratory Director Alivisatos**
Reviewed by: **President Yudof**
Committee on Compensation Chair Ruiz
Office of the President, Human Resources

D. ***Retention Salary Adjustment for Terry A. Belmont as Chief Executive Officer – UC Irvine Medical Center***

Background to Recommendation

Action under interim authority was requested for a retention salary adjustment of 9.5 percent for Terry A. Belmont as Chief Executive Officer (CEO) – UC Irvine

(UCI) Medical Center, effective upon approval. The proposed adjustment will increase Mr. Belmont's annual base salary from $630,000 to $690,000, with continued participation in the Clinical Enterprise Management Recognition Plan (CEMRP).

This request for action under interim authority was in response to the immediate need to retain Mr. Belmont as he has received an offer from a health enterprise at a large public research university.

Mr. Belmont was the lowest paid of the UC Medical Center/Health System CEOs. His base salary was 12.5 percent lower than the next highest paid CEO's base salary and 24.9 percent lower than the average base salary of the four other CEOs. According to the Market Reference Zone (MRZ) for the CEO position, the market median for a comparable position is $718,000. Mr. Belmont's base salary of $630,000 was 12.3 percent below the market median. The proposed base salary of $690,000 is 3.9 percent above the market median.

With Mr. Belmont's leadership and strategic vision, the UCI Medical Center continues to flourish as a world-class academic medical center in the areas of patient quality, safety and satisfaction, all while meeting financial objectives. Mr. Belmont has played an integral leadership role in helping the UCI Medical Center move toward its goal of becoming one of the best (top 20) academic health centers in the nation for research, medical education, and excellence in patient care.

Should UCI Medical Center be unable to retain Mr. Belmont, the entire UCI health enterprise would be in jeopardy of not accomplishing its strategic goals. A vacancy in the CEO position would result in severe disruption to the UCI Medical Center's operation and service to the community.

Funding for this position will continue to come exclusively from medical center revenues. No State or UC general funds will be used.

<u>Recommendation</u>

The following items were approved in connection with the retention salary adjustment for Terry A. Belmont as Chief Executive Officer – UC Irvine Medical Center:

(1) Per policy, continued appointment of Terry A. Belmont as Chief Executive Officer – UC Irvine Medical Center at 100 percent time.

(2) Per policy, an annual base salary of $690,000 which represents a 9.5 percent increase over his current base salary of $630,000.

(3) Per policy, continued eligibility to participate in the Clinical Enterprise Management Recognition Plan, with a target award of 20 percent of base salary ($138,000) and a maximum potential award of 30 percent of base salary ($207,000). Actual award will be determined based on performance against pre-established objectives.

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

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

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

COMPARATIVE ANALYSIS

Recommended Compensation
Effective Date: upon approval
Title: Chief Executive Officer
Base Salary: $690,000
Clinical Enterprise Management Recognition Plan (CEMRP): $138,000 (at 20 percent target rate)
Target Cash Compensation:* $828,000
MRZ: 25%: $590,000; 50%: $718,000; 60%: $775,000; 75%: $861,000; 90%: $1,011,000
Funding: non-State-Funded

Budget &/or Prior Incumbent Data
Title: Chief Executive Officer
Base Salary: $630,000
Clinical Enterprise Management Recognition Plan (CEMRP): $126,000 (at 20 percent target rate)
Target Cash Compensation:* $756,000
MRZ: 25%: $590,000; 50%: $718,000; 60%: $775,000; 75%: $861,000; 90%: $1,011,000
Funding: non-State-Funded

*Target Cash Compensation consists of base salary, and, if applicable, incentive and/or stipend.

COMPETITIVE ANALYSIS FOR CHIEF EXECUTIVE OFFICER

	MARKET REFERENCE ZONE FOR BASE SALARY				
MRZ Percentiles	25th	50th	60th	75th	90th
Market Data	$590K	$718K	$775K	$861K	$1,011K
% Difference of Proposed Annual Base Salary from Market	16.9%	-3.9%	-11.0%	-19.9%	-31.8%

	MARKET COMPOSITE FOR TARGET CASH COMPENSATION				
Percentiles	25th	50th	60th	75th	90th
Market Data	$684K	$839K	$924K	$1,052K	$1,272K
% Difference of Proposed Target Cash Compensation from Market	21.1%	-1.3%	-10.4%	-21.3%	-34.9%

Survey Source: Mercer Council of Teaching Hospital and Health Systems (COTH) Custom Analysis 4a and 4b Module.

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

12. **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 February 1, 2013 and March 1, 2013.

13. **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 Compensation

A. From the President, Biannual Compensation Monitoring Reports: Certain Senior Management Positions – November 2012. (January 23, 2013)

To Members of the Committee on Finance

B. From the President, Annual Report on University Employee Housing Assistance Programs for 2011-12. (January 7, 2013)

C. From the President, Chief Financial Officer Division Office of Risk Services Annual Report for fiscal year 2011-12. (January 11, 2013)

D. From the President, Annual Report on Debt Capital and External Finance Approvals for fiscal year 2011-12. (January 30, 2013)

E. From the President, Annual Report of the Budget Expenditures for the Associates for fiscal year 2011-12. (January 30, 2013)

To the Regents of the University of California

F. From the Secretary and Chief of Staff, summaries of correspondence sent to the Regents for the month of December. (January 4, 2013)

G. From the President, letter on the 2013-14 Governor's budget proposal and its impact on the University of California. (January 10, 2013)

H. From the President, Health Sciences Compliance Annual Reports for fiscal year 2011-12. (January 15, 2013)

I. From the Secretary and Chief of Staff, summaries of correspondence sent to the Regents for the month of January. (February 1, 2013)

14. **REPEAL OF STANDING ORDER 103.6, RETIREMENT AND REAPPOINTMENT FOLLOWING RETIREMENT**

At the January 2013 meeting of the Regents of the University of California, notice was served that at their next regular meeting, the repeal of Standing Order 103.6, Retirement and Reappointment Following Retirement, would be presented for approval as shown below.

Deletions shown by strikethrough

SPECIAL PROVISIONS CONCERNING OFFICERS, FACULTY MEMBERS, AND EMPLOYEES OF THE UNIVERSITY

~~STANDING ORDER 103.6~~

~~RETIREMENT AND REAPPOINTMENT FOLLOWING RETIREMENT~~

~~103.6 Retirement and Reappointment Following Retirement.~~

~~No date of retirement is prescribed for faculty members and other employees of the University. The date of retirement for Officers and members of the University's Executive Program shall be as follows:~~

~~(a) For bona fide executives who participate in the University of California Retirement Plan and are Officers of The Regents, Officers of the University, or members of the University's Executive Program, the date of retirement shall be the July 1 coinciding with or next following the person's 67th birthday, except as provided in federal or state law.~~

~~(b) For bona fide executives who participate in the Public Employees' Retirement System and are Officers of The Regents, Officers of the University, or members of the University's Executive Program, the date of retirement shall be the July 1 coinciding with or next following the person's 70th birthday, except as provided in federal or state law.~~

~~The President may appoint on a year-to-year basis employees who have attained their applicable retirement age or retired. In special circumstances, the President may also approve multiple-year reappointments of retired faculty for up to five years at a time. No such appointment shall be in conflict with law, including federal laws relating to distribution of retirement benefits.~~

Upon motion of Regent Reiss, duly seconded, the recommendation was approved.

The meeting adjourned at 10:45 a.m.

Attest:

Secretary and Chief of Staff

Our Deliverables

As part of our service to the University, we provide advice on emerging accounting and reporting issues and provide certain other services. Refer to the table below for a listing of services we expect to provide. For 2012 these services required over 28,000 hours. Prior to commencing any other 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 financial statements of the University of California ■ Report on the financial statements 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 ■ Report on the University of California Cash Contributions to the Retirement System ■ Report on the financial statements of the newly formed University Captive Insurance Company
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 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 ■ Financial reporting observations
Committee Reporting	■ Audit and communications plan ■ Results of audits and required communications

Attachment 2

PricewaterhouseCoopers
Audit Fees

		Actual 2011	Actual 2012	Proposed 2013
	Core Audit, including expenses			
	UC	$ 3,619,000	$ 3,619,000	$ 3,685,700
	National Laboratories	62,000	62,000	64,000
		3,681,000	3,681,000	3,749,700
(1)	Required Scope Changes:			
	Recurring - see detail below	-	(58,100)	5,250
	Nonrecurring - see detail below	-	-	-
(2)	Increase		126,800	187,500
	Sub-total Core Audit Cost	3,681,000	3,749,700	3,942,450
	Expanded Scope at the National Laboratory (Berkeley)	-	-	-
	Total Audit Cost	$ 3,681,000	$ 3,749,700	$ 3,942,450

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

Scope changes	2011	2012	2013
Recurring:			
Report on UC Cash Contributions to the Retirement System			$ 5,250 (3)
Changes in audit scopes		$ (58,100) (4)	
	$ -	$ (58,100)	$ 5,250
Nonrecurring:			
	$ -	$ -	$ -
Total scope changes	$ -	$ (58,100)	$ 5,250

(2) For FY13, the University agreed to increase the fees by 5% over the FY12 fees. For FY12, the University agreed to increase the fees by 3.5% over the FY11 fees.

(3) New audit requirement was identified during FY12. During 2012, we performed the audit for FY11 for $7,500 and for FY12 for $5,000. We propose a fee increase of 5% for the FY13 audit.

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

Attachment 3

PricewaterhouseCoopers
Audit and Consulting Fees [1]
2012 and 2011

Year	Core Audit	Other Audits	Audit Related	Consulting	Ratio of Consulting to Core Audit	Ratio of Consulting to Core Audit, Other Audits and Audit Related Services
2012	3,749,700 [1]	880,122 [2]	175,208 [3]	-	0%	0%
2011	3,681,000 [1]	851,431 [2]	309,969 [3]	47,537 [4]	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) Fees related to auditing the campus foundations, ASUCLA and the cash contribution report for the Retirement System.

(3) Relates primarily to agreed upon procedure engagements, tax compliance work and CFIA audits

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

APPENDIX 1
Effective: ~~July 19, 2012~~April 1, 2013
Replaces Version Effective: ~~January 1, 2012~~July 19, 2012

**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[1]	**Long-Term Target Allocation**	**Allowable Ranges**[2] **Minimum**	**Maximum**
U.S. Equity	~~25.75~~25.0%	~~20.5~~15.0%	~~20.75~~20	~~30.75~~30
Developed Non US Equity	~~19.25~~19.0	~~19.0~~13.5	~~14.25~~14	~~24.25~~24
Emerging Mkt Equity	6.75	~~7.0~~11.0	4.75	8.75
Global Equity	2.0	~~2.0~~0.0	1.0	3.0
US Fixed Income	12.0	12.0	9.0	15.0
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~~3.0	6.0	10.0
Private Equity	7.75	8.0	4.75	10.75
Absolute Return	6.0	~~6.5~~6.0	1.0	11.0
~~Diversified~~Strategies Cross Asset Class ~~Absolute Return~~ ~~Cross Asset Class~~	2.0	~~2.0~~8.0	0.0	~~4.0~~5.0
Opportunistic Equity	0.0	8.5	0.0	3.0
Real Assets	~~1.0~~1.75	3.0	~~0.0~~0.75	~~2.0~~2.75
Real Estate	~~4.5~~4.75	7.0	~~1.5~~1.75	~~7.5~~7.75
Liquidity	0.0	0.0	0.0	10.0
TOTAL	100%	100%		

Combined Public Equity	~~53.75~~52.75	~~48.5~~39.5	~~43.75~~42.75	~~63.75~~62.75
Combined Fixed Income	25.0	~~25.0~~20.0	20.0	30.0
Combined Alternatives	~~21.25~~22.25	~~26.5~~40.5	~~14.25~~15.25	~~28.25~~29.25

1 Current Policy allocation as of January 1, 2013
2 Ranges are set around the Current Policy Allocations, not the Long-Term Target Allocations. Ranges will be adjusted accordingly as the Current Policy Allocations converge on Long-Term Target Allocations.

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 Strategies~~y~~	~~Diversified:~~ HFRX Absolute Return Index (50%) + HFRX Market Directional Index (50%)
Cross Asset Class~~Absolute Return Strategy~~	~~Cross Asset Class:~~ Aggregate UCRP Policy Benchmark
Opportunistic Equity	MSCI All Country World Index (Net Dividends)

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 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~~25%	× Russell 3000 Tobacco Free Index
~~22~~19%	× MSCI World ex-US (Net Dividends) Tobacco Free
~~5~~6.75%	× 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
8%	× Barclays Capital US TIPS Index
~~6~~7.75%	× Actual return of private equity portfolio
6%	× [HFRX Absolute Return Index × 50%] + [HFRX Market Directional Index × 50%] [Abs. Ret. - Diversified]
~~0.5~~2%	× Aggregate UCRP Policy Benchmark [Abs. Ret. - Cross Asset Class]
0%	× MSCI All Country World Index (Net Dividends)
1.75%	× Aggregate Real Assets benchmark (see section B), with components weighted by their actual weights within the total real assets portfolio
~~4~~4.75%	× 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 Chief Investment Officer to rebalance the Fund when necessary to ensure adherence to the Investment Policy.

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

The 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 Chief Investment Officer may delay a rebalancing program when the 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 7R
This version: Approved March 14, 2013; effective April 1, 2013

OPPORTUNISTIC EQUITY 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 Opportunistic Equity allocation of the Fund ("the 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

Investment Objective
The investment objective of the Opportunistic Equity Strategy is to achieve net excess returns above the MSCI All Country World Index (MSCI ACWI) Net Dividends Index, herein referred to as the Benchmark. The Benchmark is unhedged.

Investment Strategy
The investment strategy is to outperform the benchmark emphasizing investing in public equities in a differentiated way. The strategy will have fewer constraints on the portfolio as a whole, and therefore will place fewer constraints on underlying managers. It will make greater use of nontraditional approaches toward investing in equities. Portfolio construction will be a core-satellite strategy as outlined below:

<u>Core Strategies</u>

The core portion of the investment strategy will consist of equity managers whose aggregate net long exposure will range between 75% and 125%. The core component will range from 50% to 100% of the market value of the Opportunistic Equity portfolio.

The Program may utilize strategies such as: 130/30 strategies, long-biased strategies, and global (rather than U.S., Non-U.S. Developed, or Emerging Market regional) equity strategies. These core strategies will have fewer constraints and be more benchmark, style, and sector agnostic than traditional equity strategies. These strategies may have a greater tendency to be more concentrated than the typical public equity manager.

<u>Satellite Strategies</u>

The satellite component of the investment strategy will consist of niche or unique investments. The aggregate net long exposure of the satellite component will range between 50% and 150%, so long as the net long exposure of the Opportunistic portfolio as a whole is 75% to 125%. The satellite component will range between 0% and 50% of the market value of the Opportunistic Equity portfolio.

The satellite component could include the following: activist strategies, tactical or directional strategies, long/short strategies, specialty strategies (such as global small cap, emerging market small cap, country or sector specialists, frontier markets, and thematic investing), “best ideas” strategies, and overlay strategies.

2. Portfolio Construction

The construction of the Opportunistic Equity portfolio will consider the following attributes:

a. Diversification. The portfolio will be diversified in the number of stocks held, sector, country, and regional weights.
b. Differentiation. The portfolio will be constructed to ensure that there is significant differentiation relative to the benchmark and to traditional approaches toward investing in public equities. Differentiation will be achieved relative to traditional approaches to investing in public equity by using several (but not necessarily all) of the strategies listed in the section titled “Investment Strategy.” Differentiation relative to the benchmark will be achieved by maintaining a forecast active risk higher than what is typical for a long-only public equity portfolio.

3. Investment Guidelines

The Opportunistic Equity portfolio is subject to the constraints noted below. During the implementation of the Opportunistic Equity strategy, compliance with some of these guidelines may not be required.

a. Active Risk Budget: The forecast active risk will be a range of 3-6% annualized standard deviation relative to the Benchmark.
b. Beta: The Program’s beta with respect to the Benchmark will typically range between 0.75 and 1.25 over a full market cycle.
c. Market Exposure: The portfolio’s net long equity exposure will range between 75% and 125%.
d. The Opportunistic Equity portfolio will be invested in publicly traded stocks, including ETFs, ADRs, and other derivatives whose returns are derived from publicly traded stocks.
e. Managers may invest in private companies subject to limitations stated in their guidelines.
f. Non equity securities are permitted subject to the above constraints on beta and equity exposure.
g. Managers may obtain equity exposure through specialty funds, such as ETFs or commingled funds, subject to limitations in their guidelines.
h. Limits on the use of derivative instruments will be consistent with the Regents’ Derivatives Policy and will be specified in writing for each manager.
i. Fund-of-funds are permitted.
j. Investment in a single manager can represent no more than 15% of the market value of the Opportunistic Equity portfolio.
k. Investment in a single manager can represent no more than 25% of the forecast active risk of the Opportunistic Equity portfolio.
l. Country and Sector Weights: The portfolio will maintain allocations within plus or minus 15% to the U.S., Non-U.S. Developed Markets, and Emerging Markets, relative to the weights of those regions in the MSCI ACWI benchmark. The portfolio will also maintain sector weights within plus or minus 15% of the MSCI ACWI benchmark sector weights.

m. Policy ranges for the Opportunistic Equity portfolio are as follows:
    1. Core component 50-100%
    2. Satellite component 0-50%
n. Gross Exposures: The portfolio is prohibited from employing gross leverage in the aggregate portfolio in excess of 150% of the market value of the portfolio.
o. Portable alpha strategies are permitted; however, the Office of the Chief Investment Officer may not incur debt to leverage the portfolio.
p. Lock-Ups: The average lock-up period for the portfolio as a whole will not exceed one year.
q. Liquidity: A minimum of 65% of the Opportunistic Equity portfolio will offer redemptions in 90 days or less upon notification from U.C., subject to lock-up requirements.
r. Preliminary gross and net returns will be required within six days of month end. Final gross and net returns will typically be required within twenty days of month end.

4. Definitions

1. Active Risk: a measure of the difference between a portfolio or strategy and a benchmark. It takes into account the size, volatility of, and correlations between the various exposures and risk factors which differ between portfolio and benchmark.
2. Activist strategy: Activist managers acquire larger ownership stakes in companies in an effort to improve the business performance of the companies they are invested in are managed. Activism in this sense is not engaged in environmental or social investing; the emphasis here is to improve the business performance of specific companies.
3. Beta: the sensitivity of a portfolio to a benchmark, computed by regressing portfolio excess returns on benchmark excess returns from the same period. A beta of 1.0 indicates similar return variability as the benchmark. A beta of 1.2 (alternately, 0.80) indicates that for every 1% increase or decrease in the benchmark excess return, the portfolio's excess return increases or decreases by 1.2% (alternately, 0.8%).
4. Equity Exposure: the gross exposure to equity securities or securities underlying equity derivatives.
5. Forecast active risk: an estimate of the active risk of a portfolio or strategy based on the forecast volatilities and correlations among the securities or risk factors held in the portfolio as of a given date
6. Frontier markets: Equity markets not included in MSCI All Country World Index; they are considered too new or undeveloped to be included in the Emerging Market Index.
7. Gross dollar exposure is defined as the sum of the combined long exposures and the absolute value of the short exposures, including all physical and derivative securities positions.
8. Gross leverage: a term used to indicate that the gross dollar exposure of a portfolio exceeds the net market value of the total portfolio.
9. Lock-up: the period of time after making an investment with a manager during which the investor may not withdraw or redeem any of the investment.
10. Net dollar exposure (of a portfolio): the arithmetic sum of the dollar market values of all long (positive) and short (negative) positions in securities, plus the notional value of futures contracts, plus the dollar delta of options contracts.
11. Overlay strategy: a strategy intended to manage a specific risk factor, such as currency, of a group of accounts, each managed by a separate manager. The overlay is designed by

comparing the aggregate (net) exposures of underlying managers and adjusting those exposures to a pre-determined risk profile, e.g., the currency profile of the Benchmark.

12. Portable alpha strategy: an investment strategy constructed to have zero market risk (beta). Being independent of both the direction and the magnitude of the market's movements, it represents the manager's skill in selecting investments. Elimination of the market risk can be accomplished by means of short selling and derivatives such as futures, swaps, and options.
13. Realized annualized active risk: the standard deviation of the monthly differences between the portfolio return and the benchmark return, using monthly returns over a given historical period, multiplied by the square root of 12.
14. Unhedged benchmark: a benchmark in which the underlying securities' returns are translated from their local currency back to US dollars at each measurement date.

APPENDIX 7S
This version: Approved March 14, 2013; effective April 1, 2013

CROSS ASSET CLASS STRATEGIES
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 Cross Asset Class allocation of the Fund (“the 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

Investment Objective
The objective of the Cross Asset Class Strategies (CAC) portfolio is to earn an annualized return, net of all fees and expenses, that exceeds the Performance Benchmark. The performance benchmark will be a weighted average of the UCRP and GEP policy benchmarks, weighted by the asset values of the UCRP and GEP, rebalanced monthly. (See below for explanation.)

Investment Strategy
The Program will have the scope to integrate and leverage best ideas across all asset classes through the following key objectives.

1. Utilize Strategic Partners in channeling best alpha and tactical beta signals to inform the Chief Investment Officer’s asset allocation process
2. Create an innovation engine for new investment ideas
3. Enhance the potential for higher returns and diversification across the overall plan by successful integration of CAC ideas in the total plan.

Portfolio Guidelines

1. Permissible investments include funds that invest in all strategies within all geographies. Examples include: global macro, CTA, selected portfolio hedges, Relative Value strategies, Event Driven strategies, currency strategies, volatility strategies, risk parity strategies, long only strategies, specialty strategies, and managed futures.
2. In the event of market dislocations and mispricing, CAC managers are also expected to develop timely investment innovations and products to allow the Chief Investment Officer to invest in niche or specialized strategies not specifically cited in the guidelines.
3. Investments may be made in funds that manage single or multiple strategies; however the mandate will generally seek to invest with core management entities which have capabilities across multiple strategies and geographies.

This will provide the Chief Investment Officer with the ability to make timely investments in specific asset class strategies.

4. No investment (the net asset value of UC's equity stake in a strategy) with any single manager can represent more than 33% of the CAC portfolio at time of investment, until such time that the CAC allocation (to UCRP or GEP) is greater than 6% of the total market value of UCRP or GEP, respectively. After that time, no investment with any single manager can represent more than 20% of the CAC portfolio at time of investment. Exceptions to this limit may be approved by the Chair of the Committee on Investments.
5. No investment with an asset management firm may exceed 15% of that firm's total assets under management.
6. The Chief Investment Officer may not incur debt to leverage the CAC portfolio; however, portable alpha strategies are permitted.
7. No more than 50% of the total CAC portfolio risk budget may be derived from any single manager.
8. Gross accounting leverage at the aggregate portfolio level shall not exceed 2.0 times the market value of the total CAC assets. All leverage shall be non-recourse to the Regents, as trustee of UCRP, with respect to UCRP investments in the Program. All leverage shall be non-recourse to the Regents, a public corporation, with respect to GEP investments in the Program.

Note: During the initial implementation of an allocation within the plans, compliance with some of these guidelines may not be required. The Chief Investment Officer and Regent's investment consultants will monitor and inform the Committee as to the status of its compliance with these guidelines.

Definitions

Gross Accounting Leverage: the ratio of the gross dollar exposures of a portfolio divided by the net market value of the total portfolio.

Gross dollar exposure is defined as the sum of the combined long exposures and the absolute value of the short exposures, including all physical and derivative securities positions.

Gross accounting leverage of the Program is the sum of the individual manager leverage ratios, weighted by their market values.

Note on Benchmark Calculation: the performance benchmark for the CAC program is calculated as follows: (a) first compute the weighted average of all the asset class benchmarks within UCRP (and GEP), where the weights are the current policy allocations to each asset class, *excluding* CAC. (b) divide that weighted average by [100% - Percent allocation to CAC]. Then the total fund policy benchmark return (*including* CAC) is identical to the CAC benchmark return.