604
GEP INVESTMENT POLICY STATEMENT (IPS)

Committee on Investments / Investment Advisory Committee
February 15, 2005
CONTENTS

◆ REVIEW OF UCRP IPS

◆ SIMILARITIES

◆ DIFFERENCES
REASON FOR POLICY REVIEW

◆ Best practice for institutional funds
◆ IPS consolidates all Regents’ investment policies in one coherent framework
  ■ Focus is on principal investment risks and management / accountability for those risks
  ■ Dynamic document which can evolve over time
  ■ Substantial changes in Regents’ philosophy toward governance, investment strategy, and managing risk since 2000
    ◆ Closer oversight by Committee, IAC, and Office of the President
    ◆ Increased complexity in investment strategies
    ◆ Increased benchmark sensitivity
OBJECTIVE AND GOAL

◆ **IPS addresses**
  - Governance and key responsibilities
  - Investment **policies**, including development of **risk budget** and strategic asset allocation
  - Fiduciary **oversight procedures**
  - Performance **objectives**
  - Investment **guidelines** for each asset class and general guidelines for all investment managers

◆ **Focus on management of risk**
  - Committee assesses **risk tolerance** and sets overall risk budget
  - Treasurer and Consultant develop **asset allocation**, which Committee approves
  - Committee approves **budget and ranges for various risk measures**; Committee approves benchmarks
  - Treasurer implements **asset allocation within those risk limits**
SIMILARITIES / DIFFERENCES

◆ GEP IPS based on recently approved UCRP IPS
  ■ Same structure
  ■ Same text
    ◆ Change from “pension” to “endowment”
    ◆ Minor improvements suggested by OGC and Regents’ Investment Consultant

◆ Same asset allocation, different ranges
  ■ Appendix 1 and 2 only significant differences
  ■ Public Equity, Bonds, Alternatives “Interim” Allocation remain at 63/30/7% (Interim recognizes illiquidity of RE, PE)
  ■ Recommend increased upper range for Alternatives (from 25% to 40%)
  ■ Recommend decreased lower ranges for Public Equity and Bonds (from 53% to 40% and from 20% to 5%, respectively)
  ■ Recommend increased active risk budget (from 3% to 4.5%)
WHAT HAS NOT CHANGED

- Committee approves asset allocation and ranges (strategic policy”)
- Committee approves benchmarks for asset classes
- Committee approves investment guidelines for asset classes and total Fund
- Committee delegates implementation of policy to Treasurer
- Committee appoints various consultants to assist in oversight or provide expertise
- Treasurer reports to Committee quarterly on investment results and risks
- No change to overall Equity / Bond allocation of 70/30%
- No change to benchmarks (except for Private Equity)
- Essence of investment governance: to balance flexibility in use of professional judgment to implement policy by requirement to manage and control risk
  - Implicit in existing policy; now made explicit
MAJOR CHANGES - SUMMARY

- Various investment risks identified and responsibilities / accountabilities clearly defined
- Committee sets risk budget and ranges for total and active risk
- Recognition of interim allocation for purpose of setting ranges around policy weights (due to illiquid nature of PE, RE)
- Combine public equity classes (US and Non US) for purpose of setting ranges around policy weights; increase combined range from +/-7% to +10%, -23%
- Same for public bond class; increase range from +5%, -7% to +10%, -25%;
- Remove specific percentages of active versus passive management within asset classes; replaced by total Fund and asset class risk budgets
- Modify total Fund benchmark by using actual Private Equity return as benchmark; neutralizes impact of PE on active return
- Removal of various sub-optimal concentration restrictions in asset class guidelines; replaced by active risk budget for asset class
- Addition of derivatives policy and use of risk budgeting