

Office of the Chief Investment Officer

TO MEMBERS OF THE COMMITTEE ON INVESTMENTS / INVESTMENT ADVISORY GROUP:

DISCUSSION ITEM

For Meeting of February 26, 2016

UPDATE ON INVESTMENT PERFORMANCE FOR PERIODS ENDING DECEMBER 31, 2015

EXECUTIVE SUMMARY

The Office of the Chief Investment Officer managed \$95.7 billion in assets as of December 31, 2015. The Entity assets are comprised of the Endowment (\$8.8 billion), Pension (\$53.6 billion), Working Capital (\$13.7 billion = Total Return Investment Pool \$8.6 billion and Short Term Investment Pool \$5.1 billion), and Retirement Savings Program (\$19.6 billion). Performance of the Endowment, Pension, and Working Capital portfolios as of December 31, 2015 is provided below and further details are included in the respective product attachments.

GENERAL ENDOWMENT PLAN INVESTMENT PERFORMANCE FOR PERIODS ENDING DECEMBER 31, 2015

As of December 31, 2015, the Office of the Chief Investment Officer (CIO) managed \$8.8 billion in the General Endowment Pool (GEP), which decreased approximately \$100 million fiscal year to date (6 months), a 2.5 percent loss, outperforming the benchmark by 0.8 percent.

GEP Performance as of December 31, 2015 is shown in the table below:

As of December 31, 2015	Market Value in Millions (\$)	6 Months	1 Year	3 Year	5 Year	10 Year	20 Year
Endowment	\$ 8,757	-2.5	2.1	8.9	7.6	6.4	8.1
Policy Benchmark		-3.3	-0.2	6.4	5.3	5.5	7.4
Value Added		0.8	2.3	2.5	2.3	0.9	0.7
Public Equity							
U.S. Equity	1,859	-3.4	-0.1	14.5	12.0	6.9	7.6
Russell 3000 Tobacco Free Index		-1.6	0.2	14.7	12.1	7.2	8.4
Value Added		-1.8	-0.3	-0.2	-0.1	-0.3	-0.8

**COMMITTEE ON INVESTMENTS/
INVESTMENT ADVISORY GROUP
February 26, 2016**

-2-

I-2

Non-U.S. Equity	1,140	-5.9	-0.9	5.3	3.8	3.8	-
MSCI World ex-U.S. Tobacco Free		-7.3	-3.3	3.8	2.7	2.8	-
Value Added		1.4	2.4	1.5	1.1	1.0	-
Emerging Market Equity	677	-11.8	-6.5	-2.8	-1.9	4.8	-
MSCI Emerging Market		-17.4	-14.9	-6.8	-4.8	3.6	-
Value Added		5.6	8.4	4.0	2.9	1.2	-
Fixed Income							
Core	324	0.3	0.3	1.6	3.4	4.4	6.2
Barclays U.S. Aggregate Bond Index		0.7	0.5	1.4	3.2	4.5	5.7
Value Added		-0.4	-0.2	0.2	0.2	-0.1	0.5
High Yield	251	-3.8	-1.4	3.3	6.1	-	-
Merrill Lynch High Yield Cash Pay Index		-6.9	-4.6	1.6	4.8	-	-
Value Added		3.1	3.2	1.7	1.3	-	-
Emerging Market Debt	193	-1.5	-1.1	-1.3	3.5	-	-
JP Morgan Emerging Markets Bond Index		-0.5	1.2	1.0	4.8	-	-
Value Added		-1.0	-2.3	-2.3	-1.3	-	-
TIPS	198	-1.5	-0.8	-2.1	2.8	4.3	-
Barclays U.S. TIPS		-1.8	-1.4	-2.3	2.5	3.9	-
Value Added		0.3	0.6	0.2	0.3	0.4	-
Other Investments							
Private Equity	963	4.2	16.8	21.3	17.1	11.7	19.4
Actual Private Equity Returns		4.2	16.8	21.3	17.1	11.7	19.4
Value Added		0.0	0.0	0.0	0.0	0.0	0.0
Absolute Return	2,040	-3.5	-0.3	6.7	5.1	5.5	-
50% HFRX Absolute Return + 50% HFRX Market Directional		-5.1	-2.9	2.1	-0.7	3.5	-
Value Added		1.6	2.6	4.6	5.8	2.0	-
Real Estate	514	5.2	16.0	14.1	14.6	4.0	-
NCREIF ODCE Index (lagged 3 months)		7.1	14.0	12.5	13.7	3.6	-
Value Added		-1.9	2.0	1.6	0.9	0.4	-
Real Asset	203	-4.2	-16.5	1.0	0.9	-	-
Actual Portfolio Returns for Others		-3.7	-17.6	-1.3	-0.1	-	-
Value Added		-0.5	1.1	2.3	1.0	-	-
Cash	395	0.6	1.2	1.4	1.9	-	-
U.S. 2 Year Treasury Note Income Return		0.3	0.6	0.4	0.4	-	-
Value Added		0.3	0.6	1.0	1.5	-	-

**UNIVERSITY OF CALIFORNIA RETIREMENT PLAN INVESTMENT
PERFORMANCE FOR PERIODS ENDING DECEMBER 31, 2015**

The Office of the CIO managed \$53.6 billion for the University of California Retirement Plan as of December 31, 2015, which decreased \$1.4 billion fiscal year to date, a 2.8 percent loss, outperforming the benchmark by 0.3 percent.

UCRP Performance as of December 31, 2015 is shown in the table below:

As of December 31, 2015	Market Value in Millions (\$)	6 Months	1 Year	3 Year	5 Year	10 Year	20 Year
Pension	\$ 53,611	-2.8	0.7	7.4	7.1	5.5	7.5
Policy Benchmark		-3.1	-0.7	6.2	6.0	4.9	7.0
Value Added		0.3	1.4	1.2	1.1	0.6	0.5
Public Equity							
U.S. Equity	16,058	-2.2	0.4	14.6	12.1	7.0	7.7
Russell 3000 Tobacco Free Index		-1.6	0.2	14.7	12.1	7.2	8.4
Value Added		-0.6	0.2	-0.1	0.0	-0.2	-0.7
Non-U.S. Equity	9,080	-6.4	-1.7	4.8	3.5	3.5	-
MSCI World ex-U.S. Tobacco Free		-7.3	-3.3	3.8	2.7	2.8	-
Value Added		0.9	1.6	1.0	0.8	0.7	-
Emerging Market Equity	4,537	-13.4	-8.9	-3.6	-2.4	4.7	-
MSCI Emerging Market		-17.4	-14.9	-6.8	-4.8	3.6	-
Value Added		4.0	6.0	3.2	2.4	1.1	-
Fixed Income							
Core	7,208	0.3	0.6	1.6	3.6	4.7	6.4
Barclays U.S. Aggregate Bond Index		0.7	0.5	1.4	3.2	4.6	5.7
Value Added		-0.4	0.1	0.2	0.4	0.1	0.7
High Yield	1,602	-4.4	-2.0	3.1	5.9	-	-
Merrill Lynch High Yield Cash Pay Index		-6.9	-4.6	1.6	4.8	-	-
Value Added		2.5	2.6	1.5	1.1	-	-
Emerging Market Debt	1,258	-1.5	-1.1	-1.3	3.3	-	-
JP Morgan Emerging Markets Bond Index		-0.5	1.2	1.0	4.8	-	-
Value Added		-1.0	-2.3	-2.3	-1.5	-	-
TIPS	1,874	-1.5	-0.9	-2.0	2.8	4.2	-
Barclays U.S. TIPS		-1.8	-1.4	-2.3	2.5	3.9	-
Value Added		0.3	0.5	0.3	0.3	0.3	-
Other Investments							
Private Equity	2,639	4.0	11.7	15.6	14.0	10.2	18.4
Actual Private Equity Returns		4.0	11.7	15.6	14.0	10.2	18.4
Value Added		0.0	0.0	0.0	0.0	0.0	0.0
Absolute Return	3,205	-3.5	-0.3	6.7	5.1	-	-
50% HFRX Absolute Return + 50% HFRX Market Directional		-5.1	-2.9	2.1	-0.7	-	-
Value Added		1.6	2.6	4.6	5.8	-	-

Real Estate	3,237	5.3	16.9	14.2	14.6	2.5	-
NCREIF ODCE Index (lagged 3 months)		7.1	14.0	12.5	13.3	2.2	-
Value Added		-1.8	2.9	1.7	1.3	0.3	-
Real Asset	1,077	-4.3	-16.8	0.9	1.5	-	-
Actual Portfolio Returns for Others		-3.7	-17.6	-1.3	0.0	-	-
Value Added		-0.6	0.8	2.2	1.5	-	-
Cash	1,836	0.6	1.3	2.0	3.3	-	-
U.S. 2 Year Treasury Note Income Return		0.3	0.6	0.4	0.4	-	-
Value Added		0.3	0.7	1.6	2.9	-	-

WORKING CAPITAL INVESTMENT PERFORMANCE UPDATES FOR PERIODS ENDING DECEMBER 31, 2015

The Office of the CIO managed \$8.6 billion in Total Return, which increased \$1.2 billion fiscal year to date, primarily from cash inflows of about \$1.6 billion during the year. Total Return lost 2.6 percent, underperforming the benchmark by 1.0 percent as of December 31, 2015. Short-term held \$5.1 billion as of December 31, 2015, gaining 0.6 percent and outperforming its benchmark by 0.4 percent.

Working Capital Performance as of December 31, 2015 is shown in the table below:

As of December 31, 2015	Market Value in Millions (\$)	6 Months	1 Year	3 Year	5 Year	10 Year	20 Year
Total Return	\$ 8,569	-2.6	-0.2	5.4	6.5	-	-
Policy Benchmark		-1.6	-0.2	5.1	6.2	-	-
Value Added		-1.0	0.0	0.3	0.3	-	-
Equity							
U.S. Equity	1,448	-3.8	-2.1	13.7	11.6	-	-
Russell 3000 Tobacco Free Index		-1.6	0.2	14.7	12.1	-	-
Value Added		-2.2	-2.3	-1.0	-0.5	-	-
Non-U.S. Equity	1,234	-7.1	-2.8	5.7	3.9	-	-
MSCI World ex-U.S. Tobacco Free		-7.3	-3.3	5.6	3.8	-	-
Value Added		0.2	0.5	0.1	0.1	-	-
Emerging Market Equity	197	-16.4	-14.2	-	-	-	-
MSCI Emerging Market		-17.4	-14.9	-	-	-	-
Value Added		1.0	0.7	-	-	-	-
Private Growth	75	-	-	-	-	-	-
MSCI All Country World Index		-	-	-	-	-	-
Value Added		-	-	-	-	-	-
Fixed Income							
Core	3,221	0.4	0.2	1.7	4.6	-	-
Barclays U.S. Aggregate Bond Index		0.7	0.0	1.6	4.2	-	-
Value Added		-0.3	0.2	0.1	0.4	-	-

High Yield	390	-1.6	1.2	3.4	6.1	-	-
Merrill Lynch High Yield BB/B Index		-5.4	-2.9	2.2	5.3	-	-
Value Added		3.8	4.1	1.2	0.8	-	-
Emerging Market Debt	303	-0.9	0.3	-	-	-	-
JP Morgan Emerging Markets Bond Index		-0.5	1.2	-	-	-	-
Value Added		-0.4	-0.9	-	-	-	-
Private Income	358	4.9	-	-	-	-	-
Barclays U.S. Aggregate Bond Index		0.7	-	-	-	-	-
Value Added		4.2	-	-	-	-	-
Other Investments							
Absolute Return	1,037	-0.9	-0.3	-	-	-	-
HFRX Absolute Return		0.8	3.2	-	-	-	-
Value Added		-1.7	-3.5	-	-	-	-
Cash	306	0.0	0.1	-	-	-	-
U.S. 2 Year Treasury Note Income Return		0.3	0.6	-	-	-	-
Value Added		-0.3	-0.5	-	-	-	-

As of December 31, 2015	Market Value in Millions (\$)	6 Months	1 Year	3 Year	5 Year	10 Year	20 Year
Short Term	\$ 5,116	0.6	1.3	1.5	1.8	2.9	4.0
Policy Benchmark		0.2	0.4	0.3	0.3	1.5	2.9
Value Added		0.4	0.9	1.2	1.5	1.4	1.1

ATTACHMENTS:

The attached Reports on Investment Performance for the periods ending December 31, 2015 are submitted for discussion. They include:

[Attachment 1: Summary Slides](#)

[Attachment 2: Endowment Investment Performance for Periods Ending December 31, 2015](#)

[Attachment 3: Pension Investment Performance for Periods Ending December 31, 2015](#)

[Attachment 4: Retirement Savings Investment Performance for Periods Ending December 31, 2015](#)

[Attachment 5: Short-Term Working Capital Investment Performance for Periods Ending December 31, 2015](#)

[Attachment 6: Total Return Working Capital Investment Performance for Periods Ending December 31, 2015](#)