AUTHORITIES OF THE TREASURER

The Treasurer carries out all investment activities according to the policies established by the Investment Committee of The Regents of the University of California and reports directly to The Regents. The authorities delegated to the Treasurer by the Committee on Investments are as follows.

I. UNIVERSITY OF CALIFORNIA RETIREMENT PLAN (UCRP)

C **Asset Allocation:** The Treasurer is authorized to adjust the stated 75% equity ratio of the UCRP portfolio within a range of 75-60% of portfolio market value and the fixed-income portion of the portfolio within a range of 25-40% of portfolio market value, depending on market conditions and the relative total return prospects of the various asset classes.

C **Equities:** The Treasurer is authorized to purchase and sell equities consistent with The Regents’ Investment Philosophy (Attachment I) as defined in “Equity Investments” (Attachment II). The Treasurer’s Office targets investments in common stocks of global companies that have the ability to grow their earnings and dividends above market averages. Also included are premier private equity funds and select net-asset-value funds.

C **Fixed-Income Securities:** The Treasurer is authorized to purchase and sell fixed-income securities consistent with The Regents’ Investment Philosophy (Attachment I) as defined in “Fixed-Income Investments” (Attachment III). The fixed-income portfolio may contain short-, intermediate- and long-term maturities to reflect changes in expected real rates of return. The Treasurer’s Office emphasizes high-quality, global fixed-income securities with attractive real returns.

**Fund Objective:** Maximize real, long-term total return, while assuming an appropriate level of risk; ensure Plan’s ability to meet its obligations to beneficiaries by earning sufficient returns over the long term that meet or exceed the actuarial rate of return.

**Target Return:** Exceed peer group median and inflation.

**Peer Benchmarks:** CRA Balanced Fund (Linked) Median, CRA Large Plans Over $1 Billion (Linked) Median, Wilshire Large Pension Plan Median.

**Comparative Index:** 65% S&P 500, 35% Lehman Long-Term G/C/Y.
II. UNIVERSITY-MANAGED DEFINED CONTRIBUTION FUNDS
(Defined Contribution Plan, Tax-Deferred 403(b) Plan and Defined Contribution Plan After-Tax Account)

- **Equity Fund**: Investments in the Equity Fund will be primarily in large-capitalization, global, growth companies, with modest exposure to higher-return alternative equities. The Treasurer is authorized to purchase and sell equities consistent with The Regents’ Investment Philosophy (Attachment I) as defined in “Equity Investments” (Attachment II). Investment criteria will be the same as for the equity portion of the UCRP portfolio.
  
  **Fund Objective**: Maximize long-term capital appreciation with a moderate level of risk.
  **Target Return**: Exceed peer group median and inflation.
  **Peer Benchmarks**: CRA Equity Fund (Linked) Median, Morningstar Domestic Equity Funds Average.
  **Comparative Index**: S&P 500, Dow Jones Industrial Average.

- **Bond Fund**: Investments in the Bond Fund will consist primarily of investment-grade, global fixed-income securities, with not more than a 10% position in high-yield bonds. The Treasurer is authorized to purchase and sell fixed-income securities consistent with The Regents’ Investment Philosophy (Attachment I) as defined in “Fixed-Income Investments” (Attachment III). Investment criteria will be the same as for the fixed-income portion of the UCRP portfolio.
  
  **Fund Objective**: Maximize real, long-term total return through a combination of interest income and price appreciation.
  **Target Return**: Exceed peer group median and inflation.
  **Peer Benchmarks**: CRA Bond Fund (Linked) Median, Morningstar Taxable Bond Funds Average.
  **Comparative Index**: Lehman Long-Term G/C/Y.

- **Savings Fund**: Investments in the Savings Fund will be in U.S. government and U.S.-dollar-denominated foreign government securities, government agency securities and securities guaranteed by government agencies, the maturities of which may not exceed five years.
  
  **Fund Objective**: Maximize interest income, while protecting principal.
  **Target Return**: Exceed 2-Year U.S. Treasury Notes and inflation.
  **Benchmark**: 2-Year U.S. Treasury Notes.

- **Insurance Company Contract (ICC) Fund**: Investments in the ICC Fund will be insurance company contracts with select, financially sound insurance companies that are highly rated by a nationally recognized credit rating agency. The Treasurer is authorized to negotiate such contracts.
  
  **Fund Objective**: Maximize interest income, while protecting principal.
  **Target Return**: Exceed 5-Year U.S. Treasury Notes and inflation.
  **Benchmark**: 5-Year U.S. Treasury Notes.

- **Money Market Fund**: Investment in the Money Market Fund will be in authorized short-term, fixed-income securities with maturities not exceeding 13 months. The weighted average maturity of the Money Market Fund may not exceed 90 days.
  
  **Fund Objective**: Maximize interest income, while protecting principal.
  **Target Return**: Exceed 3-Month U.S. Treasury Bills.
  **Benchmark**: 3-Month U.S. Treasury Bills.
III. ENDOWMENT FUNDS

A. General Endowment Pool (GEP)

C Asset Allocation: The Treasurer is authorized to adjust the stated 75% equity ratio of the GEP portfolio within a range of 75-60% of portfolio market value and the fixed-income portion of the portfolio within a range of 25-40% of portfolio market value, depending on market conditions and the relative total return prospects of the various asset classes.

C Equities: The Treasurer is authorized to purchase and sell equities consistent with The Regents’ Investment Philosophy (Attachment I) as defined in “Equity Investments” (Attachment II). The Treasurer’s Office targets investments in common stocks of global companies that have the ability to grow their earnings and dividends above market averages. Also included are premier private equity funds and select net-asset-value funds.

C Fixed-Income Securities: The Treasurer is authorized to purchase and sell fixed-income securities consistent with The Regents’ Investment Philosophy (Attachment I) as defined in “Fixed-Income Investments” (Attachment III). The fixed-income portfolio may contain short-, intermediate- and long-term maturities to reflect changes in expected real rates of return. The Treasurer’s Office emphasizes high-quality, global fixed-income securities with attractive real returns.

Fund Objective: 
Maximize total return, while assuming an appropriate level of risk, and generate growth of principal and a growing payout stream to support endowment-funded activities.

Target Return: 
Exceed peer group median and inflation.

Peer Benchmarks: 
Cambridge Endowment Study Median, CRA Large Plans Over $1 Billion (Linked) Median, CRA Balanced Fund (Linked) Median.

Comparative Index: 
65% S&P 500, 35% Lehman Long-term G/C/Y.

B. High Income Endowment Pool (HIP)

C The Treasurer is authorized to purchase and sell equities and fixed-income securities consistent with The Regents’ Investment Philosophy (Attachment I) as defined in “Equity Investments” (Attachment II) and in “Fixed-Income Investments” (Attachment III). Emphasis will be placed on corporate and government bonds and high-yielding common stocks to produce a relatively high and stable level of current income.

Fund Objective: 
Produce a relatively high and stable level of current income, sufficient to meet the needs of the specific funds, with moderate growth of income and preservation of capital.

Peer Benchmark: 
CRA Bond Fund Median

Comparative Index: 
60% Lehman Long-Term G/C/Y, 40% S&P Utilities.

C. Separately Invested Endowment Funds

C The investment policy and objectives will be the same as those established for the General Endowment Pool, with the exception of those funds that are required to be invested under specific
instructions.

IV. SHORT TERM INVESTMENT POOL (STIP)

C The Short Term Investment Pool may be invested in authorized fixed-income securities as defined in “Fixed-Income Securities” (Attachment III), with maturities not to exceed five years.

<table>
<thead>
<tr>
<th>Fund Objective:</th>
<th>Maximize returns consistent with safety of principal, liquidity and cash-flow requirements.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Target Return:</td>
<td>Exceed 2-Year U.S. Treasury Notes and inflation.</td>
</tr>
<tr>
<td>Benchmarks:</td>
<td>2-Year U.S. Treasury Notes, 3-Month U.S. Treasury Bills, inflation.</td>
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</tbody>
</table>
REGENTS' INVESTMENT PHILOSOPHY

INVESTMENT PHILOSOPHY

- Emphasize long-term investment horizon.
- Balanced fund investing with a heavy bias toward common stocks will produce attractive returns at appropriate risk levels.
- Moderate growth stock investing, primarily in large-capitalization, global companies with above-average earnings and dividend growth, will outperform most other investment management styles.

OVERALL INVESTMENT OBJECTIVES

- Maximize real, long-term total returns (income plus appreciation adjusted for inflation), while assuming appropriate levels of risk.
- Exceed median return of peers and inflation
- **Retirement Funds**: For UCRP, produce a real return to meet obligations to beneficiaries and to meet or exceed actuarial rate of return. For University-Managed Defined Contribution Funds, meet stated investment objectives for each fund.
- **Endowed Funds**: Produce a real return sufficient to meet the needs of the endowed projects, and generate growth of principal and a growing payout stream to ensure that future funding for endowment-supported activities can be maintained in perpetuity.

OVERALL INVESTMENT STRATEGY (UCRP, GEP)

- Strategically allocate assets among short- and long-term, fixed-income securities and equities to adapt to fundamental changes in the long-term economic outlook.
- Tactically direct cash flow to purchase attractively priced, high-quality securities.
**EQUITY STRATEGY**

- Emphasize long-term investments. Hold securities as long as they continue to meet investment criteria and valuations remain reasonable.

- Concentrate investments in a diversified, yet relatively limited, number of issues to realize the benefits of superior stock selection, while recognizing liquidity constraints.

- Use the following criteria to determine the suitability of individual equity investments:
  a. Proven company with compelling strategy
  b. Above average earnings growth
  c. Positive cash flow to enhance shareholder value
  d. Returns on capital greater than cost of capital with high reinvestment rate
  e. Proven and able management
  f. High revenue growth
  g. Strong competitive position
  h. Consistent revenue and earnings capability across cycles
  i. Strong balance sheet and conservative accounting
  j. Good corporate citizenship, defined as behavior generally acceptable by community standards (Attachment IV)

**FIXED-INCOME STRATEGY**

- Emphasize total return, quality and security of income.

- Structure investment maturities to maximize return.

- Engage in bond “swaps” to improve quality and yield, while maintaining liquidity, by taking advantage of relative disparities among sectors of bonds.

- Use the following criteria to determine the suitability of individual fixed-income investments:
  a. Credit quality
  b. Attractive real return
  c. Call protection
  d. Ability to manage currency exposure
SHORT TERM INVESTMENT POOL (STIP) INVESTMENT STRATEGY

- Emphasize safety of principal, quality, liquidity and cash-flow requirements.

- Structure investment maturities to ensure adequate flow of funds to meet University's cash requirements.

- Actively engage in bond “swaps” to improve quality and yield, while maintaining liquidity, by taking advantage of relative disparities among sectors of bonds.
EQUITY INVESTMENTS

The Treasurer is authorized to purchase and sell equity securities consistent with The Regents' Investment Philosophy (Attachment I) and the Authorities of the Treasurer.

"Equity Investments" (domestic and foreign) are defined as including the following:

- **Common stocks**;
- **Convertible issues**;
- **Rule 144A securities** (private placements for qualified institutional buyers, which are not required to conform to full SEC reporting and registration requirements);
- **Foreign currencies, foreign currency contracts and foreign currency options** as a hedge against non-U.S.-dollar-denominated investments; and

- Externally Managed Equity Funds:
  - Venture capital partnerships;
  - Emerging markets investments (net asset value and private equity);
  - Warburg Pincus Asset Management, Inc. (to manage private equity distributions only).

Any other selections will be approved by The Regents.
FIXED-INCOME INVESTMENTS

The Treasurer is authorized to purchase and sell fixed-income securities consistent with The Regents' Investment Philosophy (Attachment I) and the Authorities of the Treasurer. The majority of securities purchased will have an investment grade rating.

"Fixed-Income Investments" (domestic and foreign) are defined as including the following:

C Secured and unsecured bonds and notes;

C Private placements, including Rule 144A securities (private placements for qualified institutional buyers, which are not required to conform to full SEC reporting and registration requirements);

C Mortgage-backed securities

C Commercial paper with the highest short-term rating from at least one nationally recognized credit rating agency (including paper backed by letters of credit);

C Bankers' acceptances, certificates of deposit, Eurodollar certificates of deposit and time deposits, with an issued or implied rating of "A" or better from at least one nationally recognized credit rating agency;

C Repurchase agreements with collateral that is acceptable as an authorized Regents' investment;

C Commercial money market accounts;

C Insurance company contracts negotiated with financially sound insurance companies that are highly rated by a nationally recognized credit rating agency. The purchase of such contracts will be limited to the Insurance Company Contract Fund;

C Foreign currencies, foreign currency contracts and foreign currency options as a hedge against non-U.S.-dollar-denominated investments; and

Any other selections will be approved by The Regents.
CORPORATE CITIZENSHIP

Unlike most traditional aspects of investment analysis, assessing corporate citizenship is a subjective, intangible concept. In contrast to pretax margins and return on equity, it is difficult to define public interest, and it is even more challenging to grade and measure corporate responsibility. While special interest groups tend to focus upon only one aspect of a corporation's activities (e.g., involvement in military programs or nuclear power), an objective appraisal of corporate citizenship must encompass a review of a firm's total societal involvement.

Additionally, corporate responsibility cannot be viewed in a vacuum as fiduciary obligations of a trustee require that traditional fundamental characteristics of a company receive primary attention. Moral integrity and social goodness without strong research and development capabilities, financial resources and managerial acumen, will not allow a company to have attractive returns to meet the long-term obligations of a retirement system, as well as provide a growing stream of dividends for the University's endowment funds.

Maximizing returns and conserving principal remain The Regents’ primary investment objectives, but included in The Regents’ Investment Philosophy (Attachment I) is the statement that evaluation of corporate citizenship is one of the criteria used in determining the suitability of an investment for inclusion in The Regents' portfolios. The evaluation process is as follows.

(1) The report of the independent auditor, contained in each company's annual report, is reviewed yearly to determine if improprieties have been uncovered by the outside auditors in regard to questionable payments or practices.

(2) Annual Form 10-K reports, filed with the Securities Exchange Commission, are analyzed to determine if the company has become involved in significant litigation proceedings in regard to Federal standards for affirmative action or environmental protection.

(3) Positive information is noted regarding a company's contribution to society. Most corporations devote a portion of their publications to public interest items.

(4) Corporate citizenship is reviewed and discussed in visits to and conversations with the top management of The Regents’ investments.

(5) In all new company purchase recommendations made to The Regents, a written section on corporate citizenship is included.

(6) When more detailed information on a corporate citizenship matter is necessary, requests are made in writing to the company involved.

(7) Monitor proxy issues on items dealing with social matters.
POLICIES AND PROCEDURES

I. GIFTS

The Treasurer is authorized to sell gifts of equity and fixed–income investments if those investments are not currently held in the portfolio.

Gifts of securities already owned by The Regents may be purchased for cash for the University of California Retirement Plan portfolio or for the General Endowment Pool, or may be exchanged for General Endowment Pool units. Such transactions will be reported in the investment transactions section of the Committee on Investments agenda.

II. FUNDS ADMINISTRATION

Securities may be transferred between funds at fair market value (subject to reporting such transfers in the investment transactions section of the Committee on Investments agenda).

The Treasurer will report all investment transactions to the Committee on Investments on a quarterly basis.

Third-party contracts for custody services and securities lending will be reviewed by the Committee on Investments for prior approval.

III. PROXIES

- **Proxy Policy:** In general, but with certain exceptions, proxy issues that are of a routine business management nature are voted by the Treasurer to agree with management recommendations. In cases of matters that are controversial or relate to social issues, proposals will be submitted to each Board member for an individual vote.

- **Proxy Procedures:**
  1. The Treasurer will mail upon receipt, to all members of the Board of Regents, proposals included in proxy statements related to matters of public interest.
  2. Unless Board members wish the Treasurer to vote in accordance with standing instructions*, members must notify the Treasurer of their votes in writing, to be received by the Treasurer at least ten days prior to the stockholders' meeting at which such proposal will be considered. Board members who have reason to believe that their written votes may not reach the Treasurer by the deadline may notify the Treasurer of their votes by telephone and they will be recorded. Votes made by telephone will be documented by confirming written notice to the Treasurer.
  3. The Treasurer will vote the proxy on the basis of a majority of written and telephone votes received (including standing instructions on file).
  4. Standing instructions* from individual Regents to vote for or against certain issues (e.g., for or against all shareholder proposals of a social nature) must be in writing.
5. Any proposal may be placed on the agenda of the next meeting of the Board at the request of any Regent. The Treasurer may bring to the Committee on Investments issues that are particularly controversial or complex. Attachment 3

*Amendment:* April 1, 1999 memo from General Counsel to Regents advises Regents regarding Voting of Proxies—California Political Reform Act Disqualification, resulting in revocation of all Regents’ standing instructions. Regents may elect to give the Treasurer’s Office discretion to vote their proxies, either on specific social issues or on all social issues.