REPORT OF THE INVESTMENTS COMMITTEE
March 18, 2021

PRIVATE CREDIT AS AN ASSET CLASS AND AMENDMENT OF REGENTS POLICY 6101: UNIVERSITY OF CALIFORNIA RETIREMENT PLAN INVESTMENT POLICY STATEMENT, REGENTS POLICY 6102: UC GENERAL ENDOWMENT POOL INVESTMENT POLICY STATEMENT, AND REGENTS POLICY 6111: UNIVERSITY OF CALIFORNIA RETIREMENT SAVINGS PROGRAM DEFINED CONTRIBUTION PLAN, TAX DEFERRED 403(B) PLAN, AND 457(B) DEFERRED COMPENSATION PLAN INVESTMENT POLICY STATEMENT

The Chief Investment Officer (CIO) recommends that the Regents:

1. Amend Regents Policy 6101 – UCRP Investment Policy Statement, as shown in Attachment 1.


3. Amend Regents Policy 6111 – UCRSP comprised of the 401(a) Defined Contribution Plan, Tax Deferred 403(B) Plan, and 457(B) Deferred Compensation Plan Investment Policy Statement, as shown in Attachment 3.

It is recommended that the Regents confirm, ratify, and approve all actions and that these actions be effective July 1, 2020.

Committee vote: Regents Anguiano, Drake, Leib, Makarechian, Muwwakkil, Park, Sherman, Stegura, and Zettel voting “aye.”

Board vote: Regents Butler, Cohen, Drake, Elliott, Estolano, Guber, Lansing, Leib, Makarechian, Mart, Muwwakkil, Ortiz Oakley, Park, Pérez, Reilly, Sherman, Stegura, and Sures voting “aye.”
UNIVERSITY OF CALIFORNIA RETIREMENT PLAN

[UCRP]

INVESTMENT POLICY STATEMENT

Effective: July 1, 2020
Replaces the UCRP Investment Policy Statement and UCRP Asset and Risk Allocation Policy effective March 15, 2018
POLICY SUMMARY/BACKGROUND

The purpose of this Investment Policy Statement (“Policy”) is to define the objectives, policies and guidelines for the management and oversight of the University of California (“UC”) Retirement Plan (“UCRP”). The management of UCRP is subject to state and federal regulations and laws, and all other University investment policies, which may not be listed in this document.

The Policy consists of the following sections:
1. Roles and Responsibilities
2. Objectives
3. Investment Guidelines
4. Strategic Allocation
5. Risk Management
6. Benchmarks
7. Rebalancing
8. Monitoring and Reporting
9. Policy Maintenance
10. No Right of Action
11. Disclosures

1. ROLES AND RESPONSIBILITIES

Board of Regents
The Board defines the goals and objectives of UCRP and is responsible for establishing and approving changes to this Policy. The Board of Regents may delegate the implementation of this policy to sub-committees, the Chief Investment Officer and investment advisors.

Chief Investment Officer
The Chief Investment Officer ( “Office of the Chief Investment Officer”, “OCIO”, “UC Investments”) is responsible for implementing the approved investment policies and developing investment processes and procedures for asset allocation, risk management, investment manager selection and termination, monitoring and evaluation, and the identification of management strategies that will improve the investment efficiency of UCRP assets.

Investment Managers
The OCIO may delegate to external Investment Managers responsibility for managing all or a portion of the assets. Any external Investment Managers will assume the roles and responsibilities of “investment manager” under Section 3(38) of ERISA, including but not limited to acknowledging in writing that such Investment Manager is a fiduciary with respect to the assets it manages on behalf of UCRP. The Investment Manager will accept assets and invest in compliance with all relevant laws, the Investment Manager’s individual investment management agreement(s), and as applicable, the stated investment guidelines in this Policy.

Trustee/Custodian
The role of the Trustee/Custodian is to provide safekeeping, accounting and valuation of Trust assets.
2. OBJECTIVES

Overall Objective
The objective of UCRP is to provide retirement benefits, as described in the Plan document, to its participants and their beneficiaries. The overall investment goal of UCRP is to maximize the probability of satisfying the Plan’s liabilities in conjunction with the Regents’ funding policy.

Return Objective
UCRP seeks to maximize its return on investment, consistent with levels of investment risk that are prudent and reasonable given long-term capital market expectations and the overall objectives of UCRP. The performance of UCRP will be measured relative to its objectives (e.g. actuarial rate, funded status, inflation) and policy benchmarks found in this Policy.

Accordingly, the investment objectives and strategies emphasize a long-term outlook, and interim performance fluctuations will be viewed with the corresponding perspective. The Board 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.

Risk Objective
While the Board recognizes the importance of the preservation of capital, it also recognizes that to achieve UCRP’s overall objectives requires prudent risk-taking, and that risk is the prerequisite for generating investment returns. Therefore investment risk cannot be eliminated but should be managed. Risk exposures should be identified, measured, monitored and tied to responsible parties; and risk should be taken consistent with UCRP’s objectives and the expectations for return from the risk exposures.

UCRP seeks a level of risk that is prudent and reasonable to maximize the probability of achieving its overall objective consistent with capital market conditions. The expected level of UCRP funded status volatility (i.e. surplus risk, or volatility of the change in UCRP assets relative to the change in UCRP liabilities) should be monitored and the Board seeks to minimize the probability of loss of funded status over a full market cycle.

Sustainability Objective
The Office of the Chief Investment Officer (“OCIO”) shall incorporate environmental sustainability, social responsibility, and governance (ESG) into the investment evaluation process as part of its overall risk assessment in its investments decision making. ESG factors are considered with the same weight as other material risk factors influencing investment decision making.

The OCIO uses a proprietary sustainability framework to provide core universal principles that inform the decisions and assist in the process of investment evaluation. The OCIO manages the UCRP consistent with these sustainability principles. The Framework can be found on the OCIO website in the sustainability section.
3. INVESTMENT GUIDELINES

Permitted Investments

Below is a list of asset class types in which the UCRP may invest so long as they do not conflict with the constraints and restrictions described elsewhere in this document. The criteria used to determine which asset classes may be included are:

- Positive contribution to the investment objective of UCRP
- Widely recognized and accepted among institutional investors
- Diversification with some or all of the other accepted asset classes

Based on the criteria above, the types of assets for building the portfolio allocation are:

1. **Public Equity**
   Includes publicly traded common and preferred stock of issuers domiciled in US, Non-US, and Emerging (and Frontier) Markets. The objective of the public equity portfolio is to generate investment returns with adequate liquidity through a globally diversified portfolio of common and preferred stocks.

2. **Fixed Income**
   Fixed Income includes a variety of income related asset types. The portfolio will invest in core fixed income instruments, including government and investment grade corporate bonds, inflation linked securities, cash and cash equivalents, as well as higher returning growth fixed income assets including high yield and emerging markets debt. The UCRP can hold a mix of traditional (benchmark relative) strategies and unconstrained (benchmark agnostic) strategies. The objective of the core fixed income assets is to provide diversification relative to other higher risk assets and necessary liquidity for payment obligations and portfolio rebalancing needs. The growth fixed income assets are intended to provide diversification and long term growth by investing in higher yielding and less liquid growth fixed income opportunities.

3. **Private Equity**
   Private equity includes, but is not limited to, venture capital and buyout funds, direct investments, and co-investments in private companies. This includes investments in privately held companies and private investments in public entities which are illiquid. The objective of the portfolio is to earn higher returns than the public equity markets over the long term and take advantage of the illiquidity premium.

4. **Private Credit**
   Private credit includes debt issued by and loans made to companies through privately negotiated, non-public transactions, other debt backed private structures, such as consumer or asset backed loans. The objective of the portfolio is to earn higher returns than the public debt markets over the long term and take advantage of preferential yields, terms and other characteristics available through private transactions.

5. **Real Estate**
   Real estate includes private investments in real property and related debt investments. The
objectives of the real estate portfolio are to contribute to the diversification of the portfolio, generate returns through income and/or capital appreciation, and provide protection against unanticipated inflation.

6. Real Assets
Real assets includes, but is not limited to, natural resources, timberland, energy, royalties, infrastructure, and commodities related equity and debt related investments. The objective of the real assets portfolio is to contribute to the diversification of the portfolio, generate returns through income and/or capital appreciation, and provide protection against unanticipated inflation.

7. Absolute Return
Absolute return investments are expected to generate long-term real returns by exploiting market inefficiencies. The portfolio invests in a collection of strategies that includes, but is not limited to, strategy types such as Relative Value and Event Driven strategies. The objective of the portfolio is to provide diversification and generate capital appreciation.

8. Derivatives
A derivative is a contract or security whose value is derived from another security or risk factor. There are three fundamental classes of derivatives – futures, options and swaps – each with many variations; in addition, some securities are combinations of derivatives or contain embedded derivatives. Use of derivatives to create economic leverage is prohibited, except for specific strategies only. Permitted applications for derivatives are: efficient substitutes for physical securities, managing risk by hedging existing exposures, to implement arbitrage or other approved active management strategies.

Each asset class is assigned a benchmark that represents the opportunity set and risk and return characteristics associated with the asset class. For some private or more complex asset classes the benchmark serves as a proxy for the expected level and pattern of returns rather than an approximation of the actual investment holdings.

Investment Restrictions
The Regents established that the purchase of securities issued by tobacco companies and companies with business operations in Sudan are prohibited in separately managed accounts. The OCIO will determine what constitutes a tobacco or Sudan Company based on standard industry classification of the major index providers and must communicate this list to investment managers annually and whenever changes occur.

5. STRATEGIC ALLOCATION

The purpose of the Strategic Asset Allocation (SAA) is to establish a diversified long term portfolio that is best able to achieve UCRP’s long-term purpose and objectives. The SAA will reflect investment beliefs and organizational capability of the OCIO. The actual portfolio exposures will deviate from the Strategic Asset Allocation as a result of price drifts, opportunity set, and value adding activities of the OCIO. This is underpinned by the recognition that investment opportunities come and go, values rise and fall and, that implementation must be dynamic in order to benefit from this fluctuation. This belief is critical to add value to UCRP. We follow a risk allocation process to ensure that the attractiveness of all opportunities is assessed on a consistent basis and that will meet the
The investment strategy of UCRP will be based on a financial plan that will consider:

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

Below are the strategic asset allocation long-term weights and allowable ranges:

<table>
<thead>
<tr>
<th>Table 1</th>
<th>Target Allocation</th>
<th>Allowable Ranges</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Minimum</td>
<td>Maximum</td>
</tr>
<tr>
<td>Global Equity</td>
<td>53.0</td>
<td>43.0</td>
</tr>
<tr>
<td>Core Fixed Income</td>
<td>13.0</td>
<td>10.0</td>
</tr>
<tr>
<td>High Yield Fixed Income</td>
<td>2.5</td>
<td>0.0</td>
</tr>
<tr>
<td>Emerging Markets Fixed Income</td>
<td>1.5</td>
<td>0.0</td>
</tr>
<tr>
<td>Private Credit</td>
<td>3.5</td>
<td>0.0</td>
</tr>
<tr>
<td>Private Equity</td>
<td>12.0</td>
<td>7.0</td>
</tr>
<tr>
<td>Absolute Return</td>
<td>3.5</td>
<td>0.0</td>
</tr>
<tr>
<td>Real Assets</td>
<td>4.0</td>
<td>0.0</td>
</tr>
<tr>
<td>Real Estate</td>
<td>7.0</td>
<td>2.0</td>
</tr>
<tr>
<td>Cash</td>
<td>0.0</td>
<td>0.0</td>
</tr>
<tr>
<td>TOTAL</td>
<td>100%</td>
<td></td>
</tr>
<tr>
<td>Combined Private Investments(1)</td>
<td>30.0</td>
<td>15.0</td>
</tr>
<tr>
<td>Combined Public Fixed Income(2)</td>
<td>17.0</td>
<td>10.0</td>
</tr>
</tbody>
</table>

1. Private Investments includes Private Equity, Private Credit, Real Estate, Real Assets and Absolute Return.
2. Public Fixed Income includes Core, High Yield and Emerging Markets Fixed Income

6. RISK MANAGEMENT

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 all three factors into account. 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.

Funded status risk, or the risk of a significant decline in funded position, is the ultimate aggregate risk for
UNIVERSITY OF CALIFORNIA RETIREMENT PLAN
INVESTMENT POLICY STATEMENT

UCRP. Of the three determinants of this aggregate risk (contributions, benefits and investments) investment policy and investment risk are governed by this policy. The primary investment risk for UCRP is that investment returns fall below the assumed rate of return of the UCRP over the medium to long term. The principal risk factors that determine UCRP’s investment risk, and the parties responsible for managing them are as follows:

- **Capital market risk** is the risk that the investment return associated with the asset allocation policy is not sufficient to provide the required returns to meet the UCRP’s investment objectives. Responsibility for determining the overall level of capital market risk lies with the Board and OCIO.

- **Total active risk** refers to the difference between the return of the UCRP policy benchmark and the actual return and captures the impact of implementation of the SAA policy. It incorporates the aggregate of investment style risk, active management risk, and tactical/strategic risks and is thus the responsibility of the OCIO.

The OCIO is responsible for managing both active risk and total risk (the combination of capital market and active risk), and shall implement procedures and safeguards so that the combined risk exposures of all portfolios taken together are kept within risk bands. Further, within limits of prudent diversification and risk budgets, total and active risk exposures are fungible. That is, the OCIO may allocate risk exposures within and between asset types 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 Board that are delegated to and performed by the OCIO.

7. **BENCHMARKS**

UCRP’s performance will be evaluated against appropriate benchmarks including a strategic asset allocation benchmark (“Total UCRP Portfolio Benchmark”) and specific benchmarks for each asset class and investment manager. The Total UCRP Portfolio Benchmark is a weighted average consisting of the asset class benchmarks listed below weighted by the SAA target weights. The benchmarks for each asset class are shown in Table 2:

<table>
<thead>
<tr>
<th>Asset Class</th>
<th>Benchmark</th>
</tr>
</thead>
<tbody>
<tr>
<td>Global Equity</td>
<td>MSCI All Country World Index (ACWI)</td>
</tr>
<tr>
<td></td>
<td>Investable Market Index (IMI) Tobacco and Fossil Fuel Free - Net Dividends</td>
</tr>
<tr>
<td>Core Fixed Income</td>
<td>Bloomberg Barclays 1-5 Year US Government/Credit Index</td>
</tr>
<tr>
<td>High Yield Fixed Income</td>
<td>Merrill Lynch High Yield Cash Pay Index Fossil Free</td>
</tr>
<tr>
<td>Emerging Market Fixed Income</td>
<td>JP Morgan Emerging Markets Bond Index Global Diversified Fossil Free</td>
</tr>
</tbody>
</table>
### Private Equity
Russell 3000 + 3*%

### Real Estate
NCREIF Fund Index – Open End Diversified Core Equity (ODCE) non lagged

### Real Assets
Actual Real Assets Portfolio Return

### Private Credit
Actual Private Credit Portfolio Return
75% Credit Suisse Leverage Loan Fossil Free Index + 25% Merrill Lynch High Yield BB-B Fossil Free Index +1.5%

### Absolute Return
HFRI Fund of Funds Composite

### Cash
Bank of America 3-Month US Treasury Bill Index

* The Private Equity benchmark is in transition from Russell 3000 + 2.5% for FY 2021 to Russell 3000 + 3.0% thereafter.

The **Total UCRP Portfolio Benchmark** is a weighted average consisting of each of the monthly returns of the benchmarks noted above weighted by the Policy Allocation percentages. The policy benchmarks may differ from the target allocations in Table 1 until implementation reaches the long-term strategic asset allocation.

### 8. REBALANCING

There will be periodic deviations in actual asset weights from the strategic target weights. Causes for periodic deviations are market movements, cash flows, tactical tilts, and asset selection. Significant movements from the asset class policy weights will alter the intended expected return and risk of UCRP. Accordingly, UCRP may be rebalanced when necessary to ensure adherence to this Policy.

The OCIO will monitor the actual asset allocation. The Board directs the OCIO to take all actions necessary, within the requirement to act prudently, to manage the asset allocation in a manner that ensures that UCRP achieves its long-term risk and return objectives.

The OCIO shall assess and manage the trade-off between the cost of rebalancing and the active risk associated with the deviation from policy asset weights. The OCIO may delay a rebalancing program when the it believes the delay is in the best interest of UCRP.

### 9. MONITORING AND REPORTING

The OCIO is responsible for monitoring the portfolio and investment managers on an ongoing basis. The OCIO should monitor and report to the Committee on Investments Committee, Finance and Capital Strategies Committee, and Board of Regents on the following items:

1. Asset and Risk Measures and Exposures
2. Investment Performance and Attribution (against benchmarks identified in this Policy)
3. Material Changes to Organization and Investment Strategy
4. Potential Material Issues and Risks
5. Compliance of UCRP with this Policy
While short-term results will be monitored, it is understood that UCRP’s objectives are long-term in nature and progress towards these objectives will be evaluated from a long-term perspective.
UNIVERSITY OF CALIFORNIA RETIREMENT PLAN
INVESTMENT POLICY STATEMENT

On at least an annual basis the CIO will report on the implementation of the UC’s Sustainability Framework which will include a discussion on the portfolio’s environmental, social, and governance risks considered during the year.

10. POLICY MAINTENANCE

The Policy should be reviewed at least annually and updated as necessary. The Committee on Investments may recommend action which will be placed on the Consent Agenda for approval by the Board.

11. NO RIGHT OF ACTION

This Policy is not intended to, and does not, create any right or benefit, substantive or procedural, enforceable at law or in equity by any party against the University of California or its Board of Regents, individual Regents, officers, employees, or agents.

12. DISCLOSURES

The Chief Investment Officer (“OCIO”) provides investment-related information on UCRP to The Regents’ Committee on Investments in a manner consistent with the requirements outlined in this policy. Current and historical materials are publicly available on The Regents’ website within the section on Meeting Agendas and Schedule. The Chief Investment Officer's Annual Report for the most recent fiscal year is also available on the Chief Investment Officer's website. Other disclosures that will be posted on the Chief Investment Officer’s website are:

1. A report on private equity internal rates of return is publicly available on the Chief Investment Officer's website on a lagged quarterly basis.

2. As soon as practicable after each fiscal year, a complete listing of all assets held by the UCRP at calendar year end will be posted on the 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 Chief Investment Officer

Changes to procedures and related documents do not require Regents approval, and inclusion or amendment of references to these documents can be implemented administratively by the Office of the Secretary and Chief of Staff upon request by the unit responsible for the linked documents.
UNIVERSITY OF CALIFORNIA
GENERAL ENDOWMENT POOL
[ UC ENDOWMENT ]

INVESTMENT POLICY STATEMENT

Effective: July 1, 2020
Replaces the GEP Investment Policy Statement and Asset and Risk Allocation Policy
effective March 15, 2018

*additions shown by underscoring; deletions shown by strikethrough*
POLICY SUMMARY/BACKGROUND

The purpose of this Statement of Investment Policy Statement (“Policy”) is to define the objectives, policies and guidelines for the management and oversight of the University of California (“UC”) General Endowment Pool (“GEP”). The management of GEP is subject to state and federal regulations and laws, and all other University investment policies, which may not be listed in this document. This policy reflects the Governance Framework outlined in Bylaws 22 and 23 of the University and the Finance and Capital Strategies Committee Charter.

The Policy consists of the following sections:
1. Roles and Responsibilities
2. Objectives
3. Investment Guidelines
4. Strategic Allocation
5. Risk Management
6. Benchmarks
7. Rebalancing
8. Monitoring and Reporting
9. Total Return Expenditure (Spending) Rate
10. Endowment Administration Cost Recovery
11. Policy Maintenance
12. No Right of Action
13. Disclosures

1. ROLES AND RESPONSIBILITIES

Board of Regents
The Board defines the goals and objectives of GEP and is responsible for establishing and approving changes to this Policy. The Board of Regents may delegate the implementation of this policy to sub-committees, the Chief Investment Officer and investment advisors.

Chief Investment Officer
The Chief Investment Officer (“Office of the Chief Investment Officer”, “OCIO”) is responsible for implementing the approved investment policies and developing investment processes and procedures for asset allocation, risk management, investment manager selection and termination, monitoring and evaluation, and the identification of management strategies that will improve the investment efficiency of the GEP assets.

Investment Managers
The OCIO may delegate to external Investment Managers responsibility for managing all or a portion of the assets. Any external Investment Managers will assume the roles and responsibilities of “investment manager” under Section 3(38) of ERISA, including but not limited to acknowledging in writing that such Investment Manager is a fiduciary with
respect to the assets it manages on behalf of GEP. The Investment Manager will accept assets and invest in compliance with all relevant laws, the Investment Manager’s individual investment management agreement(s), and as applicable, the stated investment guidelines in this Policy.

**Trustee/Custodian**

The role of the Trustee/Custodian is to provide safekeeping, accounting and valuation of Trust assets.

### 2. OBJECTIVES

**Overall Objective**

The GEP provides a common investment vehicle, intended to generate a stable and 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.

The overall investment objective of the GEP is to preserve and grow the purchasing power of the future stream of endowment payout for those funds and activities supported by the endowments. GEP also seeks to maintain liquidity needed to support spending in prolonged down market environments without impairing long term growth.

**Return Objective**

GEP seeks to maximize its return on investment, consistent with levels of investment risk that are prudent and reasonable given long-term capital market expectations and the overall objectives of the GEP. The performance of GEP will be measured relative to its objectives (e.g. spending, inflation growth) and policy benchmarks found in this Policy.

**Risk Objective**

While the Board recognizes the importance of the preservation of capital, it also recognizes that to achieve the GEP’s overall objectives requires prudent risk-taking, and that risk is the prerequisite for generating investment returns GEP seeks a level of risk that is prudent and reasonable to maximize the probability of achieving its overall objective consistent with capital market conditions. GEP should limit the probability of loss of capital and/or a loss of purchasing power over a full market cycle (typically 4-8 years). Another important risk objective is limiting declines in purchasing power over the spending policy’s stated rolling period of 60 months.

**Sustainability Objective**

The Office of the Chief Investment Officer shall incorporate environmental sustainability, social responsibility, and governance (ESG) into the investment evaluation process as part of its overall risk assessment in its investments decision making. ESG factors are
considered with the same weight as other material risk factors influencing investment decision making.

The Office of the Chief Investment Officer uses a proprietary sustainability framework to provide core universal principles that inform the decisions and assist in the process of investment evaluation. The Office of the Chief Investment Officer manages the GEP consistent with these sustainability principles. The Framework can be found on the Office of the Chief Investment Officer website in the sustainability section.

3. INVESTMENT GUIDELINES

Permitted Investments

Below is a list of asset class types in which the GEP may invest so long as they do not conflict with the constraints and restrictions described elsewhere in this document. The criteria used to determine which asset classes may be included are:

- Positive contribution to the investment objective of GEP
- Widely recognized and accepted among institutional investors
- Diversification with some or all of the other accepted asset classes

Based on the criteria above, the types of assets for building the portfolio allocation are:

1. **Public Equity**
   Includes publicly traded common and preferred stock of issuers domiciled in US, Non-US, and Emerging (and Frontier) Markets. The objective of the public equity portfolio is to generate investment growth with adequate liquidity through a globally diversified portfolio of common and preferred stocks.

2. **Fixed Income**
   Fixed Income includes a variety of income related asset types. The portfolio will invest in interest bearing and income based instruments such as corporate and government bonds, high yield debt, emerging markets debt, inflation linked securities, cash and cash equivalents. The portfolio can hold a mix of traditional (benchmark relative) strategies and unconstrained (benchmark agnostic) strategies. The objectives of the fixed income portfolio are to provide diversification relative to other higher risk assets and necessary liquidity for payment obligations and portfolio rebalancing needs, while investing in higher yielding and less liquid fixed income opportunities when appropriate.

3. **Private Equity**
   Private equity includes, but is not limited to, venture capital and buyout funds, direct investments, special situations and co-investments in private companies. This includes
investments in privately held companies and private investments in public entities which are illiquid. The objective of the portfolio is to earn higher returns than the public equity markets over the long term and take advantage of the illiquidity premium.

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5. **Real Estate**
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7. **Absolute Return**
   Absolute return investments are expected to generate long-term real returns by exploiting market inefficiencies. The portfolio may invest in various strategies, including, but not limited to, Relative Value, Macro and Event Driven strategies. The objective of the portfolio is to provide diversification and generate capital appreciation.

8. **Derivatives**
   A derivative is a contract or security whose value is derived from another security or risk factor. There are three fundamental classes of derivatives – futures, options and swaps – each with many variations; in addition, some securities are combinations of derivatives or contain embedded derivatives. Use of derivatives to create economic leverage is prohibited. Permitted applications for derivatives are: efficient substitutes for physical securities, managing risk by hedging existing exposures, to implement arbitrage or other approved active management strategies.

Each asset class is assigned a benchmark that represents the opportunity set and risk and return characteristics associated with the asset class. For some private or more complex asset classes the benchmark serves as a proxy for the expected level and pattern of returns rather than an approximation of the actual investment holdings.

**Investment Restrictions**
The Regents have established that the purchase of securities issued by tobacco and fossil
fuel companies and companies with business operations in Sudan are prohibited in separately managed accounts. The Chief Investment Officer will determine what constitutes a tobacco or Sudan company based on standard industry classification of the major index providers and must communicate this list to investment managers annually and whenever changes occur.

4. **STRATEGIC ALLOCATION**

The Strategic Asset Allocation (SAA) is the primary determinant of the return and risk of the portfolio. The SAA is set by the Board of Regents in consultation with the OCIO and reviewed periodically to reflect current program objectives and capital market expectations. The SAA expresses the target allocation and the allowable minimum and maximum allocations for each asset class. The actual portfolio exposures may deviate from the SAA as a result of price drifts, opportunity set, and value adding activities of the OCIO, but generally should remain within the allowable ranges Tactical asset allocation shifts within and across asset classes are permitted if those decisions are expected to add value to GEP.

Below are the strategic asset allocation long-term weights and allowable ranges:

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<thead>
<tr>
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</tr>
</thead>
<tbody>
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</tr>
<tr>
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<td>40.0</td>
</tr>
<tr>
<td>Fixed Income</td>
<td>8.0</td>
</tr>
<tr>
<td>Private Equity</td>
<td>24.0</td>
</tr>
<tr>
<td>Real Estate</td>
<td>8.0</td>
</tr>
<tr>
<td>Real Assets</td>
<td>4.0</td>
</tr>
<tr>
<td>Private Credit</td>
<td>4.0</td>
</tr>
<tr>
<td>Absolute Return</td>
<td>10.0</td>
</tr>
<tr>
<td>Cash</td>
<td>2.0</td>
</tr>
</tbody>
</table>

5. **RISK MANAGEMENT**

The primary risks to GEP are the inability to meet planned spending and deterioration in long term spending power. Total program volatility will be managed to limit these risks. The principal risk factors that determine GEP’s asset volatility, and the parties responsible for managing them are as follows:

- **Capital market risk** is the risk that the investment return associated with the asset allocation policy is 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 Board and OCIO.

- **Total active risk** refers to the volatility of the difference between the return of the GEP policy benchmark and the actual return. It incorporates the aggregate of investment style risk, active
management risk, and tactical/strategic risks and is thus the responsibility of the Chief Investment Officer.

The OCIO is responsible for managing both active risk and total risk, including both capital market and active risk, and shall implement procedures and safeguards so that the combined risk exposures of all portfolios taken together are kept within risk bands. Further, within limits of prudent diversification and risk budgets, total and active risk exposures are fungible. That is, the OCIO may allocate risk exposures within and between asset types 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 Board that are delegated to and performed by the Chief Investment Officer.

6. **BENCHMARKS**

GEP’s performance will be evaluated against appropriate benchmarks including a strategic asset allocation benchmark (“Total GEP Portfolio Benchmark”) and specific benchmarks for each asset class and investment manager. The Total GEP Portfolio Benchmark is a weighted average consisting of the asset class benchmarks listed below weighted by the SAA target weights. The benchmarks for each asset class are shown in **Table 2**:

**Table 2**

<table>
<thead>
<tr>
<th>Asset Class</th>
<th>Benchmark</th>
</tr>
</thead>
<tbody>
<tr>
<td>Global Equity</td>
<td>MSCI All Country World Index (ACWI) Investable Market Index (IMI) Tobacco and Fossil Fuel Free - Net Dividends</td>
</tr>
<tr>
<td>Fixed Income</td>
<td>Bloomberg Barclays 1-5 Year US Government/Credit Index</td>
</tr>
<tr>
<td>Private Equity</td>
<td>Russell 3000 + 3*%</td>
</tr>
<tr>
<td>Real Estate</td>
<td>NCREIF Fund Index – Open End Diversified Core Equity (ODCE)</td>
</tr>
<tr>
<td>Real Assets</td>
<td>Actual Real Assets Portfolio Return</td>
</tr>
</tbody>
</table>
| Private Credit| **Actual Private Credit Portfolio Return**  
75% Credit Suisse Leverage Loan Fossil Free Index + 25% Merrill Lynch High Yield BB-B Fossil Free Index +1.5% |
| Absolute Return| HFRI Fund of Funds Composite                                               |
| Cash          | Bank of America 3-Month US Treasury Bill Index                             |

* The Private Equity benchmark is in transition from Russell 3000 + 2.5% for FY 2021 to Russell 3000 + 3.0% thereafter.
The **Total GEP Portfolio Benchmark** is a weighted average consisting of each of the monthly returns of the benchmarks noted above weighted by the Policy Allocation percentages. The policy benchmarks may differ from the target allocations in Table 1 until implementation reaches the long-term strategic asset allocation.

7. **REBALANCING**

There will be periodic deviations in actual asset weights from the strategic target weights. Causes for periodic deviations are market movements, cash flows, tactical tilts, and asset selection. Significant movements from the asset class policy weights will alter the intended expected return and risk of the GEP. Accordingly, the GEP may be rebalanced when target weights are outside of the allowable ranges to ensure adherence to this policy.

The OCIO will monitor the actual asset allocation. The Board directs the OCIO to take all actions necessary, within the requirement to act prudently, to manage the asset allocation in a manner that ensures that the GEP achieves its long-term risk and return objectives.

The OCIO shall assess and manage the trade-off between the cost of rebalancing and the active risk associated with the deviation from policy asset weights. The Chief Investment Officer may delay a rebalancing program when the Chief Investment Officer believes the delay is in the best interest of the GEP.

8. **MONITORING AND REPORTING**

The OCIO is responsible for monitoring the portfolio and investment managers on an ongoing basis. The OCIO should monitor and report to the Investments Subcommittee, Finance and Capital Strategies Committee and Board of Regents on the following items:

1. Asset and Risk Measures and Exposures
2. Investment Performance and Attribution (against benchmarks identified in this Policy)
3. Material Changes to Organization and Investment Strategy
4. Potential Material Issues and Risks
5. Compliance of GEP with this Policy

While short-term results will be monitored, it is understood that GEP’s objectives are long-term in nature and progress towards these objectives will be evaluated from a long-term perspective.

On at least an annual basis the CIO will report on the implementation of the UC’s Sustainability Framework which will include a discussion on the portfolio’s environmental, social, and governance risks considered during the year.

9. **TOTAL RETURN EXPENDITURE (SPENDING) RATE**

The endowment spending rate provides University programs with a source of income that is perpetual, growing (at least as fast as inflation) and predictable. The spending rate should balance the needs of current and future generations (equalize real value of per unit
distributions over time), and preserve the purchasing power (real value) of the endowment, net of annual spending distributions.

The objective of the spending rate is to allow the principal or core assets to grow on a total return basis (total return = change in market value + income generated from the securities held) while "smoothing" the payout from the endowment assets in order to mitigate disruptions to the budgets of the endowed activities throughout economic and market cycles. Total return expenditure rates permit the spending of realized portfolio gains. The Spending Rate is a percent of unit value (or average unit value) distributed to programs each year and uses a smoothing formula that mediates between volatile market returns and program needs for predictable income.

The total return expenditure (spending) policy for eligible assets in the General Endowment Pool is 4.75 percent of a 60-month moving average of the market value of a unit invested in the GEP.

10. ENDOWMENT ADMINISTRATION COST RECOVERY

Endowment cost recovery is taken from the endowment payout each year and is used to defray, in part, the cost of the campuses and at the system-wide offices of administering and carrying out the terms of the Regents’ endowments. The funds released by this mechanism are used by the campuses and the Office of the President as support for incremental fundraising activities. The endowment administration cost recovery rate of 55 basis points (0.55 percent) is to recover reasonable and actual costs related to the administration of gift assets invested in the General Endowment Pool.

11. POLICY MAINTENANCE

The Policy should be reviewed at least annually and updated as necessary. Revisions may be recommended by the OCIO, Investments Committee, Finance and Capital Strategies Committee, and approved by the Board of Regents.

12. NO RIGHT OF ACTION

This policy is not intended to, and does not, create any right or benefit, substantive or procedural, enforceable at law or in equity by any party against the University of California or its Board of Regents, individual Regents, officers, employees, or agents.

13. DISCLOSURES

The Chief Investment Officer provides investment-related information on the GEP to The Regents' Investments Subcommittee in a manner consistent with the requirements outlined in this policy. Current and historical materials are publicly available on The Regents’ website within the section on Meeting Agendas and Schedule. The Chief Investment Officer’s Annual Report for the most recent fiscal year is also available on the Chief Investment Officer's website. Other disclosures that will be posted on the Chief Investment Officer’s website are:

1. A report on private equity internal rates of return is publicly available on the Chief Investment Officer's website on a lagged quarterly basis.

2. As soon as practicable after each fiscal year, a complete listing of all assets held by the
GEP at calendar year end will be posted on the 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 Chief Investment Officer.

Changes to procedures and related documents do not require Regents approval, and inclusion or amendment of references to these documents can be implemented administratively by the Office of the Secretary and Chief of Staff upon request by the unit responsible for the linked documents.
UNIVERSITY OF CALIFORNIA RETIREMENT SAVINGS PROGRAM
DEFINED CONTRIBUTION PLAN, TAX DEFERRED 403(b) PLAN, and 457(b) DEFERRED COMPENSATION PLAN

INVESTMENT POLICY STATEMENT

Effective: July 1, 2020
Replaces the UCRSP Investment Policy Statement effective March 15, 2018
Approved March 15, 2018
Replaces version approved July 23, 2015
POLICY SUMMARY/BACKGROUND

The purpose of this Investment Policy Statement (“Policy” or “IPS”) is to define the objectives, policies, and guidelines established for the management and oversight of the investments of the University of California (“UC”) Retirement Savings Program (“UCRSP”). UCRSP is comprised of the 401(a) Defined Contribution Plan, Tax-Deferred 403(b) Plan, and 457(b) Deferred Compensation Plan. The management of UCRSP is subject to state and federal regulations and laws, and all other University investment policies, which may not be listed in this document.

The Policy consists of the following sections:

1. Roles and Responsibilities
2. Objectives
3. Investment Guidelines
4. Monitoring and Reporting
5. Policy Maintenance
6. No Right of Action
7. Disclosures

This policy reflects the Governance Framework outlined in Bylaws 22 and 23 of the University and the Finance and Capital Strategies Committee Charter.

The Chief Investment Officer (or “Office of the Chief Investment Officer”) is responsible for implementing the approved investment policies and developing investment processes and procedures for asset allocation, risk management, investment manager selection and termination, monitoring and evaluation, and the identification of management strategies that will improve the investment efficiency of RSP assets.

1. ROLES AND RESPONSIBILITIES

Board of Regents
The Board of Regents (“Board”) defines the goals and objectives of UCRSP and is responsible for establishing and approving changes to this Policy. The Board may delegate the implementation of this policy to sub-committees, the Chief Investment Officer and investment advisors.

Chief Investment Officer
The Chief Investment Officer (Office of the Chief Investment Officer”, “OCIO”, “UC Investments”) is responsible for implementing the approved investment policies and developing investment processes and procedures for asset allocation, risk management, investment manager selection and termination, monitoring and evaluation, and the identification of management strategies that will improve the investment efficiency of UCRSP assets.

Retirement Savings Program Advisory Committee
The Retirement Savings Program Advisory Committee (“RSPAC”) obtains feedback from the University community on RSP and to discuss coordination of issues that arise between the administrative and investment functions. RSPAC is comprised of the Chief Investment Officer, the Plan
Administrator (UC Human Resources), and other members who serve at the request of the Executive Vice President – Chief Operating Officer (COO). RSPAC is responsible to assess services provided by vendors, reviews fees and expenses, provides input on the annual report and may retain consultants to review administrative and investment performance.

Investment Managers
The OCIO may delegate to external Investment Managers responsibility for managing all or a portion of the assets. The Investment Manager will accept assets and invest in compliance with all relevant laws, the Investment Manager’s individual investment management agreement(s), and as applicable, the stated investment guidelines in this Policy.

Trustee/Custodian
The role of the Trustee/Custodian is to provide safekeeping, accounting and valuation of Trust assets.

Recordkeeper
The role of the recordkeeper is to process and track participants’ transactions, investment selections, and account information. The recordkeeper may also help the UC with participant communications, website access to account information, and customer service.

2. OBJECTIVES

Overall Objective
The objective of UCRSP is to ensure the Program provides participants the opportunity to invest their assets among a broad range of investment alternatives in order to create portfolios appropriate to their investment and savings needs. The fund options shall enable participants and beneficiaries to achieve a diversified portfolio with aggregate risk and return characteristics appropriate for them.

Sustainability Objective
The OCIO shall incorporate environmental sustainability, social responsibility, and governance (ESG) into the investment evaluation process as part of its overall risk assessment in its investments decision making. ESG factors are considered with the same weight as other material risk factors influencing investment decision making.

The OCIO uses a proprietary sustainability framework to provide core universal principles that inform the decisions and assist in the process of investment evaluation. The OCIO manages the UCRSP consistent with these sustainability principles. The Framework can be found on the OCIO website in the sustainability section.

3. INVESTMENT GUIDELINES

To achieve the foregoing objectives, the Program offers participants and beneficiaries a broad range of investment options spanning the following three tiers.

TIER 1: UC Pathway Funds (Target Date Funds)
UCRSP will offer target date funds that may invest in a mix of actively and/or passively managed underlying investment strategies, with each target date fund addressing a different time-horizon. The UC Pathway Funds should have a glidepath profile that is appropriate for the Plan based on certain characteristics of the Plan. The construction and implementation of the glidepath may be delegated to an external Investment Manager.
TIER 2: Core Fund Options
UCRSP may offer passively and actively managed fund options in a range of asset classes that provide diversification opportunities, with appropriate fees and risk levels. Participants may select one or more of these investment options to build a portfolio that reflects their desired risk and return profile.

TIER 3: Self Directed Brokerage
The Self Directed Brokerage option available through UC’s selected recordkeeper platform allows participants or beneficiary to invest in investment options outside the UCRSP fund options.

4. MONITORING AND REPORTING
The OCIO is responsible for monitoring the portfolio and investment managers within the Target Date Funds and Core Fund Options on an ongoing basis. The OCIO should monitor and report to the Committee on Investments, Finance and Capital Strategies Committee and Board of Regents on the following items:

1. Investment Performance and Attribution
2. Material Changes to Organization and Investment Strategy
3. Potential Material Issues and Risks
4. Compliance of UCRSP with this Policy

5. POLICY MAINTENANCE
The Policy should be reviewed at least annually and updated as necessary. The Committee on Investments may recommend action which will be placed on the Consent Agenda for approval by the Board.

6. NO RIGHT OF ACTION
This policy is not intended to, and does not, create any right or benefit, substantive or procedural, enforceable at law or in equity by any party against the University of California or its Board of Regents, individual Regents, officers, employees, or agents.

7. DISCLOSURES
The OCIO provides investment-related information on UCRSP to the Board’s Committee on Investments in a manner consistent with the requirements outlined in this policy. Current and historical materials are publicly available on The Regents’ website within the section on Meeting Agendas and Schedule. The Chief Investment Officer's Annual Report for the most recent fiscal year is also available on the Chief Investment Officer's website.

6. POLICY TEXT
The Board has designated the Office of the Chief Investment Officer (OCIO) as the primary fiduciary for investment functions of RSP, including the selection of asset classes and Fund Options and the monitoring of investment performance.

All transactions undertaken on behalf of the Fund Options are undertaken solely in the interests of the Program’s participants and their beneficiaries.
The Regents have delegated responsibilities to the OCIO as follows:

a. Develop and implement criteria for selecting appropriate asset classes and specific Fund Options within those classes for the Program, after consultation with the Retirement Savings Program Advisory Committee (“RSPAC”) and the appropriate constituent groups in the University community.

b. Create and implement a process to monitor and evaluate the Program’s investment structure and the Fund Options and, based on such periodic evaluations and consultation with appropriate parties, make changes to either the asset classes or Fund Options.

e. Select investment professionals (“managers”) with demonstrated experience and expertise who are responsible for managing specific portfolios.

d. Select fund options as needed to provide the required diversification within an asset class, taking into account value and fees.

e. Establish and implement procedures for the selection, monitoring, evaluation, and termination of investment managers.

The Regents have delegated responsibilities to the RSPAC as follows:

RSPAC was established by the Regents to obtain feedback from the University community on RSP and to discuss coordination of issues that arise between the administrative and investment functions. RSPAC is comprised of the Chief Investment Officer (CIO), the Plan Administrator (UC Human Resources), and other members who serve at the request of the Executive Vice President—Chief Operating Officer (COO). RSPAC includes representatives from the Office of the CIO, Office of the COO, and the Office of the General Counsel. External consultants are invited to provide advice and counsel on an as-needed basis. Members serve on RSPAC without compensation. An appointed committee member can resign at any time.

RSPAC responsibilities include:

- Assessing the quality of services provided by vendors against established criteria and/or benchmarks;
- Reviewing Program fees and expenses;
- Providing input on the annual report to the Regents;
- Retaining consultants necessary to assist in reviewing administrative and investment performance.

5. —

6. — The RSP Investment Policy Statement will be updated as necessary. Revisions may be recommended by the Office of the Chief Investment Officer, Investments Subcommittee, Finance & Capital Strategies Committee or RSPAC, and approved by Board of Regents.

PROCEDURES AND RELATED DOCUMENTS

Investment Managers and Fund Options
Investment Implementation Manual

Changes to procedures and related documents do not require Regents approval, and inclusion or amendment of references to these documents can be implemented administratively by the Office of the Secretary and Chief of Staff upon request by the unit responsible for the linked documents.