

\*Approved\*

**REPORT OF THE INVESTMENTS COMMITTEE**

May 14, 2021

**AMENDMENT OF REGENTS POLICY 6110: UNIVERSITY OF CALIFORNIA BLUE AND GOLD ENDOWMENT INVESTMENT POLICY AND RESCISSION OF REGENTS POLICY 6405: UNIVERSITY OF CALIFORNIA BLUE AND GOLD ENDOWMENT ASSET AND RISK ALLOCATION POLICY**

The Chief Investment Officer recommends that the Investments Committee recommend that the Regents:

- A. Amend Regents Policy 6110 – University of California Blue and Gold Endowment Investment Policy Statement, as shown in Attachment 1.
- B. Rescind Regents Policy 6405 –University of California Blue and Gold Endowment Asset and Risk Allocation Policy, as shown in Attachment 2.

These amendments are retroactively effective July 1, 2020.

Committee vote: Regents Anguiano, Cohen, Leib, Muwwakkil, Park, Pérez, Sherman, and Stegura voting “aye.”

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

**\*Additions shown by underscoring; deletions shown by strikethrough\***

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# **UNIVERSITY OF CALIFORNIA BLUE AND GOLD ENDOWMENT [UC BGE]**

## **INVESTMENT POLICY STATEMENT**



Effective: July 1, 2020

Replaces the BGE Investment Policy Statement and BGE Asset and Risk Allocation Policy effective November 15, 2018

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# UNIVERSITY OF CALIFORNIA BLUE AND GOLD ENDOWMENT INVESTMENT POLICY STATEMENT

## PURPOSE

The purpose of this Investment Policy Statement (“Policy” or “IPS”) is to define the objectives and policies established for the management of the investments of the University of California (“UC”) BLUE AND GOLD ENDOWMENT (BGE). The management of BGE 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

## POLICY SUMMARY/BACKGROUND

~~The purpose of this Investment Policy Statement (“Policy” or “IPS”) is to define the objectives and policies established for the management of the investments of the University of California BLUE AND GOLD ENDOWMENT (BGE). The management of BGE is subject to state and federal regulations and laws, and all other University investment policies, which may not be listed in this document. The investment policy statement consists of the following sections:~~

- ~~● Investment Objectives~~
- ~~● Payout Policy~~
- ~~● Monitoring and Reporting~~
- ~~● Conflicts of Interest~~
- ~~● Disclosures~~
- ~~● Policy Maintenance~~

~~This policy reflects the Governance Framework outlined in Bylaws 22 and 23 of the University and the Finance and Capital Strategies Committee Charter. The Board defines the goals and objectives of BGE and is responsible for establishing and approving changes to this IPS. The Finance and Capital Strategies Committee and Investments Subcommittee are responsible for establishing the Asset and Risk Allocation Policy (with Board approval), which defines the strategic asset allocation, risk tolerance, asset types, and benchmarks of the portfolio.~~

~~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 BGE assets.~~

# UNIVERSITY OF CALIFORNIA BLUE AND GOLD ENDOWMENT INVESTMENT POLICY STATEMENT

## **1. ROLES AND RESPONSIBILITIES**

### **Board of Regents**

The Board defines the goals and objectives of BGE and is responsible for establishing and approving changes to this Policy.

The Board of Regents may delegate the implementation of this policy to the Chief Investment Officer and investment advisors.

### **Chief Investment Officer**

The Chief Investment Officer (“CIO”, “OCIO”, “Office of the Chief Investment Officer” or “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 BGE assets.

### **Investment Managers**

UC Investments 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 BGE. The Investment Manager will accept assets and invest in compliance with all relevant regulations and 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**

~~BGE is an investment pool established by the Regents and is available to UC campuses and other related entities.~~ with the objective of BGE is to provide a low cost, liquid, diversified investment vehicle in which the various UC organizations may invest their long-term excess capital reserves to earn a higher return than would otherwise be expected from short-term cash management vehicles (such as TRIP and STIP). This objective is subject to risk and liquidity tolerances established with the Office of the President, Chief Financial Officer, and campuses. BGE seeks to achieve this objective by taking advantage of the economies of scale of investing a large liquid pool of assets. The pool intends to invest in the most liquid and transparent investments available that provide appropriate market exposure, at the lowest possible expense, in order to provide the opportunity for immediate withdrawal of funds by an investor with minimum impact on other investors in the pool. BGE is available to all University groups and affiliates.

### **Return Objective**

~~BGE seeks to maximize its return on investment, consistent with BGE’s overall objectives levels of investment risk as stated below that are prudent and reasonable given long-term capital market~~

## UNIVERSITY OF CALIFORNIA BLUE AND GOLD ENDOWMENT INVESTMENT POLICY STATEMENT

expectations, including liquidity maximization and expense minimization. ~~The performance of BGE will be measured relative to its objectives and policy benchmark found in the Asset and Risk Allocation Policy.~~ Subject to the risk objective below, BGE's return objective is to earn a return consistent with a portfolio allocated between public equities and high-quality bonds.

### **Risk Objective**

While the Board recognizes the importance of the preservation of capital, it also recognizes that achieving BGE'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 the BGE's objectives and the expectations for return from the risk exposures. The BGE should have a low probability of loss of capital and/or a loss of purchasing power over a full market cycle (typically four to eight years).

### **Payout Policy**

BGE will have an annual payout rate that provides investors with a source of income that is perpetual, growing, and predictable.

The objective of the payout rate is to allow BGE to grow on a total return basis while "smoothing" the payout to mitigate disruptions in the budgets of end-investors throughout economic and market cycles.

The payout rate for eligible assets in BGE is 3.75%.

### **Sustainability Objectives**

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

## **3. INVESTMENT GUIDELINES**

### **Permitted Investments**

Below is a list of asset class types in which the BGE 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 BGE
- Widely recognized and accepted among institutional investors

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## INVESTMENT POLICY STATEMENT

- Diversification with some or all of the other accepted asset classes

### **Public Equity**

Includes publicly traded common stock of issuers domiciled in U.S., Non-U.S., and Emerging Markets. The objective of the growth portfolio is to generate investment returns while maintaining high levels of liquidity and transparency through a diversified portfolio of common stocks.

### **Fixed Income**

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, inflation-linked securities, cash, and cash equivalents. The objective of the income portfolio is to provide interest income and necessary liquidity for cash flows and portfolio rebalancing needs and to diversify the risks present in the growth portfolio.

### **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.

Given the mandate for liquidity, transparency and minimal expense, a passive implementation of all assets is expected. Derivatives are expected to be used to improve liquidity and minimize tracking error to passive indices.

Each asset class is assigned a benchmark that represents the opportunity set and risk and return characteristics associated with the asset class.

### **Investment Restrictions**

The Regents have established that the purchase of securities issued by tobacco 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 purpose of the Strategic Asset Allocation (“SAA”) is to reflect BGE’s purpose and objectives, as well as the investment beliefs and organizational capability of UC Investments. The actual portfolio exposures will deviate from the Strategic Asset Allocation as a result of price drifts, opportunity set, and value-adding activities of UC Investments.

The investment strategy of BGE will incorporate the risk tolerance of the Board of Regents and the

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INVESTMENT POLICY STATEMENT**

Investments Committee, the relationship between current and projected assets, evolution of the University’s financial needs, namely BGE payout, budget, contributions, and growth expectations.

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

**Table 1**

	<b><u>Allowable Ranges</u></b>		
	<b><u>Strategic Asset Allocation</u></b>	<b><u>Minimum</u></b>	<b><u>Maximum</u></b>
<b><u>Global Equity</u></b>	<b><u>80%</u></b>	<b><u>60%</u></b>	<b><u>90%</u></b>
<b><u>Fixed Income</u></b>	<b><u>20%</u></b>	<b><u>10%</u></b>	<b><u>40%</u></b>
<b><u>Total</u></b>	<b><u>100%</u></b>		

**5. RISK MANAGEMENT**

The primary risks to BGE are the inability to meet planned spending and/or the inability to return capital to the owners of BGE assets. The principal factors that determine BGE’s asset volatility and the parties responsible for managing them are as follows:

Capital market risk is the risk that the investments decline in value or do not create a positive real rate of return over a full market cycle. Responsibility for determining the overall level of capital market risk lies with the Board at the recommendation of the Investments Committee. The implementation of this risk is the responsibility of the Chief Investment Officer, who will employ a passive investment program.

Liquidity risk is the risk that investments cannot be liquidated in time to meet requested redemption requests.

Although the management of investment portfolios may be outsourced, investment oversight and risk management are primary fiduciary duties of the Board of Regents that are delegated to and performed by the Chief Investment Officer.

**Tracking Error:** BGE shall be managed so that its annualized tracking error budget shall not exceed 100 basis points. This budget is consistent with the ranges around the combined asset classes and incorporates asset/sector allocation and security selection differences from the aggregate benchmark.

**Liquidity Risk:** BGE shall be managed so that at least 20% of its total assets can be liquidated within three business days.

UC Investments is responsible for managing both total risk and liquidity risk as well as other portfolio risk including foreign exchange risk and credit risk. UC Investments shall implement procedures and safeguards so that the combined risk exposures of all portfolios taken together are kept within limits appropriate to the BGE’s risk tolerance.

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**6. BENCHMARKS**

BGE’s performance will be evaluated against appropriate benchmarks including a strategic asset allocation benchmark (“Total BGE Portfolio Benchmark”) and specific benchmarks for each asset class and investment manager. The Total BGE 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**

<b><u>Asset</u></b>	<b><u>Benchmark</u></b>
<b><u>Public Equity</u></b>	<u>MSCI All Country World Index (ACWI) Investable Market Index (IMI) Tobacco and Fossil Free - Net Dividends</u>
<b><u>Fixed Income</u></b>	<u>Bloomberg Barclays 1-5 Year US Government/Credit Index</u>

The **Total Portfolio Benchmark** is a weighted average consisting of each of the monthly returns of the benchmarks noted above weighted by the Strategic Asset Allocation percentages.

**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 BGE. Accordingly, BGE may be rebalanced when necessary to ensure adherence to this policy and the Investment Policy.

UC Investments will monitor the actual asset allocation. The Board directs UC Investments to take all actions necessary, within the requirement to act prudently, to implement the asset allocation in a manner that ensures that BGE achieves its risk and return objectives.

UC Investments shall assess and manage the trade-off between the cost of rebalancing and the active risk associated with the deviation from Strategic Asset Allocation weights. The Chief Investment Officer may delay a rebalancing program when the Chief Investment Officer believes the delay is in the best interest of BGE.

**8. MONITORING AND REPORTING**

The ~~OCIO~~ UC Investments is responsible for monitoring the portfolio and investment managers on an ongoing basis. UC Investments should monitor and report to the Investments Committee and Board of Regents on the following items.

1. Asset Allocation and Risk Allocation Measures and Exposures
2. Investment Performance and Attribution (against benchmarks identified in ~~the BGE Asset and Risk Allocation Policy~~ this Policy)

# UNIVERSITY OF CALIFORNIA BLUE AND GOLD ENDOWMENT INVESTMENT POLICY STATEMENT

3. Material Changes to Organization and Investment Strategy
4. Potential Material Issues and Risks

While short-term results will be monitored, it is understood that BGE's objectives are long-term in nature and progress toward 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. POLICY MAINTAINANCE**

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

## **10. 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.

## **11. DISCLOSURES**

The Chief Investment Officer provides investment-related information on BGE to the Regents' Investments Committee in a manner consistent with the requirements outlined in this policy. Current and historical materials are publicly available on the Regents' website. The Chief Investment Officer's Annual Report for the most recent fiscal year is also available on the Chief Investment Officer's UC Investments website.

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.

### ~~PROCEDURES AND RELATED DOCUMENTS~~

~~BGE Asset and Risk Allocation Policy  
Investment Implementation Manual\*~~

~~\*Changes to the Investment Implementation Manual do not require Regents approval, and inclusion or amendment of references to these documents can be implemented administratively by the Office of the Chief Investment Officer.~~

**\*Additions shown by underscoring; deletions shown by strikethrough\***

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## Regents Policy 6405: University of California Blue and Gold Endowment Asset and Risk Allocation Policy

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Adopted November 15, 2018

### ~~POLICY SUMMARY/BACKGROUND~~

The purpose of this Asset and Risk Allocation Policy (Policy) is to define the asset types, strategic asset allocation, risk management, benchmarks, and rebalancing for the University of California BLUE AND GOLD ENDOWMENT (BGE).

### ~~POLICY TEXT ASSET CLASS TYPES~~

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

- ~~Positive contribution to the investment objective~~
- ~~Widely recognized and accepted among institutional investors~~
- ~~Low cross-correlations with some or all of the other accepted asset classes~~
- ~~Highly liquid~~
- ~~Highly transparent~~
- ~~Available at minimal expense~~

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

#### ~~1. Growth~~

~~Includes publicly traded common stock of issuers domiciled in U.S., Non-U.S., and Emerging Markets. The objective of the growth portfolio is to generate investment returns while maintaining high levels of liquidity and transparency through a diversified portfolio of common stocks.~~

#### ~~2. Income:~~

~~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, inflation-linked securities, cash, and cash equivalents. The objective of the income portfolio is to provide interest income and necessary liquidity for cash flows and portfolio rebalancing needs and to diversify the risks present in the growth portfolio.~~

#### ~~3. 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.~~

~~Given the mandate for liquidity, transparency, and minimal expense, a passive implementation of all assets is expected. Derivatives are expected to be used to improve liquidity and minimize tracking error to passive indices.~~

Each asset class is assigned a benchmark that represents the opportunity set and risk and return characteristics associated with the asset class.

## RISK MANAGEMENT

Three principal factors affect BGE's financial status: 1) budget use, 2) payout, and 3) investment performance. The level of risk tolerance will take account of all three factors. At certain levels of assets and a given payout policy, it could be possible that the investments do not achieve the necessary performance to meet the spending budget. The result would be that either payout policy, use in budget, or risk tolerance would have to be changed.

There are different types of risk tied to various responsible parties at each level of BGE investment management. Thus, different risk metrics are appropriate at each level.

The principal risks that impact the BGE, and the parties responsible for managing them are as follows:

- Capital market risk is the risk that the investments decline in value or do not create a positive real rate of return over a full market cycle. Responsibility for determining the overall level of capital market risk lies with the Board at the recommendation of the Investments Subcommittee. The implementation of this risk is the responsibility of the Chief Investment Officer who will employ a passive investment program.
- Liquidity risk is the risk that investments cannot be liquidated in time to meet requested redemption requests.

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. The Chief Investment Officer shall report on risk exposures and the values of the several risk measures to the Board.

Product level (Board, Investments Subcommittee, and Office of the Chief Investment Officer)

- Payout Risk (insufficient assets to meet planned payout)
  - Measures the risk of inappropriate investment policy and strategy
  - Loss of purchasing power and loss of capital
- Total Investment Risk (volatility of total return)
  - Measure the risk of asset allocation policy

Implementation level (Office of the Chief Investment Officer)

- Active Risk or "Tracking Error" (volatility of deviation from style or benchmark)
  - Measures the risk of unintended exposures or ineffective implementation
  - If passive implementation is used, active risk also captures tracking error caused by asset allocation deviations from the strategic allocation
- Liquidity Risk

Risk Measures:

Tracking Error: BGE shall be managed so that its annualized tracking error budget shall not exceed 100 basis points. This budget is consistent with the ranges around the combined asset classes and incorporates asset / sector allocation and security selection differences from the aggregate benchmark.

Liquidity Risk: BGE shall be managed so that at least 20% of its total assets can be liquidated within 3 business days.

The Office of the Chief Investment Officer (OCIO) is responsible for managing 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.

**STRATEGIC ALLOCATION**

The purpose of the Strategic Asset Allocation is to reflect BGE's purpose and objectives, as well as the 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.

The investment strategy of BGE will incorporate the risk tolerance of the Board, Finance and Capital Strategies Committee, and the Investments Subcommittee, the relationship between current and projected assets, evolution of the University's financial needs, namely BGE payout, budget, contributions, and growth expectations.

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

Table 1

	Strategic Asset Allocation	Allowable Ranges	
		Minimum	Maximum
Growth	70%	60%	80%
Income	30%	20%	40%
Total	100%		

The program will invest primarily in liquid, low cost, marketable securities.

**BENCHMARKS**

The following criteria have been adopted for the selection of benchmark indices. It is understood that not all benchmarks will meet the entire list of criteria, but ideally, benchmarks that meet most of the criteria will be selected. There may be instances where tradeoffs are made between benchmarks that meet some of the criteria but not others.

1. Unambiguous: the names and weights of securities comprising the benchmark are clearly delineated.
2. Investable: is possible to replicate the benchmark performance by investing in the benchmark holdings.
3. Measurable: it is possible to readily calculate the benchmark's return on a reasonably frequent basis.
4. Appropriate: the benchmark is consistent with investment preferences or biases.
5. Specified in Advance: the benchmark is constructed prior to the start of an evaluation period.
6. 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.

Benchmarks are a tool against which to measure the effectiveness of investment strategy either at a total fund level, at an asset class or strategy level, or at the mandate level. Based on the benchmark selection criteria, the following strategic policy benchmarks have been chosen:

Table 2

Asset Class	Benchmark
Growth	MSCI All Country World Index (ACWI)- Investable Market Index (IMI) Tobacco- Free – Net Dividends
Income	Bloomberg Barclays US Aggregate Index

The Total Portfolio Benchmark is a weighted average consisting of each of the monthly returns of the benchmarks noted above weighted by the Strategic Asset Allocation percentages.

#### 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 BGE. Accordingly, BGE may be rebalanced when necessary to ensure adherence to this policy and the Investment 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 implement the asset allocation in a manner that ensures that BGE achieves its 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 Strategic Asset Allocation weights. The Chief Investment Officer may delay a rebalancing program when the Chief Investment Officer believes the delay is in the best interest of BGE.

#### COMPLIANCE/DELEGATION

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

#### 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.

#### PROCEDURES AND RELATED DOCUMENTS

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# UNIVERSITY OF CALIFORNIA BLUE AND GOLD ENDOWMENT INVESTMENT POLICY STATEMENT

## PURPOSE

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- Policy Maintenance

This policy reflects the Governance Framework outlined in Bylaws 22 and 23 of the University and the Finance and Capital Strategies Committee Charter. The Board defines the goals and objectives of BGE and is responsible for establishing and approving changes to this IPS. The Finance and Capital Strategies Committee and Investments Subcommittee are responsible for establishing the Asset and Risk Allocation Policy (with Board approval), which defines the strategic asset allocation, risk tolerance, asset types, and benchmarks of the portfolio.

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# UNIVERSITY OF CALIFORNIA BLUE AND GOLD ENDOWMENT INVESTMENT POLICY STATEMENT

## 1. ROLES AND RESPONSIBILITIES

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### Trustee/Custodian

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

## 2. OBJECTIVES

### Overall Objective

BGE is an investment pool established by the Regents and is available to UC campuses and other related entities. with the objective of BGE is to provide a low cost, liquid, diversified investment vehicle in which the various UC organizations may invest their long term excess capital reserves to earn a higher return than would otherwise be expected from short term cash management vehicles (such as TRIP and STIP). This objective is subject to risk and liquidity tolerances established with the Office of the President, Chief Financial Officer, and campuses. BGE seeks to achieve this objective by taking advantage of the economies of scale of investing a large liquid pool of assets. The pool intends to invest in the most liquid and transparent investments available that provide appropriate market exposure, at the lowest possible expense, in order to provide the opportunity for immediate withdrawal of funds by an investor with minimum impact on other investors in the pool. BGE is available to all University groups and affiliates.

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### **Payout Policy**

~~BGE will have an annual payout rate that provides investors with a source of income that is perpetual, growing, and predictable.~~

~~The objective of the payout rate is to allow BGE to grow on a total return basis while "smoothing" the payout to mitigate disruptions in the budgets of end investors throughout economic and market cycles.~~

~~The payout rate for eligible assets in BGE is 3.75%.~~

### **Sustainability Objectives**

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

## **3. INVESTMENT GUIDELINES**

### **Permitted Investments**

~~Below is a list of asset class types in which the BGE 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 BGE~~
- ~~● Widely recognized and accepted among institutional investors~~

# UNIVERSITY OF CALIFORNIA BLUE AND GOLD ENDOWMENT

## INVESTMENT POLICY STATEMENT

- Diversification with some or all of the other accepted asset classes

### Public Equity

Includes publicly traded common stock of issuers domiciled in U.S., Non-U.S., and Emerging Markets. The objective of the growth portfolio is to generate investment returns while maintaining high levels of liquidity and transparency through a diversified portfolio of common stocks.

### Fixed Income

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, inflation-linked securities, cash, and cash equivalents. The objective of the income portfolio is to provide interest income and necessary liquidity for cash flows and portfolio rebalancing needs and to diversify the risks present in the growth portfolio.

### 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.

Given the mandate for liquidity, transparency and minimal expense, a passive implementation of all assets is expected. Derivatives are expected to be used to improve liquidity and minimize tracking error to passive indices.

Each asset class is assigned a benchmark that represents the opportunity set and risk and return characteristics associated with the asset class.

### **Investment Restrictions**

The Regents have established that the purchase of securities issued by tobacco 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 purpose of the Strategic Asset Allocation (“SAA”) is to reflect BGE’s purpose and objectives, as well as the investment beliefs and organizational capability of UC Investments. The actual portfolio exposures will deviate from the Strategic Asset Allocation as a result of price drifts, opportunity set, and value adding activities of UC Investments.

The investment strategy of BGE will incorporate the risk tolerance of the Board of Regents and the

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Investments Committee, the relationship between current and projected assets, evolution of the University's financial needs, namely BGE payout, budget, contributions, and growth expectations.

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

**Table 1**

	<b><u>Allowable Ranges</u></b>		
	<b><u>Strategic Asset Allocation</u></b>	<b><u>Minimum</u></b>	<b><u>Maximum</u></b>
<b><u>Global Equity</u></b>	<b><u>80%</u></b>	<b><u>60%</u></b>	<b><u>90%</u></b>
<b><u>Fixed Income</u></b>	<b><u>20%</u></b>	<b><u>10%</u></b>	<b><u>40%</u></b>
<b><u>Total</u></b>	<b><u>100%</u></b>		

**5. RISK MANAGEMENT**

The primary risks to BGE are the inability to meet planned spending and/or the inability to return capital to the owners of BGE assets. The principal factors that determine BGE's asset volatility and the parties responsible for managing them are as follows:

Capital market risk is the risk that the investments decline in value or do not create a positive real rate of return over a full market cycle. Responsibility for determining the overall level of capital market risk lies with the Board at the recommendation of the Investments Committee. The implementation of this risk is the responsibility of the Chief Investment Officer, who will employ a passive investment program.

Liquidity risk is the risk that investments cannot be liquidated in time to meet requested redemption requests.

Although the management of investment portfolios may be outsourced, investment oversight and risk management are primary fiduciary duties of the Board of Regents that are delegated to and performed by the Chief Investment Officer.

**Tracking Error:** BGE shall be managed so that its annualized tracking error budget shall not exceed 100 basis points. This budget is consistent with the ranges around the combined asset classes and incorporates asset/sector allocation and security selection differences from the aggregate benchmark.

**Liquidity Risk:** BGE shall be managed so that at least 20% of its total assets can be liquidated within three business days.

UC Investments is responsible for managing both total risk and liquidity risk as well as other portfolio risk including foreign exchange risk and credit risk. UC Investments shall implement procedures and safeguards so that the combined risk exposures of all portfolios taken together are kept within limits appropriate to the BGE's risk tolerance.

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**6. BENCHMARKS**

BGE's performance will be evaluated against appropriate benchmarks including a strategic asset allocation benchmark ("Total BGE Portfolio Benchmark") and specific benchmarks for each asset class and investment manager. The Total BGE 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**

<b><u>Asset</u></b>	<b><u>Benchmark</u></b>
<b><u>Public Equity</u></b>	<u>MSCI All Country World Index (ACWI) Investable Market Index (IMI) Tobacco and Fossil Free – Net Dividends</u>
<b><u>Fixed Income</u></b>	<u>Bloomberg Barclays 1-5 Year US Government/Credit Index</u>

The **Total Portfolio Benchmark** is a weighted average consisting of each of the monthly returns of the benchmarks noted above weighted by the Strategic Asset Allocation percentages.

**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 BGE. Accordingly, BGE may be rebalanced when necessary to ensure adherence to this policy and the Investment Policy.

UC Investments will monitor the actual asset allocation. The Board directs UC Investments to take all actions necessary, within the requirement to act prudently, to implement the asset allocation in a manner that ensures that BGE achieves its risk and return objectives.

UC Investments shall assess and manage the trade-off between the cost of rebalancing and the active risk associated with the deviation from Strategic Asset Allocation weights. The Chief Investment Officer may delay a rebalancing program when the Chief Investment Officer believes the delay is in the best interest of BGE.

**8. MONITORING AND REPORTING**

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

1. Asset Allocation and Risk Allocation Measures and Exposures
2. Investment Performance and Attribution (against benchmarks identified in the BGE Asset and Risk Allocation Policy this Policy)

# UNIVERSITY OF CALIFORNIA BLUE AND GOLD ENDOWMENT INVESTMENT POLICY STATEMENT

~~3. — Material Changes to Organization and Investment Strategy~~

~~4. — Potential Material Issues and Risks~~

~~While short-term results will be monitored, it is understood that BGE's objectives are long-term in nature and progress toward 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. POLICY MAINTAINANCE**

~~The Policy should be reviewed at least annually and updated as necessary. Revisions may be recommended by UC Investments or the Investments Committee, and approved by the Board of Regents.~~

## **10. 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.~~

## **11. DISCLOSURES**

~~The Chief Investment Officer provides investment related information on BGE to the Regents' Investments Committee in a manner consistent with the requirements outlined in this policy. Current and historical materials are publicly available on the Regents' website. The Chief Investment Officer's Annual Report for the most recent fiscal year is also available on the Chief Investment Officer's UC Investments website.~~

~~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.~~

## **PROCEDURES AND RELATED DOCUMENTS**

~~BGE Asset and Risk Allocation Policy  
Investment Implementation Manual\*~~

~~\*Changes to the Investment Implementation Manual do not require Regents approval, and inclusion or amendment of references to these documents can be implemented administratively by the Office of the Chief Investment Officer.~~