

The Regents of the University of California

**COMMITTEE ON INVESTMENTS**

November 18, 1999

The Committee on Investments met on the above date at Covell Commons, Los Angeles campus.

Members present: Regents Atkinson, Davies, Hopkinson, Lansing, Leach, Lee, Moores, Parsky, and Taylor

In attendance: Regents O. Johnson, S. Johnson, Khachigian, Kozberg, Montoya, Pannor, Preuss, Sayles, and Vining, Regent-designate Kohn, Faculty Representatives Coleman and Cowan, Secretary Trivette, General Counsel Holst, Treasurer Small, Assistant Treasurer Stanton, Provost King, Senior Vice President Kennedy, Vice Presidents Broome, Darling, Gomes, Gurtner, and Hershman, Chancellors Berdahl, Bishop, Carnesale, Cicerone, Dynes, Orbach, Tomlinson-Keasey, Vanderhoef, and Yang, Vice Chancellor Suduiko representing Chancellor Greenwood, and Recording Secretary Nietfeld

The meeting convened at 9:55 a.m. with Committee Chair Parsky presiding.

1. **APPROVAL OF MINUTES**

Upon motion duly made and seconded, the minutes of the meetings of June 17 and July 16, 1999, having been distributed previously, were approved.

2. **REPORT OF THE CHAIRMAN OF THE COMMITTEE ON INVESTMENTS: UPDATE ON THE ACTIVITY OF THE COMMISSION ON THE OFFICE OF THE TREASURER**

Committee Chair Parsky recalled that, in light of the unique responsibilities that the Regents have with respect to the investment portfolio and the Office of the Treasurer, it had been determined that a review of the Office of the Treasurer would be appropriate. At that time the Treasurer was seeking expanded authority from The Regents to invest in new types of instruments. In order to perform the review, assistance was sought from outside individuals with experience both in investing funds and in overseeing the investment of funds at other institutions. The Commission on the Office of the Treasurer was established in November 1998 with its membership consisting of Regents Hopkinson, Leach, and Parsky and four outside experts. Through a competitive process, the Commission retained Wilshire Associates to assist in undertaking the review. At the July meeting The Regents asked that the Commission continue its work on an interim basis until such time as a more permanent structure is approved. In that interim period, the Commission was asked to continue to review with the Treasurer the level of risk in the portfolio and to evaluate management procedures and personnel issues to ensure suitable execution of the investment program. The

Commission was also asked to undertake an asset allocation study, which will be presented at the January 2000 meeting, in order to provide the Regents with an update on asset allocation policies. Simultaneously with this review, the Commission has discussed the possibility of a more permanent governance structure for the investment function that would allow The Regents to continue to conduct its oversight responsibility.

### 3. **ADOPTION OF GOVERNANCE STRUCTURE FOR INVESTMENT FUNCTION**

The Chairman of the Committee recommended that there be created an Investment Advisory Committee with special expertise in the current or proposed investment activities of The Regents to provide advice to the Committee on Investments and the Treasurer in connection with management of the investments of the Corporation, subject to the following:

**Function:** The Investment Advisory Committee shall function in an oversight and evaluative role with respect to all aspects of the investment program, including, but not limited to, investment strategies, policies and procedures; investment performance; investment personnel in the Office of the Treasurer; external investment advisors; and Office of the Treasurer budget.

**Authority:** The Committee on Investments has authority under Regents Bylaw 12.5 for management of investments of the Corporation, and the Advisory Committee shall have no management or action authority except in the event of express delegation by The Regents or the Committee on Investments.

**Composition:** The Advisory Committee shall have not more than nine and not fewer than seven members of which not more than four shall be Regents (one of whom shall be Chairman of the Committee on Investments and one of whom shall be the President of the University or his designee). Members of the Advisory Committee and its Chairman (who may be a Regent) shall be appointed by the Board of Regents upon recommendation of the Nominating Committee. Members of the Advisory Committee shall serve for an initial term of four years and may serve a second term of four years.

**Meetings:** Meetings of the Advisory Committee shall be noticed and conducted in accordance with the provisions of the Bagley-Keene Open Meeting Act. Meetings shall be held at least quarterly, and may be held more frequently as required, for review of investment performance and other matters.

**Reports:** The Advisory Committee may request the Treasurer, other University of California staff, and such external sources as the Committee shall determine advisable to provide reports on investment matters. The Advisory Committee shall provide

through its Chairman periodic reports to the Board and the Committee on Investments on the activities of the Advisory Committee.

- Consultant: The Advisory Committee may recommend to the Committee on Investments that one or more consultants be retained from time to time to advise the Advisory Committee and the Committee on Investments.
- Conflicts: Members of the Advisory Committee shall upon taking and leaving office and annually during their terms disclose all existing and potential conflicts of interest and shall abstain from voting on any such matters.
- Expenses: Members of the Advisory Committee shall receive no compensation for their services. They shall be reimbursed for expenses associated with service on the Advisory Committee in accordance with policies applicable to members of the Board.

Regent Parsky stressed that no responsibility for action would be delegated to the Investment Advisory Committee. Its role will be to provide detailed advice to the Committee on Investments and the Board of Regents. The complicated nature of The Regents' portfolio requires more time than the Committee on Investments is able to devote. The Investment Advisory Committee would serve this function and would report to the Committee on Investments in conjunction with the Treasurer. Mr. Parsky noted that the evaluation of the performance of the portfolio is the direct responsibility of the Regents. In the context of carrying out this responsibility, the evaluation should be undertaken independently of the Office of the Treasurer. Another issue which has been raised by the review of the Office of the Treasurer is whether or not it is appropriate to have outside managers in order to provide different types of expertise. As outlined in the recommendation, the Investment Advisory Committee would provide advice to the Regents not only on investment strategies, policies, and procedures but also on the personnel in the Office of the Treasurer. The Regents have the responsibility to review and to approve the Treasurer's budget, independently of the Office of the President. A number of Regents have felt that an adequate mechanism does not exist to undertake that role. The intention is to seek assistance in addressing that responsibility.

Regent Leach observed that it is the hope of the Regents that the Office of the Treasurer will continue to produce the same high level of performance that it has historically done in the past. He expressed his appreciation to Regent Parsky for bringing the recommendation to the Committee, noting in particular that many universities look to investment professionals for advice on an ongoing basis. Regent Leach observed that the proposal calls for not more than four Regents on the advisory committee and suggested that consideration be given to adding the provision "nor fewer than three."

Regent Khachigian urged the Committee to act on the proposal, noting that the work of the Commission had been discussed in depth by the Committee.

Regent Lee pointed out that one outcome of the proposal would be to shift the responsibility for oversight of the Office of the Treasurer from the Regents to the Investment Advisory Committee. He agreed that the Regents should devote more time to the investment structure, particularly in light of the growth of the portfolio over the past four years, but he believed that with the establishment of the advisory committee, the Committee on Investments would no longer have a role to play. He questioned the wisdom of appointing the members of the advisory committee to four-year terms, especially in light of the fact that members of the Committee on Investments are appointed to one-year terms. Regent Lee suggested that the advisory committee was being given too much power. He agreed that it would be helpful to have outside experts to provide advice to the Regents, but he did not want them to be in control.

Regent Kozberg supported the adoption of a new governance structure because it would bring in additional expertise, but she too was uncertain about the length of the members' terms.

Regent Parsky reported that the members of the Commission feel that the investment oversight function requires consistency over time in order to provide the Regents with advice. In response to a further comment by Regent Kozberg, he stressed that no delegation of authority to the advisory committee is anticipated.

Regent O. Johnson asked if the role of the advisory committee would impinge upon the Treasurer's ability to do her job. Regent Parsky noted that the advisory committee will meet at least on a quarterly basis to discuss policy and will then advise the Regents. He added that adoption of an asset allocation plan will be the direct responsibility of The Regents. Following such action, the Board will provide extensive guidance to the Treasurer. It will also be called upon to decide whether the Office of the Treasurer should continue to manage 100 percent of the portfolio. In making this decision, the Regents will have the benefit of the advice of both the Treasurer and the independent advisory committee.

Regent Lansing observed that the Regents feel strongly that the recommendation in no way calls into question the excellent performance of the Office of the Treasurer. She believed that the establishment of an advisory committee would be beneficial in that it would provide the Regents with more information.

Regent S. Johnson supported the proposal because historically the members of the Board have looked to those Regents with investment expertise to carry out the Regents' fiduciary responsibilities. The new structure should provide an additional layer of expertise to assist the Regents in their performance.

Regent Hopkinson suggested that the recommendation be amended as follows with respect to the definition of the Investment Advisory Committee's function:

The Investment Advisory Committee shall function in an oversight and evaluative role providing advice to The Regents with respect to all aspects of the investment program,...

Regent Vining reported that he had shared the concerns raised by Regent Lee that the Committee on Investments could be subordinated by the new advisory committee. The Committee's discussion had convinced him that this would not be the case. He hoped that no pressure would be placed upon the Treasurer's Office to manage the portfolio in a certain way or with certain personnel.

Regent Sayles expressed some hesitation about the length of the advisory committee members' terms. Regent Parsky stressed that the underlying concept of the proposal is to have consistency in the membership over time. Chairman Davies pointed out that the Board has the authority to disband the committee at any time.

President Atkinson proposed that the recommendation be amended as follows:

The Advisory Committee shall have not more than nine and not fewer than seven members of which not more than four nor fewer than three shall be Regents...

In response to a request from Regent Parsky, Treasurer Small reported that the proposal has raised some concerns within the Office of the Treasurer. She did not believe that any delegation of authority should be given to the advisory committee in any circumstance. She believed that the Office would be greatly influenced by the advisory committee, as would the Committee on Investments. She raised the issue of how the advisory group would interact with the Committee on Investments. Treasurer Small informed the Regents that an alternative proposal which she had put forth to Regent Parsky called for an expanded Committee on Investments which would include outside professionals on an advisory basis within the current committee structure. The advisors could rotate among investment professionals, including members of UC foundations and faculty. The structure would eliminate the potential for multiple meetings on the same topic and provide an opportunity to educate the broadest number of Regents to assist them in their governing fiduciary responsibility. In response to a question from Regent Parsky, Treasurer Small was of the opinion that the proposed term for members of the advisory committee should be shortened.

Regent Lee suggested that action on the recommendation be deferred to the January 2000 meeting in order to present the Regents with more opportunity to understand its details.

General Counsel Holst suggested that the recommendation be amended to add the following clarifying language to the Composition section in order to remove any inference that the President's designee be a Regent:

(one of whom shall be Chairman of the Committee on Investments and one of whom shall be the President of the University who may be represented by an Officer of the University who would serve as his designee.

Upon motion duly made and seconded, the Committee approved the Chairman's recommendation, as amended, and voted to present it to the Board, Regent Lee voting "no."

Committee Chair Parsky stated his intention to meet with Regent Lee to review the background of the proposal and how it will be put into effect. If serious questions remain, he will report these concerns to the Committee.

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The meeting adjourned at 10:50 a.m.

Attest:

Secretary