

The Regents of the University of California

COMMITTEE ON INVESTMENTS

July 20, 2000

The Committee on Investments met on the above date at UCSF-Laurel Heights, San Francisco.

Members present: Regents Atkinson, Bagley, Davies, Hopkinson, S. Johnson, Miura, Moores, and Parsky

In attendance: Regents Connerly, Fong, O. Johnson, Kohn, Kozberg, Lee, Montoya, and Sayles, Regents-designate Morrison and Seymour, Faculty Representatives Coleman and Cowan, Secretary Trivette, General Counsel Holst, Treasurer Small, Assistant Treasurer Stanton, Provost King, Senior Vice Presidents Darling and Kennedy, Vice Presidents Broome, Drake, Gomes, Gurtner, Hershman, and Saragoza, Chancellors Berdahl, Carnesale, Dynes, Tomlinson-Keasey, Vanderhoef, and Yang, Vice Chancellor Bainton representing Chancellor Bishop, and Recording Secretary Nietfeld

The meeting convened at 11:25 a.m. with Committee Chair Hopkinson presiding.

1. **APPROVAL OF MINUTES OF PREVIOUS MEETING**

Upon motion duly made and seconded, the minutes of the meeting of January 19, 2000 were approved.

2. **UPDATE ON ASSET ALLOCATION PLAN IMPLEMENTATION**

Treasurer Small recalled that in May the Treasurer's Office presented a transition plan for The Regents' portfolios which identified those areas of the portfolios that differed from The Regents' newly-adopted asset allocation plan and a time line for bringing the portfolios into compliance by the targeted date of December 31, 2000. The transition is proceeding on schedule, and all funds are currently in compliance with the majority of both the new asset allocation targets and the individual portfolio guidelines. Full compliance is on track for December 31, 2000. The one exception is the June 30, 2001 extension requested by the Treasurer's Office and granted by The Regents for reducing the duration of the bond portfolios.

The transition plan involves four main areas being worked on by the Office of the Treasurer, the Office of The President, and Wilshire Associates. The first is selecting, through a Request for Proposal (RFP) process, the fund managers for the domestic Russell 3000 index fund and the foreign EAFE index fund and a private equity consultant. The second involves adjusting the portfolios to meet the new asset allocation targets, while the third will bring the retirement and endowment funds into compliance with the new policies and guidelines. The fourth part of the transition plan is liquidating and/or crossing a portion of equity holdings

to fund the required Russell 3000 and EAFE index funds, once The Regents has selected the index fund managers. Additionally, the Treasurer's Office is evaluating the equity and fixed income portfolios relative to their new benchmarks to see if any changes to current holdings are warranted based on the Treasurer's valuation parameters.

The Treasurer reported that the RFPs for both the index fund managers and the private equity consultant were developed jointly by the Offices of the President, the General Counsel, and the Treasurer, in consultation with Wilshire Associates. The finalists for the index fund managers will be selected by Wilshire and the Treasurer's Office and presented to the Investment Advisory Committee at its August meeting. A final recommendation to The Regents is expected to occur at the September meeting, and funding should take place by the end of October. The finalists for the private equity consultant will be selected by a committee comprised of representatives from the Offices of the President and the Treasurer and from various UC graduate schools of business, along with an external private equity professional. A recommendation to The Regents is expected to occur at the September meeting, and services should begin by the end of October.

Mr. Jeff Heil, Head of Equity Investments, explained that the main area affecting equities is the funding of the Russell 3000 index fund, which is expected to occur in October after The Regents approve index fund managers. Approximately \$8 billion will be invested in the Russell 3000 index fund and \$3 million in the foreign EAFE index fund. In anticipation of this process, the equity group in the Treasurer's Office has been formulating strategic industry and individual asset weightings for the portfolios and recommending sales from and additions to existing positions. The goal is to have the resulting net positions after the total pro-rata reduction in the equity holdings that would reflect the desired holdings versus the Russell 3000 index. The equity portfolios are in compliance with the majority of the new portfolio guidelines, with the exception of some holdings that will need to be reduced relative to the benchmark.

Mr. Randy Wedding, Head of Fixed Income, reported that the fixed income portfolios are in compliance with the majority of the new portfolio guidelines. The Treasurer's Office is in the process of reducing certain positions to satisfy the remaining guidelines. All of the fixed income guidelines will be in compliance by the December 31 target date, with the exception of the duration, which will be in compliance by June 30, 2001.

Mr. Ken Wisdom, Private Equity Officer, reported that The Regents' private equity portfolio is largely in compliance with the investment guidelines. The primary area of transition, therefore, pertains to achieving a long-term target allocation of 5 percent in private equity. The University of California Retirement Plan, which has the smallest current percentage of private equity, will be allocated the majority of future commitments to private equity partnerships. The General Endowment Pool has flexibility within the guidelines to continue a slightly reduced allocation to new investments. The equity fund, which has the largest percentage allocation to private equity, will receive a minimal allocation going forward.

The Office of the Treasurer will provide updates to the transition process on a monthly and a quarterly basis.

Regent Connerly expressed the hope that the RFP process for the retention of outside consultants would permit participation by emerging businesses. Treasurer Small noted that there are few index managers with the expertise and accounting systems to handle these types of funds.

Regent Parsky stressed that the management of the investment program will not be transferred to an outside manager. The bulk of the assets will continue to be managed by the Office of the Treasurer.

The meeting adjourned at 11:35 a.m.

Attest:

Secretary