

**COMMITTEE ON FINANCE
COMMITTEE ON INVESTMENTS**

November 15, 2000

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

Members present: ***Representing the Committee on Finance:*** Regents Atkinson, Davies, Fong, Hopkinson, S. Johnson, Kozberg, Lee, Miura, Parsky, and Preuss; Advisory member Morrison

Representing the Committee on Investments: Regents Atkinson, Davies, Hopkinson, S. Johnson, Miura, and Parsky; Advisory member T. Davis

In attendance: Regents Bustamante, O. Johnson, Khachigian, Kohn, and Montoya, Regent-designate Seymour, Faculty Representatives Cowan and Viswanathan, Secretary Trivette, General Counsel Holst, Interim Treasurer Bowman, Assistant Treasurer Stanton, Senior Vice Presidents Darling and Mullinix, Vice Presidents Broome and Hershman, Chancellors Greenwood and Orbach, and Recording Secretary Nietfeld

The meeting convened at 4:50 p.m. with Committee on Finance Chair Preuss presiding.

1. APPROVAL OF MINUTES OF PREVIOUS MEETING

Upon motion duly made and seconded, the minutes of the meeting of May 18, 2000 were approved.

2. ADOPTION OF EXPENDITURE RATE FOR THE GENERAL ENDOWMENT POOL, OFFICE OF THE PRESIDENT AND OFFICE OF THE TREASURER

The President recommended that the Committee on Finance, with the approval of the Committee on Investments, recommend to The Regents that the expenditure rate per unit of the General Endowment Pool (GEP) for distribution in August 2001 for expenditure in the 2001-02 fiscal year be 4.45 percent of a 60-month moving average of the market value of a unit invested in the GEP.

It was recalled that in October 1998 The Regents adopted a target endowment expenditure rate of 4.75 percent, with a first-year payout of 4.35 percent. For all future years, the President and the Treasurer committed to review GEP performance, inflation expectations, and the University's programmatic needs and to recommend to The Regents a rate that would provide appropriate increases in the dollar value of the payout. Last year the endowment expenditure rate was kept at 4.35 percent; however, in discussions regarding the payout rate for the 2000-01 year, Regents

expressed the sentiment that the payout rate should be moved, in appropriate increments, toward the target endowment expenditure rate of 4.75 percent.

The recommended rate of 4.45 percent is expected to produce an increase in the per share payout for expenditure in 2001-02 of 16.6 percent over the prior fiscal year if the GEP meets the fund's expected long-term total return of 8.5 percent.

The Treasurer's Office has estimated payouts based on a range of assumed GEP investment returns through the end of fiscal year 2000-01, at the close of the 60-month averaging period. At the recommended payout rate of 4.45 percent, the increase in the dollar payout per share of GEP is estimated to range from 13.9 percent to 16.8 percent, with a 16.6 percent increase if the GEP meets its estimated long-term total return of 8.5 percent.

This range of dollar payouts is considered to be an appropriate balance among the following objectives that were discussed with the Regents in October 1998:

- Maximize long-term total return
- Preserve the real (i.e., after inflation) long-term purchasing power of the endowment portfolio's principal and of its distributions
- Optimize annual distributions from the endowment portfolio
- Maximize the stability and predictability of distributions
- Promote accountability of asset management
- Promote the fundraising effort.

The results of the endowment payout following the adoption of the endowment payout policy in 1998, including the 1998-99 and 1999-2000 payouts at 4.35 percent and the estimated 2000-01 payout at 4.45 percent, are as follows:

	<u>Year</u>	<u>Payout per share of GEP</u>	<u>Change per share of GEP</u>	<u>Amount paid</u>
	1998-99	\$0.54055	NA	\$120.1M
	1999-00	\$0.62544	15.7%	\$132.7M
Estimated	2000-01	\$0.72932	16.6%	\$157.8M

The number of shares to which the payout formula applies changes over time. New shares are purchased by additions to the fund, existing shares experience appreciation, and some shares are sold. For that reason, the percentage is expressed on a per-share basis.

The President and the Treasurer will continue to review annually the expenditure rate in the context of the performance of the GEP to form their recommendation to The Regents for the continuation or modification of the endowment expenditure rate.

Upon motion duly made and seconded, with the concurrence of the Committee on Investments, the Committee on Finance approved the President's recommendation and voted to present it to the Board.

The meeting adjourned at 4:55 p.m.

Attest:

Secretary