

The Regents of the University of California

**COMMITTEE ON FINANCE
COMMITTEE ON INVESTMENTS**

May 18, 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, Bagley, Connerly, Davies, Hopkinson, Montoya, Pannor, Parsky, and Preuss; Advisory member Miura

Representing the Committee on Investments: Regents Atkinson, Bagley, Davies, Hopkinson, Lansing, Moores, Parsky, and Taylor

In attendance: Regents Bustamante, Khachigian, Kozberg, Sayles, and Vining, Regents-designate Fong and Kohn, Faculty Representatives Coleman and Cowan, Secretary Trivette, General Counsel Holst, Treasurer Small, Provost King, Senior Vice Presidents Kennedy and Darling, Vice Presidents Broome, Gomes, Gurtner, and Hershman, Chancellors Carnesale, Cicerone, Dynes, Greenwood, and Tomlinson-Keasey, and Recording Secretary Nietfeld

The meeting convened at 11:45 a.m. with Committee on Investments Chair Parsky presiding.

1. APPROVAL OF MINUTES OF PREVIOUS MEETING

Upon motion duly made and seconded, the minutes of the meeting of March 16, 2000 were approved.

2. AMENDMENT OF BYLAWS TO CHANGE THE REPORTING RELATIONSHIP OF THE TREASURER

The President recommended that following service of appropriate notice, Bylaws 20.1 and 21.4 be amended as follows, effective July 1, 2000:

deletions shown by strike-out, additions by shading

BYLAW 20.

OFFICERS OF THE CORPORATION

20.1 Designation and Qualifications.

The Officers of the Corporation shall be President, Chairman, Vice Chairman, Secretary, Treasurer and Vice President for Investments (who also serves as an Officer of the University), General Counsel and Vice President for Legal Affairs (who also serves as an Officer of the University), and such associates and assistants of the foregoing Officers as the Board from time to time shall appoint. The President, Chairman, and Vice Chairman shall be members of the Board, but membership on the Board shall not be a necessary qualification for other Officers. Any Officer, other than the President, Chairman, and Vice Chairman, may hold as many offices as the Board shall determine.

BYLAW 21.

DUTIES AND RESPONSIBILITIES OF OFFICERS OF THE CORPORATION

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21.4 Treasurer

(a) The Treasurer, who shall also be an Officer of the University, shall have general charge of all investment matters pertaining to the Corporation and the University; shall advise the Corporation, its Committees and Officers, the President of the University, and other University Officers on investment matters; and shall, subject to the direction of the President of the University, oversee the provision of all investment services to the University.

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It was recalled that the reporting relationship of the Treasurer had been discussed at the March 2000 meeting of the Committee on Investments. The proposed amendments are presented in response to the request made by Regents then.

As the University of California has implemented a budgeting system that includes all fund sources, it is important that the work of the Treasurer-s Office be more fully integrated into

the University's fiscal planning activities and operations. This would be achieved by having the position of the Treasurer report to the President in addition to the existing reporting relationship to The Regents on the performance of the investment portfolio. In this capacity, the Treasurer would be an Officer of the University as well as an Officer of the Corporation, with the additional title of Vice President for Investments.

The proposed amendments to the Bylaws contemplate that the Treasurer and Vice President for Investments would serve under the general supervision of the President. This reporting relationship will allow for more efficient, responsive, and fully integrated financial operations of the University and better service to the campuses, the campus foundations that invest their money with The Regents, the retirees, other participants in the University Retirement Plans, and those administrative units which are benefitted by the University's endowments.

At most comparable universities, the chief investment officer reports to the president of the institution or to the vice president having responsibility for financial matters.

The proposed reporting relationship has been discussed by the President and the Treasurer, and together they have agreed on the operational elements of the plan shown below. Investment decisions would continue to be the purview of The Regents, subject to such delegations of authority to the Treasurer and Vice President for Investments as The Regents may approve from time to time. The Treasurer and Vice President for Investments would be responsible and accountable to The Regents for the performance of the investment portfolios and for carrying out the University's investment program.

Elements of Reporting Relationship

Under the new reporting relationship, with the exception of the performance of the investment portfolios, the President will oversee the performance of the Treasurer and Vice President for Investments, as well as the management of the Office of the Treasurer, its administrative operations, its services to the campuses and campus foundations, and its budget.

The budget of the Office of the Treasurer will be established by the President with input from the Regents' Investment Advisory Committee and the Committee on Investments, as appropriate, to ensure that it conforms to the investment objectives outlined in the asset allocation plan. Appointments to positions in the Office of the Treasurer will be made by the Treasurer and Vice President for Investments within the approved budget and within University personnel policies.

Appointment, compensation, and termination of the Treasurer and Vice President for Investments will be acted upon by The Regents upon recommendation of the President.

Annual performance evaluations of the Treasurer and Vice President for Investments will be conducted by the President, as is the case for other Vice Presidents.

The Treasurer and Vice President for Investments will work through the Office of the President on all matters being presented to The Regents. This would not prevent Regents from having direct access to the Treasurer and Vice President for Investments, who would be able, in turn, to initiate direct contact with individual Regents regarding investment matters. In doing so, the Treasurer and Vice President for Investments would keep the President and the Chair of the Committee on Investments informed of such contacts, as the President and the Chairman would require.

The Treasurer and Vice President for Investments will attend appropriate meetings of The Regents, its committees, and the Investment Advisory Committee. Investment reports and recommendations will be submitted to The Regents following consultation with the President and the Chairman of the Committee on Investments.

The responsibilities for external financing and for administering the University's real estate holdings, other than those held exclusively for investment purposes, will be transferred to the Office of the Senior Vice President Business and Finance.

Treasurer Small stated that she was comfortable with the reporting relationship being recommended by the President. She pointed out, however, that responsibility for the real estate function traditionally performed by the Office of the Treasurer for the University had been transferred to the Office of the President in 1995. Senior Vice President Darling stated his understanding that some real property gifts continue to be processed by the Office of the Treasurer. The intention would be to integrate that function within the Office of the President. Senior Vice President Kennedy added that it will be more efficient to have all operations connected with real property handled by a single office. Mr. Darling noted that any investment in real estate would be carried out by the Office of the Treasurer as part of the investment portfolio.

Regent Parsky asked that this matter be clarified by the President and the Treasurer prior to the July meeting.

Upon motion duly made and seconded, the Committees approved the President's recommendation and voted to present it to the Board. It was noted that the action to be taken by the Board would be the service of notice of amendments to the Bylaws.

Treasurer Small acknowledged the important contributions made in the area of external financing by Assistant Treasurer Randall Young and Ms. Jean Ham. She was confident that they would provide the Office of the President with the same level of accomplishment.

3. TREASURER'S OFFICE BUDGET FOR 2000-01

Treasurer Small reported that the proposed budget, which meets the needs of the Office of the Treasurer for fiscal year 2000-01, was developed in coordination with Senior Vice President Kennedy and his budget administration office. The budget conforms with the guidelines for the Treasurer's budget that were adopted by The Regents in March 2000. Ms. Small recalled that during her tenure as Treasurer she had sought to enhance the Office's information systems capabilities and operational processes and to expand staffing levels to address the Office's responsibilities and its mission. The proposed budget reflects these continuing initiatives.

The Committee was informed that the Treasurer of The Regents is responsible for managing the investments, cash, banking, and external financing of the University of California system, which includes the ten campuses, five teaching hospitals, and three national laboratories. The Treasurer's Office carries out these activities under the policies established by the Committee on Investments of The Regents of the University of California.

The Treasurer's Office has three primary missions:

Investment Management

The Treasurer's Office is responsible for managing the University's retirement, defined contribution, and endowment funds, as well as the system's cash assets and a portion of the investable assets of several agencies affiliated with the University of California. The Treasurer's Office provides endowment and cash investment services to foundations, alumni associations, and support groups and also manages a number of retirement funds for employees and retirees. The Treasurer's Office issues all required reports to The Regents, foundations, alumni associations and support groups, along with certain marketing brochures.

In addition, the Office performs all investment operations associated with properly managing the funds. The Treasurer's Office is responsible for custody of assets, managing the investment accounting systems, and interfacing with UCOP Corporate Accounting and Benefits Accounting who are responsible for producing unit values (returns) on their respective funds. The Treasurer's Office is also responsible for handling Regental endowed gifts of securities and real property and for managing investments for the Office of Technology Transfer.

Banking Services and Cash Management

The Treasurer is the representative of The Regents in all banking matters, including managing all facilities used in the administration of University funds. These include overseeing bank accounts, providing expertise in bank services, and managing vendor relationships. The Treasurer has two primary goals in this area: efficient cash management and effective bank services. The primary cash management goal is to minimize all non-interest-bearing funds in University bank accounts and, therefore, to maximize funds

invested in the Short Term Investment Pool (STIP). The primary bank service goal is to serve all UC sites by providing expertise in the maintenance and development of state-of-the-art banking services used in the administration of University funds.

External Finance Management of Regental Debt

The external finance group of the Treasurer's Office structures, negotiates, and manages the University's external debt, which primarily supports construction and expansion at all ten campuses and five medical centers. The Treasurer's Office works closely with the campuses and the Office of the President to employ a comprehensive strategy to meet the short-term and long-term financing requirements for the University and to provide the lowest cost of financing. As part of this strategy, the Treasurer's Office has established an active investor relations program, with the purpose of meeting with institutional investors to identify new resources for debt placement on a tax-exempt and taxable basis. The Treasurer's Office also maintains relationships with rating agencies and bond insurance companies.

Treasurer's Office Budget Request

Mr. Greg Schwartz, Chief Treasury Officer, presented the Treasurer's Office budget request. He noted that the attached budget represents a total proposed expenditure of just over \$9 million for fiscal year 2000-2001, which represents .017 percent of total assets under management. The Office of the Treasurer remains a highly efficient operation, managing investments and providing other expertise and services to the UC system at very low cost relative to industry standards. Even with the new investment guidelines, which call for moving a portion of assets to outside managers, the cost of performing the Office's functions will remain at a fraction of industry norms.

Mr. Schwartz reported that approximately 74 percent of the \$1.8 million increase in the budget is directly attributable to increased staffing. The budget includes seven previously approved positions that have not been filled and four new positions. The difficulty in filling these positions is due in part to the tight labor market. Temporary help has been used while positions are vacant, but this approach has proven to be expensive, at approximately \$150,000 for fiscal year 1999-2000. During the past several years, the Office of the Treasurer has broadened its senior management group to include the heads of equity, trading, and fixed income, as well as a chief treasury officer to manage administration and operations. Management has concluded that the proposed new positions are essential to ensure the effective operation of the Office.

Mr. Schwartz reported that the budget proposes modest increases for operations. The four largest operating expenses are on-line research, rent, temporary help and consulting, and travel. The Treasurer's Office has initiated several projects aimed at best business practices that will involve the need for temporary help and consulting services. These projects include the development of an incentive pay plan, which is being coordinated with the Office of the

President, an evaluation of operations process design, and the customization of investment accounting reporting. The increase in travel relates to the Treasurer's directive that all investment officers increase their travel to the industry standard of 15 to 25 percent in order to attain a thorough understanding of industry and investment trends.

The Treasurer's Office is funded by two separate sources. Investment management is funded through actual costs charged to the portfolios managed by the Treasurer's Office. The costs are allocated based on resources used to manage each portfolio. The banking function is charged to STIP. External finance is funded entirely through charges to the various bond issues managed by the Treasurer's Office.

The budget does not fully take into consideration the change in investment strategy agreed upon in the March 2000 Regents meeting. There may be some additional expenses or new services needed associated with the change that have not yet been anticipated, but they should be minor.

Mr. Schwartz concluded his presentation of the budget by noting that the funds being requested are more than covered by the \$22.3 million in additional income that will be produced by the securities lending program. Additionally, when the external financing function is transferred to the Office of the President, the budget will be reduced by \$537,000, thereby reducing the budget request to \$8,660,000.

Regent Parsky observed that it would be important to assess the relationship between the needs of the Office and its responsibilities in light of the new asset allocation plan. He recalled that the issue of vacant positions had arisen when the 1999-2000 budget was reviewed by the Committee. The Treasurer's Office is requesting new positions in its 2000-01 budget, even in light of the fact that several previously funded positions have not been filled. Mr. Schwartz reiterated the fact that it is difficult to recruit talented people due to the extreme competitiveness of the Bay Area job market. Regent Parsky stressed the importance of an assurance that the new positions will be filled. Treasurer Small reported that the Office had been actively recruiting for the positions but to date had not been able to hire anyone.

Regent Moores referred to the incentive plan which had been discussed on several occasions by the Committee. Treasurer Small stated that it would be her intention to bring a recommendation to the Regents in the next fiscal year.

Regent Hopkinson suggested that when the Treasurer presents her budget for approval by The Regents, it contain an organization chart which reflects the staffing changes that the Treasurer will need to implement. Regent Parsky suggested that the services that will be provided to The Regents by outside consultants be taken into account. The Treasurer should also provide information on the systems in place which enable timely reporting on performance of the portfolios. Ms. Small noted that one of the missions of the Office is to

upgrade its systems on a continuing basis to ensure that they are time relevant and state of the art.

In response to a question from Regent Vining, Mr. Schwartz stated that if the Office had been fully staffed during the current fiscal year, the additional cost would have been \$826,000.

Regent Parsky stated that the intention would be to present the Treasurer's Office budget for action at the July meeting.

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The meeting adjourned at 12:15 p.m.

Attest:

Secretary