

The Regents of the University of California

**COMMITTEE ON FINANCE
COMMITTEE ON INVESTMENTS**

November 14, 2001

The Committees on Finance and Investments met jointly on the above date at UCSF–Laurel Heights, San Francisco.

Members present: Representing the Committee on Finance: Regents Atkinson, Connerly, Hopkinson, S. Johnson, Lee, Montoya, Moores, Morrison, and Preuss; Advisory member Ligot-Gordon
Representing the Committee on Investments: Regents Atkinson, Davies, T. Davis, Hopkinson, S. Johnson, Lansing, and Moores; Advisory member Ligot-Gordon

In attendance: Regents O. Johnson, Lozano, Marcus, Sayles, and Seymour, Regents-designate Sainick and Terrazas, Faculty Representatives Binion and Viswanathan, Secretary Trivette, General Counsel Holst, Treasurer Russ, Provost King, Senior Vice Presidents Darling and Mullinix, Vice Presidents Broome, Gómez, Gurtner, and Hershman, Chancellors Berdahl, Bishop, Cicerone, Dynes, Greenwood, Orbach, Tomlinson-Keasey, and Vanderhoef, and Recording Secretary Bryan

The meeting convened at 1:50 p.m. with Committee on Investments Chair Hopkinson presiding.

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

Upon motion duly made and seconded, the minutes of the meeting of May 18, 2001 were approved.

2. **ADOPTION OF EXPENDITURE RATE FOR THE GENERAL ENDOWMENT POOL**

The President recommended that, with the concurrence of the Committee on Investments, the Committee on Finance recommend that the expenditure rate per unit of the General Endowment Pool (GEP) for expenditure in the 2002-03 fiscal year shall 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 reviewing GEP performance, inflation expectations, and the University's programmatic needs, and to recommending to The Regents a rate that would provide appropriate increases in the

dollar value of the payout. Last year the endowment expenditure rate was approved at 4.45 percent, an increase of ten basis points over the preceding year, to move the rate toward the target endowment expenditure rate of 4.75 percent adopted by The Regents.

If the GEP meets the fund's expected long-term target total return of 8.5 percent, the recommended rate of 4.45 percent would produce an increase in the per-share payout for expenditure in 2002-03 of 8.19 percent over the prior fiscal year. At the recommended payout rate, the increase in the dollar payout per share of GEP is estimated to range from 5.96 percent to 8.36 percent, with an 8.19 percent increase if the GEP meets its estimated return target. This range of dollar payouts is considered to be an appropriate balance among the objectives that were discussed with the Regents in October 1998.

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 fluctuation with the financial markets, and some shares are sold.

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.

[For speakers' comments, refer to the minutes of the November 14, 2001 afternoon session of the Committee of the Whole.]

Upon motion duly made and seconded, the Committees approved the President's recommendation and voted to present it to the Board.

The meeting adjourned at 1:55 p.m.

Attest:

Secretary