The Regents of the University of California

COMMITTEE ON FINANCE
COMMITTEE ON INVESTMENTS
May 19, 2004

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

Members present: ***Representing the Committee on Finance***: Regents Connerly, Dynes, Hopkinson, Lee, Montoya, Moores, Murray, Preuss, and Sayles; Advisory members Anderson, Novack, and Pitts

Representing the Committee on Investments: Regents Blum, Connerly, Dynes, Kozberg, Lee, Montoya, Moores, Pattiz, and Preuss; Advisory members Anderson, Ornellas, and Blumenthal

In attendance: Regents Bodine, Johnson, Lansing, Marcus, and Seigler, Secretary Trivette, General Counsel Holst, Treasurer Russ, Provost Greenwood, Senior Vice Presidents Darling and Mullinix, Vice President Broome, Chancellors Bishop, Cicerone, Córdova, Tomlinson-Keasey, Vanderhoef, and Yang, Acting Chancellor Chemers, Vice Chancellor Woods representing Acting Chancellor Chandler, and Recording Secretary Nietfeld

The meeting convened at 12:35 p.m. with Committee on Finance Chair Hopkinson presiding.

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

Upon motion duly made and seconded, the minutes of the meeting of November 13, 2002 were approved.

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

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 expenditure in the 2004-05 fiscal year shall be 4.60 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 had adopted a target endowment expenditure rate of 4.75 percent, with a first-year payout of 4.35 percent. For 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. The payout will be distributed in August 2004 for expenditure in the 2004-05 fiscal year. The 4.60

percent rate represents an increase of ten basis points in the rate adopted by The Regents in November 2002 for expenditure in the 2003-04 fiscal year.

If the GEP achieves a total return of 15 percent for the 2003-04 fiscal year, the recommended rate of 4.60 percent will produce an increase per-share payout for expenditure in 2004-05 of 3.32 percent over the prior fiscal year. For the first nine months of this fiscal year, ended March 31, 2004, the GEP has experienced a total return of 14.68 percent. Inflation as measured by the Consumer-Price Index has been running at about 1.1 percent over the past year. 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.

The Attachment provides estimated payouts based on a range of assumed GEP investment returns through the end of fiscal year 2003-04, the end of the 60-month averaging period. 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 (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 (disclosures to donors, performance reporting, etc.); and
- Promote the fundraising effort.

It was noted that the number of shares to which the payout formula applies changes over time. New shares are purchased by additions to the GEP, existing shares experience fluctuation with the financial markets, and some shares are sold. For these reasons, the percentage is expressed on a per-share basis.

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 12:37 p.m.

Attest:

Secretary