The Regents of the University of California

COMMITTEE ON INVESTMENTS
November 15, 2006

The Committee on Investments met on the above date at Covel Commons, Los Angeles campus.

Members present: Regents De La Peña, Parsky, Pattiz, Schilling, Schreiner, and Wachter; Advisory members Allen and Oakley

In attendance: Regent-designate Brewer, Acting Secretary Shaw, Acting General Counsel Blair, Chief Investment Officer Berggren, and Recording Secretary Nietfeld

The meeting convened at 1:15 p.m. with Committee Chair Wachter presiding.

1. **APPROVAL OF MINUTES OF PREVIOUS MEETINGS**

Upon motion duly made and seconded, the minutes of the meetings of August 24 and September 21, 2006 were approved.

2. **REGENTS' INVESTMENT POLICY WITH RESPECT TO UC CAMPUS FOUNDATIONS**

Regent Wachter recommended that the following investment policy for the UC Campus Foundations be approved.

INVESTMENT POLICY FOR THE UC CAMPUS FOUNDATIONS

The Regents' generalist Investment Consultant shall conduct an annual review of each Campus Foundation's investment policy and performance, including:

- Asset allocation relative to its policy, and
- Performance by asset class and relative to its benchmarks,

and provide a report to the Committee on Investments annually on their findings.

In addition, on a one-time basis, to be completed within the Fiscal Year 2006-2007, the Regents' investment consultant will review the written investment policies and governance structure of each Foundation to ensure that each set of written policies includes, at a minimum:

- Asset allocation target percentages,
- Ranges for each asset class,
- Policy benchmarks for each asset class and in total, and
- Investment guidelines for each asset class.

Foundations that seek the investment returns and risk profile of the General Endowment Pool (GEP) are encouraged to adopt the investment policies and guidelines of the GEP. If any Foundation's policies differ materially from those of the GEP, the Foundation is required to explain the differences to The Regents' generalist investment consultant.

The Regents' generalist investment consultant shall review, initially and at the time of any change, each Foundation's asset allocation policy. In the case that a Foundation's target asset class weights are (or will be) outside the ranges currently set annually for the GEP for the next fiscal year, the Foundation is required to explain its rationale to The Regents' generalist investment consultant. The Regents' generalist investment consultant will then provide an assessment and recommendation to the Committee on Investments at the next scheduled meeting of the Committee on Investments.

As long as an exception to The Regents' investment policies continues, it will be re-evaluated by The Regents investment consultant on an annual basis.

If any Foundation makes changes to its policy (asset allocation percentages and/or benchmarks), it must communicate such change to The Regents' generalist investment consultant before such change can be effective.

This policy is to be effective immediately.

Committee Chair Wachter observed that the proposed policy outlines a process for the Regents to exercise their fiduciary duty with respect to the Foundations' assets, including an annual review of Foundation policy, asset allocation, and performance. The Foundations will be required to have asset allocation policies that are consistent with that of the General Endowment Pool and target asset weights, when grouped in three broad asset classes, that are within the plus or minus 15 percent band of GEP target asset weights. The three broad asset classes are public equity, public fixed income, and alternatives. Alternatives include, but are not limited to, private equity, venture capital, public and private real estate, hedge funds, commodities, natural resources, timber, and infrastructure.

Regent Watchter informed the Committee that, within one year after adoption of the policy, the range will be proposed to be narrowed to plus or minus 10 percent for the Foundations. This is consistent with a proposed change in the allowable ranges for the University of California Retirement Plan and the General Endowment Pool to plus or minus 5 percent. There has been some discomfort on the part of some Regents with the plus or minus 15 percent range that is currently allowed. Mr. Wachter stressed that the goal is not to restrict how the Foundations invest their assets but rather to exercise The Regents' fiduciary responsibilities with respect to the Foundations.

Regent Wachter continued that, also within one year after the adoption of the policy, it will be proposed that the Foundations' asset allocation policies and implementation be consistent with the total risk budget of the General Endowment Pool. The Regents' investment consultant will be charged with the evaluation of the Foundations' asset allocation and risk budgets at the total fund level. The risk budget will be calculated using capital market assumptions provided by the Chief Investment Officer.

If The Regents does not approve a Foundation asset allocation exception which is then adopted by the Foundation, The Regents will limit its indemnification of the Foundation Board. The policy on indemnification of trustees of Campus Foundations reads as follows:

> The Regents indemnify and defend members of the Boards of Trustees of the Campus Foundations as to all claims and liability that may arise or occur in the course and scope of the performance of their duties in connection with the investment and reinvestment of assets held for the benefit of the University, including split-interest trusts and similar arrangements, to the same extent as afforded individual Regents; provided that actions giving rise to the claims or liability are in connection with the Campus Foundation investments which are invested in accordance with University policies and guidelines respecting the investments of Campus Foundations, and further provided that the indemnification and defense shall be secondary to any entitlement the trustees may have to indemnification and defense from insurance carried by the Campus Foundations. The President shall issue any necessary guidelines to implement the policy.

If a Foundation's target asset class weights are outside the ranges currently set for the GEP, the Foundation will be required to explain its rationale to Richards & Tierney, The Regents' investment consultant, and all exceptions will need to be discussed with and approved by the Committee on an annual basis.

In response to a question from Regent De La Peña, Chief Investment Officer Berggren explained that a higher target range was being proposed for the Foundations because they have been moving toward asset allocation policies that are similar to peer endowments. They feel that the asset allocation policies of the GEP are too restrictive. Committee Chair Wachter added that the 5 percent range works well for the Regents as there is ongoing consultation with the Chief Investment Officer. The Foundations operate much more independently.

The Committee briefly discussed the implications of the indemnification policy, noting that anyone is able to sue a body for underperformance. The plaintiff would not be assured of prevailing in such a lawsuit.

The meeting adjourned at 1:40 p.m.

Attest:

Acting Secretary