

The Regents of the University of California

COMMITTEE ON INVESTMENTS

May 18, 2006

The Committee on Investments met on the above date at UCSF–Laurel Heights, San Francisco.

Members present: Regents Dynes, Parsky, Pattiz, Preuss, Rosenthal, and Wachter;
Advisory members Schreiner and Oakley

In attendance: Regents Gould, Hopkinson, Island, Juline, Kozberg, Marcus, Moores, Rominger, Ruiz, and Schilling, Regents-designate Coombs and Ledesma, Faculty Representative Brown, Secretary Trivette, General Counsel Holst, Interim Treasurer Berggren, Acting Provost Hume, Senior Vice President Darling, Vice Presidents Broome, Foley, Gomes, and Hershman, Chancellors Carnesale, Córdova, Fox, Tomlinson-Keasey, Vanderhoef, and Yang, University Auditor Reed, and Recording Secretary Bryan

The meeting convened at 1:17 p.m. with Committee Chair Wachter presiding.

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

Upon motion duly made and seconded, the minutes of the meeting of February 14, 2006 were approved.

2. **GENERAL ENDOWMENT POOL ASSET ALLOCATION AND BENCHMARKS**

The Interim Treasurer recommended and Richards and Tierney concurred that the Committee on Investments recommend to The Regents that the attached Asset Allocation and Benchmarks for the University of California General Endowment Pool (GEP) be approved, effective July 1, 2006.

Committee Chair Wachter recalled that in February 2005 the Committee directed Treasurer Russ to change the GEP to a new investment strategy that had higher expected return, lower expected risk, and was more similar to the allocations of peer endowments with whom the University competes for faculty and students. Much progress was made, but the Committee paused the implementation when the Treasurer left last July.

At the request of the Regents, the Office of the Treasurer has updated and modified that plan. Committee Chair Wachter explained that the proposed policy for FY 2007 calls for 32 percent U.S. Equity, 20 percent International Equity, and 5 percent Emerging Market equity. The fixed income allocation proposed is core U.S. Bonds 8 percent, High Yield 3 percent, Non-U.S. Dollar debt 3 percent, and Emerging Market debt 3 percent. The Treasurer proposed to continue to increase the allocation to absolute return strategies to 15 percent but at a measured pace, recognizing the large flows of capital into this area. Realistic targets are proposed for the next 12 months to increase private equity, real

estate, and absolute return strategies. The asset allocation will be reviewed annually from this point forward. The Treasurer will also return to the Committee in August with a discussion of additional types of alternative investments. The policy allocation has been formulated as an achievable target over the next 12 months.

The proposed long-term policy for the endowment has a goal of 45 percent marketable equity, 15 percent marketable fixed income, and 40 percent alternative.

These changes (asset allocation policy and performance benchmarks) are to be effective on July 1, 2006.

Upon motion duly made and seconded, the Committee approved the Interim Treasurer's recommendation and voted to present it to the Board.

3. **APPROVAL OF TREASURER'S OFFICE ANNUAL INCENTIVE PLAN RECOMMENDED CHANGES TO PERFORMANCE OBJECTIVES FOR FY 2006-07**

The President and Mercer Human Resources Consulting recommended that the Committee on Investments recommend to The Regents that the incentive program asset class investment performance objectives be modified as indicated in the Attachment, page 15.

Ms. Ellen Dempsey, of Mercer Investment Consulting, recalled that as the portfolios evolve in composition and complexity, it is necessary to add or modify some of the performance objectives (target performance over the benchmark) previously established by The Regents. Mercer's investment advisory practice has been involved in the development of this plan since inception in 2002 and has periodically approved any modifications.

These changes include the following: performance objectives for three new mandates: High Yield Bonds, Emerging Market Debt, and Global Equity, and a modification to the objective for Emerging Market Equity. In addition, the performance objective for the "UC Entity," i.e., the aggregate performance of all assets managed by the Treasurer, will be modified to recognize the change in asset composition and increase in actively managed assets since last year.

In accordance with the Plan document, the Treasurer is also presenting a list of eligible participants, and the mix and weighting of performance components for each position, for the fiscal year 2006-07.

Upon motion duly made and seconded, the Committee approved the President's and Mercer Human Resources Consulting's recommendation and voted to present it to the Board.

4. **APPROVAL OF INVESTMENT POLICY STATEMENT FOR UC RETIREMENT SAVINGS PROGRAM**

The Interim Treasurer recommended and Richards and Tierney concurred that the Committee on Investments recommend to The Regents that the attached Investment Policy Statement for the UC Retirement Savings Program be approved, effective immediately upon approval.

It was recalled that over the past two years, the Treasurer has consolidated and updated the investment policies and guidelines for the UC Retirement Plan (UCRP) and the General Endowment Pool (GEP). A similar document relating to the University's combined Defined Contribution plans has been prepared which is consistent with the modified fiduciary structure approved by The Regents in May 2005, which named the Treasurer as primary fiduciary for investment matters (and the Associate Vice President, Human Resources and Benefits, as the primary fiduciary for administrative matters).

Under this structure, the Regents, as ultimate fiduciaries, approve overall investment policy and oversight procedures and delegate to the Treasurer the establishment of investment guidelines for the Core Options offered to plan participants, as well as the management of those assets. The policy statement is similar in spirit and structure to the UCRP and GEP policies and has been reviewed by Richard and Tierney and General Counsel. The document is in two parts: the first part is the Policy proper, for Committee approval; the second contains the investment guidelines for the Core Options offered by the Plan. These guidelines are developed by the Treasurer and are presented for information only.

Upon motion duly made and seconded, the Committee approved the Interim Treasurer's recommendation and voted to present it to the Board.

The meeting adjourned at 1:25 p.m.

Attest:

Secretary