The Regents of the University of California

COMMITTEE ON FINANCE
COMMITTEE ON INVESTMENTS
November 15, 2007

The Committees on Finance and Investments met jointly on the above date at Covel Commons, Los Angeles campus.

Members present: Representing the Committee on Finance: Regents Blum, Brewer, Dynes, Gould, Hopkinson, Island, Kozberg, Parsky, and Preuss; Advisory members Scorza and Croughan; Staff Advisors Brewer and Johansen
Representing the Committee on Investments: Regents Blum, Brewer, De La Peña, Dynes, Parsky, Preuss, and Schilling; Advisory member Croughan

In attendance: Regents Allen, Bugay, Johnson, Ruiz, and Varner, Regents-designate Cole and Shewmake, Faculty Representative Brown, Secretary and Chief of Staff Griffiths, Associate Secretary Shaw, General Counsel Robinson, Chief Investment Officer Berggren, Chief Compliance and Audit Officer Vacca, Provost Hume, Executive Vice Presidents Darling and Lapp, Vice President Foley, Acting Vice President Standiford, Chancellors Bishop, Block, Blumenthal, Drake, Fox, Kang, Vanderhoef, and Yang, Acting Chancellor Grey, and Recording Secretary Bryan

The meeting convened at 11:45 a.m. with Committee on Finance Chair Gould presiding.

AMENDMENT OF POLICY ON CONFLICT OF INTEREST REGARDING ASSETS MANAGED BY THE TREASURER TO SPECIFY PROCEDURES FOR IMPLEMENTATION

The General Counsel, with the concurrence of the President and the Chief Investment Officer, recommended that The Regents adopt, effective immediately, an amendment to the Policy on Conflict of Interest Regarding Assets Managed by the Treasurer, as follows:

Deletions shown by strikeout, additions shown by underscore

Policy on Conflict of Interest Regarding Assets Managed by the Treasurer, Adopted September 22, 2005, Amended July 19, 2007:

* * *

The General Counsel is responsible for determining, pursuant to the following procedures, that the Treasurer's responsibilities for selecting investment managers have been exercised free of any efforts to influence the Treasurer's selection by individuals within the Treasurer's Office, on the Investment Advisory Group, on the Board of Regents, or with oversight responsibility for the performance of the Treasurer's Office, with a financial interest in the

selection, within the meaning of the Political Reform Act. The General Counsel's office will promptly provide the Treasurer's Office with copies of all Statements of Economic Interest (Form 700) for all Regents and Treasurer's Office employees, as well as any information disclosed by Investment Advisory Group (IAG) members pursuant to the Conflicts provisions of the Policy Establishing the Investment Advisory Group. The Treasurer's Office will advise the General Counsel's office if it is contacted by a Regent, an IAG member, or a designated official in the Treasurer's Office, in connection with the choice of an outside investment manager, if that outside investment manager is listed on the relevant individual's disclosure form. The Office of the General Counsel will then determine whether there is any conflict of interest.

Any such efforts to influence the Treasurer's selection of investment managers by such individuals with a financial interest in the selection are expressly prohibited. In the event such a prohibited effort to influence a Treasurer's Office selection of an investment manager is identified, the General Counsel shall immediately bring the matter to the attention of the Chair of the Regents' Committee on Investments.

At the July 2007 meeting, The Regents acted to amend the 1999 Policy Establishing the Investment Advisory Committee (IAC) and the 2005 Policy on Conflict of Interest Regarding Assets Managed by the Treasurer. These amendments reconstituted the Investment Advisory Committee as the Investment Advisory Group (IAG), which is advisory to The Regents' Committee on Investments. The amendments also required the General Counsel to take action to assure that selections of investment managers by the Treasurer's Office have been exercised free of any conflicts of interest. (See the attachment for full text of the Regents Policy on Conflict of Interest Regarding Assets Managed by the Treasurer.)

This proposal clarifies the July 2007 amendments by outlining the procedures under which the General Counsel will determine that the Treasurer's responsibilities for selecting investment managers have been exercised free of any improper efforts to influence the Treasurer's selection. This proposal is consistent with the overall University policy and practice of delegating authority to the Treasurer's Office to select individual investment managers, while reserving the authority to The Regents to set investment policy for the University.

These procedures rely on appropriate cooperation and communication between the Treasurer's Office and the Office of the General Counsel. The Office of the General Counsel will provide information about reported interests of Regents, IAG members, and designated officials in the Treasurer's Office; and in return the Treasurer's Office will provide information regarding contacts made by Regents, IAG members, or designated officials in the Treasurer's Office related to the selection of an outside investment manager, where the outside investment manager is listed on the relevant disclosure form. The Office of the General Counsel will review the information and determine whether there is any conflict of interest, and will immediately report any such prohibited effort to influence the Treasurer's selection of investment managers to the Chair of the Regents' Committee on Investments.

The Office of the General Counsel will conduct training sessions with Regents and members of the Investment Advisory Group in order to minimize any improper conflicts of interest.

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

The meeting adjourned at 11:50 a.m.

Attest:

Secretary and Chief of Staff

Attachment

POLICY ON CONFLICT OF INTEREST REGARDING ASSETS MANAGED BY THE TREASURER

Adopted September 22, 2005
Amended July 19, 2007

The Regents has adopted Investment Policy Statements for the University of California Retirement Plan and General Endowment Pool, which assign limited roles and responsibilities to investment fiduciaries, with appropriate checks and balances.

The existing governance process has avoided the potential for and the appearance of conflicts of interest with respect to the selection of individual investments or investment managers by maintaining a separation of roles and responsibilities.

The Regents' Committee on Investments is responsible for oversight of the management of investments on behalf of The Regents. This involves the establishment of investment policies and oversight of the management of the assets with advice from the Investment Advisory Group. These responsibilities include approving an asset allocation policy, performance benchmarks, risk budgets, and investment guidelines.

The Treasurer is responsible for implementing the approved investment policies and the development of investment processes and procedures for asset allocation, risk management, investment manager selection and termination, allocation, monitoring and evaluation, and the identification of management strategies that will improve the investment efficiency of the Fund assets.

The General Counsel is responsible for determining that the Treasurer's responsibilities for selecting investment managers have been exercised free of any efforts to influence the Treasurer's selection by individuals within the Treasurer's Office, on the Investment Advisory Group, on the Board of Regents, or with oversight responsibility for the performance of the Treasurer's Office, with a financial interest in the selection, within the meaning of the Political Reform Act. Any such efforts to influence the Treasurer's selection of investment managers by such individuals with a financial interest in the selection are expressly prohibited. In the event such a prohibited effort to influence a Treasurer's Office selection of an investment manager is identified, The General Counsel shall immediately bring the matter to the attention of the Chair of the Regents' Committee on Investments.

In order to maintain the highest fiduciary standards and to continue to comply with institutional investment best practices, this Policy explicitly separates the roles and responsibilities of various UC fiduciaries to ensure the continuance of sound investment practice and the protection against real or perceived conflict of interest, especially with regard to the selection of individual investments or investment managers. By separating the duties of investment policy-making and investment implementation, The Regents' Committee on Investments has created an institutional framework to uphold the California Political Reform Act of 1974, which provides that public officials shall not make, participate in making, or influence a governmental decision in which the official has a financial interest.