The Regents of the University of California

**COMMITTEE ON INVESTMENTS**
**INVESTMENT ADVISORY GROUP**
March 19, 2008

The Committee on Investments and the Investment Advisory Group met jointly on the above date at UCSF–Mission Bay Community Center, San Francisco.

Members present: Representing the Committee on Investments: Regents Brewer, De La Peña, Marcus, Schilling, and Wachter; Advisory member Croughan
Representing the Investment Advisory Group: Consultant Hall

In attendance: Regent Hotchkis, Faculty Representative Brown, Secretary and Chief of Staff Griffiths, Associate Secretary Shaw, General Counsel Robinson, Chief Investment Officer Berggren, Provost Hume, Executive Vice Presidents Darling and Lapp, and Recording Secretary Johns

The meeting convened at 5:10 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 November 7, 2007 were approved.

2. **UCRP/GEP ASSET ALLOCATION REVIEW AND RECOMMENDATIONS**

The Chief Investment Officer recommended and Richards & Tierney, Inc. concurred that the Asset Allocation Policy for the University of California Retirement Plan (UCRP) and the University of California General Endowment Pool (GEP) be approved, including the following recommended changes, effective July 1, 2008.

- Add a Global Equity asset category to the asset allocation of UCRP and GEP, at a Current Policy weight of 2 percent and Long-term Target weight of 5 percent.
- Increase the Current Policy weight of Non US Developed Equity from 18 percent to 22 percent in the UCRP.
- Increase the Current Policy weight of Emerging Market Equity from 3 percent to 4 percent in the UCRP.
- The US Equity allocation would be used to fund these increases.

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- Realistic targets are proposed for the weights of private equity, real estate, and absolute return strategies over the next 12 months; progress continues to be made in funding these categories up to target levels.

[Background material was mailed to the Committee in advance of the meeting, and copies are on file in the Office of the Secretary and Chief of Staff.]

Upon motion duly made and seconded, the Committee approved the Chief Investment Officer's recommendation and voted to present it to the Board.

3. **UCRP/GEP INVESTMENT GUIDELINE REVIEW AND RECOMMENDATIONS**

The Chief Investment Officer recommended and Richards & Tierney, Inc. concurred that changes considered by the Committee to Investment Policies, Guidelines, and Benchmarks for the University of California Retirement Plan (UCRP) and the University of California General Endowment Pool (GEP) be approved, effective immediately, except for Emerging Market Debt benchmark, which would be effective July 1, 2008.

[Background material was mailed to the Committee in advance of the meeting, and copies are on file in the Office of the Secretary and Chief of Staff.]

Upon motion duly made and seconded, the Committee approved the Chief Investment Officer's recommendation and voted to present it to the Board.

4. **APPROVAL OF TREASURER'S FISCAL YEAR 2006-2007 ANNUAL ENDOWMENT REPORT**

The Chief Investment Officer recommended that the Annual Endowment Report for Fiscal Year 2007 be approved. The Treasurer's Office compiled this report on the endowment and foundation assets of all the UC Campus Foundations for the Fiscal Year ended June 30, 2007. The report includes information on each Foundation's assets, investment and spending policies, and performance in comparison with benchmarks and the Regents' General Endowment Pool.

[Background material was mailed to the Committee in advance of the meeting, and copies are on file in the Office of the Secretary and Chief of Staff.]

Upon motion duly made and seconded, the Committee approved the Chief Investment Officer's recommendation and voted to present it to the Board.

5. **UC CAMPUS FOUNDATION QUARTERLY PERFORMANCE REPORT**

[Background material was mailed to the Committee in advance of the meeting, and copies are on file in the Office of the Secretary and Chief of Staff.]

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There was no discussion of this item.

6. **FOURTH QUARTER 2007 AND FISCAL YEAR TO DATE INVESTMENT PERFORMANCE SUMMARY**

[Background material was mailed to the Committee in advance of the meeting, and copies are on file in the Office of the Secretary and Chief of Staff.]

There was no discussion of this item.

7. **AMENDMENT TO REGENTS' POLICY ON CONFLICT OF INTEREST REGARDING ASSETS MANAGED BY THE TREASURER**

Regent Wachter recommended that the Regents adopt, effective immediately, the following amendment to the Regents' Policy on Conflict of Interest Regarding Assets Managed by the Treasurer:

**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 and November 15, 2007:

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Individual Regents and members of the Regents' Investment Advisory Group (IAG) are prohibited from contacting the Treasurer's Office to offer advice or recommendations with respect to the selection of investments, investment managers, or investment management firms. 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 such prohibited efforts to influence the Treasurer's Office.~~selection by individuals within the Treasurer's Office, on the Investment Advisory Group (IAG), 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 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 or ~~,~~ and IAG member~~, or a designated official in the Treasurer's Office~~, in connection with the choice of ~~an outside~~ investments, investment managers or investment management firms~~, if that outside investment manager is listed on the relevant individual's disclosure form~~. The Office of the General Counsel will then determine whether the communication was prohibited pursuant to this policy ~~there is any conflict of interest. Any such efforts to influence the Treasurer's selection~~

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~~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~~ investments, investment managers or investment management firms is identified, The General Counsel shall immediately bring the matter to the attention of the Chair of the Regents' Committee on Investments.

[Background material was mailed to the Committee in advance of the meeting, and copies are on file in the Office of the Secretary and Chief of Staff.]

Committee Chair Wachter called attention to existing conflict-of-interest rules for Regents and Investment Advisory Group (IAG) members which are part of California law, not a policy of the Regents. He recalled that the Committee had made a significant effort to understand these rules, working with the General Counsel, outside counsel, Chief Investment Officer Berggren, and others. He explained that there have been no problems with this issue in the University, but that these rules are not easy to interpret. A clear understanding of them is necessary in order to advise University employees properly.

Committee Chair Wachter described the Committee's earlier consensus on conflict of interest, a broad hard-line position that Regents and IAG members should not be involved in the selection of investment managers. Various rules implied that they could or could not be involved, depending on circumstances. Committee Chair Wachter expressed his concern that a Regent might honestly think it permissible to be involved when in fact it is not permissible.

Committee Chair Wachter pointed out that the most significant part of the proposed amendment is the first sentence: "Individual Regents and members of the Regents' Investment Advisory Group (IAG) are prohibited from contacting the Treasurer's Office to offer advice or recommendations with respect to the selection of investments, investment managers, or investment management firms." He asked the General Counsel if the word "investments" is appropriate and not too broad a designation. He noted that the Committee should not advise the University on very specific investments, such as the purchase of an office building. However, the Committee is charged with advising the University on its asset allocations, in bonds, stocks, or other forms.

General Counsel Robinson suggested the addition of a clarifying sentence to address this concern, after the end of the first sentence: "Nothing herein precludes a Regent or IAG member from contacting the Treasurer's Office in connection with investment policies established by the Regents' Committee on Investments." Committee Chair Wachter requested inclusion of the words: "specific selection of investments."

Committee Chair Wachter stated that a Regent is allowed to contact the Treasurer's Office to discuss asset allocation issues from a previous meeting or investment policies. There is much Regents are permitted to do within asset

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allocation. Now, through this policy, the Regents are prohibiting themselves from recommending a specific investment manager. Committee Chair Wachter described this policy as a reaction to the law.

Mr. Robinson cautioned that there might be circumstances when general investment recommendations could be a violation of the Political Reform Act, to the extent that a Regent is a public official.

Regent Marcus stressed that it is his responsibility as a fiduciary to disclose what he knows. The intention of the law is to ensure that the Regents are not beneficiaries of specific recommendations they might make. This could be included in the policy. The law should not imply that Regents may make no recommendations whatsoever.

Committee Chair Wachter concurred, and expressed his opinion that the law is not consistent with the Regents' fiduciary duties and the role of the Committee on Investments. He stressed that Regents are in danger of violating the law by providing recommendations about specific funds or investment managers to the Chief Investment Officer, depending on their relationship to the fund or manager, and discussed hypothetical examples. He expressed the hope that the law will be changed in the future.

Regent Marcus noted that the law is confusing, and asked about the rationale for the policy. Mr. Robinson replied that the policy is designed to clarify the situation and to avoid a complicated, case-by-case determination.

Regent Marcus observed that the University has never had a problem with this in the past. Committee Chair Wachter responded that, in the past, there has been a lack of clarity or understanding about what the rules are. The Regents should not attempt to interpret the rules for themselves. He reiterated his concern about the danger that a Regent would wish to share advice about a profitable investment with the Chief Investment Officer.

Regent Marcus countered with another example, a case in which a Regent wishes to advise against or warn about a bad investment. Mr. Robinson suggested that it might be possible for a Regent to contact the Office of the General Counsel to determine if this kind of communication would be a violation.

Regent Marcus stated that an individual Regent who communicates information is not exercising influence. Mr. Robinson observed that the law is clear that such discussions could constitute influence.

Regent De La Peña suggested that there could be an intermediary in this situation.

Committee Chair Wachter opined that a Regent should contact the General Counsel in this situation. He observed that Regents, in the past, have not felt the

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need to communicate with the Chief Investment Officer about investment managers. Regent Marcus concurred and opined that this matter is not a serious problem.

Committee Chair Wachter recalled that the University received press attention last year about conflict of interest issues, which he described as unfair. He cautioned that someone might make an issue of this law in the future; the University must be prepared for this possibility. He emphasized the stringency of the law, and the fact that it is against the law for a Regent to introduce the University to a manager who has made money for him or her, even if the Regent has no personal financial interest.

Chief Investment Officer Berggren recalled the events of the previous year, when a group that scrutinizes the University looked at the University's investment managers and at the IAG membership, and informed the San Francisco Chronicle that there was a serious conflict of interest at the University. The group alleged that UC had invested in two firms in which IAG members had an interest. She stressed that the individuals involved were not voting members of the Committee on Investments, and that this was an issue of perception.

Regent Marcus opined that some problems have been created by the press and media. Committee Chair Wachter concurred, and stated that the Committee is now creating a solution for what has so far been a non-existent problem. He underscored that the Committee must anticipate future problems.

Regent Brewer asked if the proposed policy is stronger than the law. Mr. Robinson answered in the affirmative. Regent Brewer asked if the Chief Investment Officer is prohibited from seeking an opinion from a Regent about an investment manager. Committee Chair Wachter confirmed that this is against the law. If a Regent has any financial interest as defined, he or she is prohibited from offering an opinion. He emphasized that the law has a broad definition of "financial interest."

Regent Marcus asked what recourse the University has if a Regent violates this policy. Mr. Robinson responded that the same enforcement issue exists for any Regental policy. While the law has punishment for violation, the Regents can only censure their own members.

Regent Marcus stated that adoption of the policy will not change the media perception or coverage of the University. Committee Chair Wachter stated that it will be good for incoming members of the Committee on Investments to have greater clarity about the rules.

Upon motion duly made and seconded, the Committee approved Regent Wachter's recommendation and voted to present it to the Board, with the

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following change, the addition of the word "specific," to the first sentence of the amendment:

"Individual Regents and members of the Regents' Investment Advisory Group (IAG) are prohibited from contacting the Treasurer's Office to offer advice or recommendations with respect to the selection of specific investments, investment managers, or investment management firms."

The meeting adjourned at 5:35 p.m.

Attest:

Secretary and Chief of Staff

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