

























**UNIVERSITY OF CALIFORNIA RETIREMENT PLAN  
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- b. The Committee will consider alternative investment policies and will measure their potential impact on the financial condition of the Plan and assess their suitability in meeting the objectives of the Plan.
- c. The Committee's financial plan will result in a risk budget, that is, an expected amount of volatility associated with a given expected level of investment returns offered by the capital markets including the expected active return.
- d. Based on the risk budget, the Committee, with input from the ~~Treasurer~~Chief Investment Officer and other consultants, will approve a specific allocation of the investments (the asset allocation policy) among the various asset classes considered prudent given the Plan's liability structure, and considering multiple measures of investment and surplus risk. The asset allocation policy shall be expressed in terms of a normal percentage allocation, and ranges for each asset class. These normal weights and ranges are found in Appendix 1. Criteria for including an asset class in the strategic allocation are also in Appendix 1.
- e. The asset allocation policy shall be sufficiently diversified to enable the appropriate fiduciary to manage risk without imprudently sacrificing return. The ~~Treasurer~~Chief Investment Officer is delegated the responsibility of managing total and active risk within the ranges set by the Committee (see Appendices 1 and 2). Within the limits of prudent diversification and established risk budgets, capital market and active risk exposures are fungible, and the ~~Treasurer~~Chief Investment Officer may allocate risk exposures within and between asset classes in order to optimize return. When necessary, the ~~Treasurer~~Chief Investment Officer may use appropriate risk management strategies to protect portfolio value.
- f. The Committee will approve performance benchmarks for each asset class, based on a pre-approved set of criteria, which are found in Appendix 1, and will approve overall investment guidelines for each asset class, which are found in Appendix 7.
- g. The Plan's equity and fixed income assets shall at all times avoid the use of economic leverage. Economic leverage, in the context of portfolio management, is defined as a net dollar exposure to assets in excess of the dollar amount of invested capital, as measured by current market value. The term "net dollar exposure" is defined in the Derivatives Policy, Appendix 4. A very small, inadvertent, or temporary violation of this restriction that may occur in the normal course of portfolio management shall *not* be construed as leverage. Notwithstanding the general prohibition against leverage, leverage may be used in Private Equity, Real Estate and Absolute Return strategies, per the limits and guidelines set forth in Appendix 7 and in the conduct of the Securities Lending Program (see section 21. below).
- h. The ~~Treasurer~~Chief Investment Officer will implement the asset allocation policy as approved by the Committee. The ~~Treasurer~~Chief Investment Officer will select investment professionals ("managers") with demonstrated experience and expertise who will be responsible for managing specific portfolios consistent with the Guidelines in Appendices 6 and 7. Each investment manager will function under a formal contract that delineates its responsibilities, investment style and process, performance expectations, administrative requirements, and compensation. Where appropriate, each manager's contract will include a benchmark and range of probable outcomes relative to that benchmark. The ~~Treasurer~~Chief Investment Officer shall establish and implement

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- procedures for the selection, monitoring, evaluation, and termination of investment managers, which are found in [Appendix 6](#).
- i. The ~~Treasurer~~ Chief Investment Officer will allocate funds across managers to develop an efficient investment structure, within the constraints of the prudence requirement, for each asset class, and will monitor whether the aggregate characteristics of all portfolios in an asset class comply with the investment guidelines for that class. The ~~Treasurer~~ Chief Investment Officer will determine a policy allocation for each manager to be used in the evaluation of the active management program.
  - j. The ~~Treasurer~~ Chief Investment Officer shall establish and implement procedures to provide efficient management of liquidity (including timely payment of benefits) for the Plan.
  - k. The ~~Treasurer~~ Chief Investment Officer shall be responsible for administering the investments of the Retirement Fund at the lowest possible cost, being careful to avoid sacrificing quality. These costs include, but are not limited to, management and custodial fees, consulting fees, transaction costs and other administrative costs chargeable to the Retirement Fund. The ~~Treasurer~~ Chief Investment Officer may establish directed brokerage arrangements with the custodian for the Retirement Fund or other qualified third parties in order to reduce overall commissions cost for the Retirement Fund.
  - l. The ~~Treasurer~~ Chief Investment Officer may participate in securities lending programs, as a means to augment income, with the custodian or other qualified third parties. Cash collateral received from borrowers will be invested by the ~~Treasurer~~ Chief Investment Officer or the lending agent, in a short-term investment pool, in accordance with guidelines established by the ~~Treasurer~~ Chief Investment Officer. Current guidelines are included in [Appendix 7](#).
  - m. The Committee considers the active voting of proxies an integral part of the investment process. Proxy voting will occur in accordance with the Proxy Voting Policy found in [Appendix 5](#).
  - n. The investment program shall comply with existing and future applicable state and federal laws and regulations and the prudence requirement.
  - o. All transactions undertaken on behalf of the Retirement Fund will be undertaken solely in the interests of Plan participants and their beneficiaries.

### **3. Fiduciary Oversight Procedures**

The procedures for the management of the Retirement Fund's assets outline the specific responsibilities of the Committee and other fiduciaries.

- a. The Committee, in developing the investment policy for the Retirement Fund assets, shall act with the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and with like aims.
- b. The Committee will exercise its fiduciary responsibilities in regard to the investment program in accordance with the provisions of the Plan document and University Bylaws.

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- c. The Committee shall review the asset allocation policy, asset class guidelines, and current capital market assumptions at least annually to ensure that the current asset mix can reasonably be expected to achieve the long-term goals of the Plan.
- d. The Committee will review the Plan's updated actuarial valuation and financial projection annually, including the recommended Funding Policy for each year.
- e. The Committee may appoint investment consultants to review investment performance of the Retirement Fund in whole or with respect to specific asset classes, to assist in the development of the Retirement Fund's investment policies and asset allocation, to monitor and report on investment risks, and to provide independent assessment of investments proposed by the ~~Treasurer~~Chief Investment Officer.
- f. The Committee has appointed a standing Investment Advisory Committee ("IAC") of selected Regents, investment professionals, faculty, and UC Foundation members to provide input to the Committee on decisions and assist in oversight of the ~~Treasurer~~Chief Investment Officer. The Chair of the Committee shall also be the Chair of the IAC.
- g. The Committee shall review the investments of the Retirement Fund no less than quarterly to assess whether policy guidelines continue to be appropriate and are met. The Committee shall monitor investment risk, as well as monitor investment returns on an absolute and benchmark relative basis.
- h. The ~~Treasurer~~Chief Investment Officer shall prepare quarterly and annual reports for the Committee and The Regents on the investment program, including
  - i. The achievement of overall performance objectives
  - ii. The type and amount of risk taken to achieve those objectives
  - iii. Attribution of returns to various investment decisions and risks
  - iv. Adherence to budgets set for total and active risk
  - v. Compliance with policy guidelines, particularly asset allocation policy, and
  - vi. The costs of managing the Retirement Fund's assets.
- i. Investment performance results shall be calculated and verified at least monthly by an external, independent performance consultant.
- j. The ~~Treasurer~~Chief Investment Officer, in conjunction with the various investment consultants, will monitor the investment managers for compliance with their investment guidelines, achievement of specific objectives, and individual risk exposures.
- k. The ~~Treasurer~~Chief Investment Officer shall monitor the conduct of the custodian of the Retirement Fund.
- l. The ~~Treasurer~~Chief Investment Officer shall adopt the CFA Institute Code of Ethics and Standards of Professional Conduct for all employees of the ~~Office of the Treasurer~~Chief Investment Officer and relevant consultants and managers. These are found at <http://www.cfainstitute.org/cfacentre/pdf/English2006CodeandStandards.pdf> and incorporated by reference. The ~~Treasurer~~Chief Investment Officer shall develop and enforce other ethics guidelines for the Office of the ~~Treasurer~~Chief Investment Officer as needed, consistent with other University policies and guidelines.
- m. The Committee will review this Policy from time to time to determine if modifications are necessary or desirable.

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### **4. Performance Objectives**

Performance objectives shall be established for the total Retirement Fund, asset class composites and individual manager portfolios. These objectives will be incorporated in the quarterly reviews of the Retirement Fund's performance.

The investment strategy articulated in the asset allocation policy found in [Appendix 1](#) has been developed in the context of long-term capital market expectations, as well as multi-year projections of actuarial liabilities. Accordingly, the investment objectives and strategies emphasize a long-term outlook, and interim performance fluctuations will be viewed with the corresponding perspective. The Committee acknowledges that over short time periods (i.e. one quarter, one year, and even three to five year time periods), returns will vary from performance objectives and the investment policy thus serves as a buffer against ill-considered action.

There are three principal factors that affect a pension fund's financial status: 1) contributions, 2) benefit payments and 3) investment performance. Only the last factor is dependent upon the investment policy and guidelines contained herein. However, the Committee's level of risk tolerance will take into account all three factors. At certain levels of funded status, it could be impossible for the investments to achieve the necessary performance to meet the promised liabilities. The result is that either benefits have to be reduced, contributions increased or risk tolerance changed.

Rates of return will be calculated based on a time-weighted rate of return formula as recommended by the CFA Institute. Returns will be calculated by the performance consultant and will be reported net of all fees and costs.

The performance of the overall Retirement Fund will be measured relative to:

- Actuarial rate of interest
  - Funded status
  - Inflation
  - Policy benchmarks
- a. The Retirement Fund total return objective should be at least equal to the Plan's actuarial rate of return on a consistent basis over time.
- This objective is to achieve a rate of return equal to or greater than the Plan's actuarial interest rate. If the Plan's assets grow at a rate equal to or greater than the actuarial rate, the Plan's funding condition will be maintained. Earning a lower return will generally result in increased levels of contributions. (Maintaining the Plan's funded status is conditioned, in part, on the successful implementation of a prudent funding policy.)
- b. Funded status should be in excess of 100%.
- This objective is to maintain a status of full funding, meaning that the Plan's assets are at least as great as the Plan's liabilities, both as measured by actuarially acceptable methodologies. Full funding provides a higher level of assurance that all promised benefits can be paid from existing assets and expected investment returns.

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- (The ability to maintain full funding is conditioned, in part, on the successful implementation of a prudent funding policy.)
- c. Total Retirement Fund return should exceed the Consumer Price Index on a consistent basis over time.
    - This objective is to achieve a positive return above inflation. The Plan's liabilities are sensitive to inflation, as benefits are partially determined by future salaries. Failing to achieve the targeted real (i.e., purchasing power) return may also increase future contributions.
  - d. Total Retirement Fund return should match or exceed the total Retirement Fund weighted benchmark return, net of all fees and expenses on a consistent basis over time. See [Appendix 1](#) for the composition and calculation of the Retirement Fund policy weighted benchmark.
    - This objective is to match or exceed a passively managed fund with a similar asset mix, net of all fees and expenses. The value added above the policy benchmark measures the effectiveness of the ~~Treasurer~~ Chief Investment Officer's implementation and management decisions.

Additional metrics with respect to risk are found in the Risk Policy [Appendix 2](#).

### **5. Asset Class and Manager Guidelines**

The general guidelines that apply to all investment managers are:

- a. Subject to constraints and restrictions imposed by the manager guidelines, all decisions regarding sector and security selection, portfolio construction, and timing of purchases and sales are delegated to the investment manager.
- b. The purchase of securities issued by tobacco companies is prohibited in separately managed accounts. The Regents have defined a tobacco company as "a company which derives its revenues from the manufacture and distribution of tobacco products or, if a diversified company, that no other business line contributes more revenues or earnings than tobacco products." The ~~Treasurer~~ Chief Investment Officer will determine what constitutes a tobacco company based on standard industry classification of the major index providers (e.g., Russell, MSCI) and communicate this list to investment managers annually and whenever changes occur. The Committee recognizes that the establishment of social investing restrictions limits investment opportunities and should be accompanied by adjusting performance evaluation standards appropriately.
- c. The direct purchase of property owned or a security issued by the University, its subsidiaries and affiliates, is prohibited
- d. The purchase of non-negotiable securities is prohibited in the equity and fixed income asset classes.
- e. The use of derivative securities or contracts to create economic leverage in the portfolio is prohibited. Acceptable and prohibited uses of derivatives are found in the derivatives policy in [Appendix 4](#).
- f. Transactions that involve a broker acting as a "principal," where such broker or an affiliate is also the investment manager, who is making the transaction, are prohibited.



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- g. Transactions shall be executed at the lowest possible total cost, which includes commissions, efficiency of execution, and market impact.
- h. Any investment or action with respect to an investment not expressly allowed is prohibited, unless presented to and approved prospectively by the Committee. All guidelines must be adhered to; however, if from time to time a manager shall deem an exception to the guidelines appropriate, the ~~Treasurer~~Chief Investment Officer shall seek review and approval by the Committee to make such an exception.

Managers are required to inform the ~~Treasurer~~Chief Investment Officer of significant matters pertaining to the investment of Retirement Fund assets, including at a minimum, substantive changes in investment strategy and portfolio structure; significant changes in ownership, organizational structure, financial condition or professional staffing; litigation or violation of securities regulations; significant account losses or growth of new business. Managers must inform the ~~Treasurer~~Chief Investment Officer in the event of discovering an unintended or involuntary violation of their guidelines or of any of the Policies herein pertaining to them.

Managers are required to submit periodic reports to the ~~Treasurer~~Chief Investment Officer summarizing investment activity and strategy, as per Appendices 6 and 7 and individual guidelines. Managers are required to reconcile investment returns with the custodian each month.

Specific guidelines for each major asset class will be found in Appendix 7. Manager guidelines will contain specific provisions to ensure that performance objectives and risk exposures are consistent with their particular investment mandate, which may be a style or subset of their larger asset class. However, all individual manager guidelines will be consistent with broad asset class guidelines and this Policy.

**UNIVERSITY OF CALIFORNIA RETIREMENT PLAN  
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**APPENDIX 1**

Effective: January 1, 2012

Replaces Version Effective: March 1, 2011

**ASSET ALLOCATION,  
PERFORMANCE BENCHMARKS,  
AND REBALANCING POLICY**

Based on the risk budget for the Retirement Fund, the Committee has adopted the following asset allocation policy, including asset class weights and ranges, benchmarks for each asset class, and the benchmark for the total Retirement Fund.

Criteria for including an asset class in the strategic policy include:

- Widely recognized and accepted among institutional investors
- Has low correlation with other accepted asset classes
- Has a meaningful performance history
- Involves a unique set of investors.

The Current Policy Allocation recognizes the current underinvestment in illiquid asset classes (real estate, real assets) and the corresponding need to set rebalancing ranges around this effective policy allocation until such time as long-term policy weights in these classes are achieved. The allowable ranges for each asset class and in total have been chosen to be consistent with budgets and ranges for total and active risk (see [Appendix 2](#)).

**A. Strategic Asset Allocation and Ranges**

	<b>Current Policy Allocation</b>	<b>Long-Term Target Allocation</b>	<b><u>Allowable Ranges</u></b>	
			<b><u>Minimum</u></b>	<b><u>Maximum</u></b>
U.S. Equity	28.5 %	20.5 %	23.5	33.5
Developed Non US Equity	22.0	19.0	17	27
Emerging Mkt Equity	5.0	7.0	3	7
Global Equity	2.0	2.0	1	3
US Fixed Income	12.0	12.0	9	15
High Yield Fixed Income	2.5	2.5	1.5	3.5
Emerging Mkt Fixed Income	2.5	2.5	1.5	3.5
TIPS	8.0	8.0	6	10
Private Equity	6.0	8.0	3	9
Absolute Return Strategy	6.5	8.5	1.5	11.5
Real Assets	1.0	3.0	0	2
Real Estate	4.0	7.0	1	7
Liquidity	0	0	0	10
Tail Risk Hedging Strategies	0	0	0	2
	100%	100%		
Combined Public Equity	57.5	48.5	47.5	67.5
Combined Fixed Income	25.0	25.0	20	30
Combined Alternatives	17.5	26.5	10.5	24.5

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**B. Asset Class Performance Benchmarks**

The Committee has adopted the following performance benchmarks for each asset class. Criteria for selection of a benchmark include:

- Unambiguous: the names and weights of securities comprising the benchmark are clearly delineated
- Investable: the option is to forego active management and simply replicate the benchmark
- Measurable: it is possible to readily calculate the benchmark's return on a reasonably frequent basis
- Appropriate: the benchmark is consistent with the Committee's investment preferences or biases
- Specified in Advance: the benchmark is constructed prior to the start of an evaluation period
- Reflects Current Investment Opinion: investment professionals in the asset class should have views on the assets in the benchmark and incorporate those views in their portfolio construction

<u>Asset Class</u>	<u>Benchmark</u>
U.S. Equity	Russell 3000 Tobacco Free Index
Developed Non US Equity	MSCI World ex-US (Net Dividends) Tobacco Free
Emerging Mkt Equity	MSCI Emerging Market Free (Net Dividends)
Global Equity	MSCI All Country World Index Net – IMI – Tobacco Free
Fixed Income	Barclays Capital US Aggregate Index
High Yield Fixed Income	Merrill Lynch High Yield Cash Pay Index
Emg Mkt Fixed Income	<u>Dollar Denominated</u> : JP Morgan Emerging Markets Bond Index Global Diversified
Emg Mkt Fixed Income	<u>Local Currency</u> : JP Morgan Government Bond Index Emerging Markets Global Diversified
TIPS	Barclays Capital US TIPS Index
Private Equity	N/A (See below note 2.)
Absolute Return Strategy	<u>Diversified</u> : HFRX Absolute Return Index (50%) + HFRX Market Directional Index (50%)
Absolute Return Strategy	<u>Cross Asset Class</u> : Aggregate UCRP Policy Benchmark
Real Assets	Commodities: S&PGSCI Reduced Energy Index All other: N/A (See below note 3.)
Real Estate	<u>Public</u> : FTSE EPRA NAREIT Global Index
Real Estate	<u>Private</u> : NCREIF Funds Index – Open End Diversified Core Equity (ODCE), lagged 3 months

Notes on asset class benchmarks:

1. Global Equity: The ~~Treasurer~~ Chief Investment Officer will determine what constitutes a tobacco company based on standard industry classification of the major index providers (e.g., Russell, MSCI) and communicate this list to investment managers annually and whenever changes occur.

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2. Private Equity: *Long-term* portfolio returns will be compared to investable public equity alternatives as well as non-investable peer group indices. There is no appropriate market benchmark to use for *short-term* performance evaluation or decision making.
3. Real Assets (all strategies ex-commodities): similar to Private Equity

### **C. Total Retirement Fund Performance Benchmark**

This is the composition of the total Fund performance benchmark referred to in the Investment Policy Statement, Part 4(d). The percentages below add to 100%.

<b><u>Percentage</u></b>	<b><u>Benchmark</u></b>
28.5%	× Russell 3000 Tobacco Free Index
22%	× MSCI World ex-US (Net Dividends) Tobacco Free
5%	× MSCI Emerging Market Free (Net Dividends)
2%	× MSCI All Country World Index Net – IMI – Tobacco Free
12%	× Barclays Capital US Aggregate Index
2.5%	× Merrill Lynch High Yield Cash Pay Index
2.5%	× [JP Morgan Emerging Market Bond Index Global Diversified × 33%] + [JP Morgan Government Bond Index Emerging Markets Global Diversified × 67%]
8%	× Barclays Capital US TIPS Index
6%	× Actual return of private equity portfolio
6%	× [HFRX Absolute Return Index × 50%] + [HFRX Market Directional Index × 50%] [Abs. Ret. - Diversified]
0.5%	× Aggregate UCRP Policy Benchmark [Abs. Ret. - Cross Asset Class]
1%	× Aggregate Real Assets benchmark (see section B), with components weighted by their actual weights within the total real assets portfolio
4%	× Aggregate of Public and Private Real Estate benchmarks (see section B), with components weighted by their actual weights within the total real estate portfolio

Notes on total fund benchmark:

1. The benchmark for private equity is replaced by the private equity portfolio's actual performance. This has the effect of neutralizing the active performance of this class for purposes of total fund performance evaluation. Similar comments apply to private real estate – non-core strategies (closed end funds) and Real Assets (all strategies ex commodities).
2. The calculation of the total fund benchmark will assume a monthly rebalancing methodology.
3. In the event of a significant change in asset allocation, The Regents' generalist consultant may specify an alternative weighting scheme to be used during a transition period.

### **D. Rebalancing Policy**

There will be periodic deviations in actual asset weights from the long-term/current policy asset weights specified above. Causes for periodic deviations are market movements, cash flows, and varying portfolio performance. Significant movements from the asset class policy weights will

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alter the intended expected return and risk of the Fund. Accordingly, the Investment Committee authorizes the ~~Treasurer~~Chief Investment Officer to rebalance the Fund when necessary to ensure adherence to the Investment Policy.

The ~~Treasurer~~Chief Investment Officer will monitor the actual asset allocation at least monthly. The Committee directs the ~~Treasurer~~Chief Investment Officer to take all actions necessary, within the requirement to act prudently, to rebalance assets to within the policy ranges in a timely and cost effective manner when actual weights are outside the prescribed ranges. The ~~Treasurer~~Chief Investment Officer may utilize derivative contracts (in accordance with Appendix 4) to rebalance the portfolio.

The ~~Treasurer~~Chief Investment Officer shall assess and manage the trade-off between the cost of rebalancing and the active risk associated with the deviation from policy asset weights. With approval from the Chair of the Committee, the ~~Treasurer~~Chief Investment Officer may delay a rebalancing program when the ~~Treasurer~~Chief Investment Officer believes the delay is in the best interest of the Plan. Results of rebalancing will be reported to the Committee at quarterly meetings.

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**APPENDIX 2**

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**RISK MANAGEMENT POLICY**

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**RISK PHILOSOPHY**

In its broadest sense, risk refers to the unpredictability of future asset value, and specifically, the chance that assets may decrease, as well as increase, in value. Investment principles and practical experience both support the notion that expected returns are proportional to market risk taken. The Committee recognizes that the assumption of risk is necessary to meet Plan objectives; that is, there are no “risk free” assets, which are sufficient to generate the Plan’s required rate of return. (Even if future benefit payments were known with certainty [and they are *not*], and surplus risk could be eliminated by an appropriate mix of nominal and inflation protected bonds, such a policy would result in unacceptably larger funding costs to the University and to Plan participants). Thus Plan risk management does not require the elimination of risk, but the balancing of risk and expected return. Risk in itself is intrinsically neither good nor bad; it is a resource used to generate investment returns. The Committee recognizes that “The essence of investment management is the management of risks, not the management of returns.”

**RISK POLICY**

The Committee’s policy regarding investment risk, consistent with modern portfolio theory, is that risk cannot be eliminated but should be managed. That is, plan fiduciaries are responsible for understanding the risks in various investment strategies, ensuring that they are properly compensated for these risks, and measuring and monitoring them continually. In particular, the level of risk taken should be consistent with the return objectives of the Plan.

Fiduciaries set the framework for risk management through the investment policy and guidelines, the strategic asset allocation, and the benchmarks used for performance objectives. However, tolerance for risk (alternatively, aversion to risk) may also be expressed in the form of various metrics for risk (volatility) and acceptable budgets and ranges for those metrics. Where appropriate, the Committee shall define these metrics and budgets for risk and establish acceptable ranges for them (see below).

The ~~Treasurer~~Chief Investment Officer is responsible for managing both total and active risk and shall implement procedures and safeguards so that the combined risk exposures of all portfolios in the aggregate are kept within limits established by the Committee (see definitions in section 1 of the Policy above). Further, within limits of prudent diversification and risk budgets, total and active risk exposures are fungible, that is the ~~Treasurer~~Chief Investment Officer may allocate risk exposures within and between asset classes in order to optimize return.

Although the management of investment portfolios may be outsourced, investment oversight and risk management are primary fiduciary duties of the Committee that are delegated to and performed by the ~~Treasurer~~Chief Investment Officer. The ~~Treasurer~~Chief Investment Officer shall report on risk exposures and the values of the several risk measures to the Committee, either quarterly or annually as required below.

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## RISK METRICS AND BUDGETS

There are different types of risk important at each level of plan investment management and thus different risk metrics are appropriate at each level.

- Plan level
  - Surplus Risk (insufficient assets to meet liabilities)
  - Measures the risk of inappropriate investment policy and strategy
- Asset class level
  - Total Investment Risk (volatility of total return)
  - Measures the risk of ineffective implementation of strategy
- Portfolio level
  - Active Risk or “Tracking Error” (volatility of deviation from style or benchmark)
  - Measures the risk of unintended exposures or inadequate diversification

- **Surplus risk**

There are several risk measures which focus on surplus risk. The ~~Treasurer~~Chief Investment Officer shall report on these measures to the Committee periodically. However, no objective levels (budgets) will be set for these metrics due to the separation of responsibility for investment management and funding policy. Thus results will be presented for information and use in policy reviews.

- **Metric:** Funded Ratio, defined as the ratio of plan assets to liabilities. Plan assets shall be measured at current market value as well as using actuarially smoothing. Liabilities shall be measured as the actuarial accrued liability (AAL). Liabilities, and hence this metric, are formally re-estimated only annually, but should be reviewed quarterly (change in liabilities estimated using liability duration and change in bond yields, as well as accruals for service cost and benefits paid).
- Longer term measures of forecast surplus risk shall be presented annually, in conjunction with asset liability and asset allocation reviews
  - The funded ratio projected over a ten year forecast period, using an actuarial model of assets and liabilities
  - The expected shortfall, defined as the expected loss experienced in worst case market scenarios

- **Retirement Fund Total Investment Risk**

The basis for the risk budget at the total asset level is the Policy benchmark, or neutral position. Thus the risk budget starts with the risk of the benchmark index. Assuming an expected benefit from active management, the impact of deviations from the benchmark is added to the benchmark risk to derive the total risk budget. The ~~Treasurer~~Chief Investment Officer shall report on this metric to the Committee quarterly.

- **Metric:** Retirement Fund Total Investment Risk is defined as the annualized standard deviation of the monthly plan returns, exponentially weighted over the previous 12 months. Benchmark Risk (i.e., the Capital Market risk of the strategic asset allocation) is measured similarly (using returns on the policy benchmark).
- **Budget:** Retirement Fund Total Investment Risk shall be maintained at a level equal to the square root of the sum of the squares of Benchmark Risk and the Active Risk budget (see below).

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- **Range:** If Retirement Fund Total Investment Risk is greater (less) than 20% above (below) the budgeted level at any quarterly measurement date, the ~~Treasurer~~Chief Investment Officer will take appropriate steps to reduce (increase) total Retirement Fund risk to its budget level, including but not limited to rebalancing asset class weights within allowable ranges. (For example, if the risk budget is 12%, the allowable range is +/- 2.4% [20% x 12%.])

- **Retirement Fund Active Risk**

There is no neutral or natural budget for active risk. The budget for active risk is determined to be consistent with the tolerance for active risk and the expectation to earn active return due to market inefficiencies and/or investment skill. This budget for active risk includes all of the following types of variation from policy:

1. Temporary asset weights different from strategic policy, but within the allowed ranges [Tactical/strategic risk]
2. Aggregate manager benchmarks different than asset class benchmark [Investment style risk]
3. Aggregate active manager risks [Manager value-added risk], including
  - Aggregate portfolio systematic exposures different from the benchmark
  - Aggregate portfolio security selection decisions
  - Aggregate portfolio currency exposures different from the benchmark

The ~~Treasurer~~Chief Investment Officer shall report on this metric to the Committee quarterly.

- **Metric:** Tracking Error is defined as annualized standard deviation of the difference between monthly Retirement Fund returns and monthly policy benchmark returns, exponentially weighted over the previous 12 months
- **Budget:** Tracking Error budget shall be 3.0% annual standard deviation. It is understood that this budget may change when there is a change in
  - asset allocation, or
  - risk tolerance
- **Range:** If Tracking Error is greater (less) than 1.0% (one percentage point) above the budget level at any quarterly measurement date, the ~~Treasurer~~Chief Investment Officer will take appropriate steps to reduce tracking error to its budget level, including but not limited to rebalancing asset class and/or manager weights within allowable ranges.

Both Total Investment Risk and Active Risk for the Retirement Fund shall be computed without the impact of Private Equity. For this calculation, it will be assumed that total fund performance excludes Private Equity performance and the total fund benchmark has no Private Equity component. Private Equity is the asset class defined in Appendix 7K.



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**APPENDIX 3**

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**FUNDING POLICY**

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The Regents' funding policy for the Plan has been to establish annual contributions as a percentage of payroll by using the Entry Age Normal actuarial funding method. In fiscal year 1990-91, The Regents adopted a full funding policy. Under this policy, The Regents suspend contributions to the Plan when plan assets, defined as the smaller of

- Market value, or
- Actuarial value

exceed Plan liabilities, defined as the lesser of

- Actuarial accrued liability plus normal cost, or
- 150% of current liability plus normal cost.

This policy is consistent with Internal Revenue Code section 412. Also as part of this policy, The Regents redirected employee contributions to the Plan to a mandatory Defined Contribution Plan, according to the same formula as then existed.

There are three principal factors that affect a pension fund's financial status: 1) contributions, 2) benefit payments and 3) investment performance. Only the latter is dependent upon the investment policy and guidelines contained herein. However, the Committee's level of risk tolerance will take into account all three factors. At certain levels of funded status, it could be impossible for the investments to achieve the necessary performance to meet the promised liabilities. The result is that either benefits have to be reduced, contributions increased or risk tolerance changed.

**Definitions:**

1. Actuarial value of assets: the value of investments belonging to a retirement plan, as used by the actuary for the purpose of making contributions to the plan. Typically, the actuary calculates a smoothed value to reduce the impact on contributions of market volatility.
2. Market value of assets: the value of investments belonging to a retirement plan, valued at current market prices in accordance with generally accepted accounting principles
3. Actuarial accrued liability: the accumulated value of normal costs allocated to the years before the valuation date (for both current employees, terminated employees with vested benefits, and retirees)
4. Current liability: the actuarial present value of accumulated plan benefits
5. Normal cost: the portion of actuarial present value of plan benefits and expenses which is allocated to the current year by the actuarial cost method

\*\*\*Additions shown by underscoring; deletions shown by strikethrough\*\*\*

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**UNIVERSITY OF CALIFORNIA  
GENERAL ENDOWMENT POOL**

**INVESTMENT POLICY  
STATEMENT**



Approved December 13, 2011  
Replaces version dated March 17, 2011

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**UNIVERSITY OF CALIFORNIA GENERAL ENDOWMENT POOL  
INVESTMENT POLICY STATEMENT**

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**PLEASE NOTE:**

**\* These Appendices and Guidelines are in separate documents and are incorporated by reference.**

# UNIVERSITY OF CALIFORNIA GENERAL ENDOWMENT POOL INVESTMENT POLICY STATEMENT

## Introduction and Purpose

This Investment Policy Statement (“Policy” or IPS”) provides the framework for the management of the investments of the University of California General Endowment Pool (“GEP”). The purpose of a policy statement is to document the investment management process by

- Identifying the key roles and responsibilities relating to the ongoing management of the GEP’s assets;
  - Recognize and ameliorate the agency issues among the parties responsible for various aspects of investment management;
- Setting forth an investment structure for the GEP’s assets;
  - This structure includes various asset classes and acceptable ranges that, in aggregate, are expected to produce a sufficient investment return over the long term while prudently managing risk;
  - This strategy should provide guidance in all market environments, and should be based on a clear understanding of worst case outcomes;
- Establishing formalized criteria to measure, monitor, and evaluate GEP performance results on a regular basis; and
- Encouraging effective communication among all fiduciaries, including external parties engaged to execute investment strategies.

The document is divided into five sections. There are also a number of Appendices, which are integral parts of this document.

## **1. Investment Goals, Key Responsibilities, and Philosophy**

- a. The **mission** of the GEP is to provide a common investment vehicle, which will generate a stable and continuously growing income stream, for (most but not all of) the University’s endowments and quasi-endowments, for which the University is both trustee and beneficiary.
- b. The overall investment **goal** of the GEP is to preserve the purchasing power of the future stream of endowment payout for those funds and activities supported by the endowments, and to the extent this is achieved, cause the principal to grow in value over time. Other goals include:
  - To maximize return within reasonable and prudent levels of risk
  - To maximize the value of the endowment while maintaining liquidity needed to support spending in prolonged down markets.

Key **responsibilities** in the oversight and management of the GEP are as follows:

- c. Under the authority granted in University Bylaw Sections 10.1.b and 12.5.a, The Regents has appointed a standing Committee on Investments (“Committee”), which is charged with oversight responsibility for the management of investments on behalf of The Regents, which includes the establishment of investment policies for the GEP and oversight of the management of the GEP’s assets.

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- d. Under the Bylaw Section 12.5.c, the Committee is directed to establish a system of custodianship for all securities.
- e. Under University Bylaw Section 21.4, The Regents has delegated to the ~~Treasurer~~Chief Investment Officer general responsibility for all investment matters, including the implementation of investment policies established by the Committee for the GEP. References to the “~~Treasurer~~Chief Investment Officer” below shall be understood, depending on the context, to mean the “Office of the ~~Treasurer~~Chief Investment Officer.”

The **philosophy** for the management of the GEP assets is as follows.

- f. The investment philosophy of the Committee is to create a management process with sufficient flexibility to capture investment opportunities as they may occur, yet maintain reasonable parameters to ensure prudence and care in the execution of the investment program.
- g. The Committee seeks a return on investment consistent with levels of investment risk that are prudent and reasonable given medium- to long-term capital market conditions and the investment objectives of the GEP (see part 4 below). While the Committee recognizes the importance of the preservation of capital, it also recognizes that to achieve the GEP’s investment objectives requires prudent risk-taking, and that risk is the prerequisite for generating excess investment returns. Therefore the Committee’s policy regarding investment risk, consistent with modern portfolio theory, is that risk cannot be eliminated but should be managed, and that fiduciaries have the obligation to utilize risk efficiently. Risk exposures should be identified, measured, monitored and tied to responsible parties; and risk should be taken consistent with expectations for return. Further articulation of the Committee’s risk policy, including appropriate budgets and ranges for various types of risk are found in Appendix 2.

The **principal risks** that impact the GEP, and the parties responsible for managing them are as follows:

- h. *Capital market risk* is the risk that the investment returns (in excess of the risk-free rate) associated with the Committee’s asset allocation policy are not sufficient to provide the required returns to meet the GEP’s investment objectives. Responsibility for determining the overall level of capital market risk lies with the Committee.
- i. *Investment style risk* is associated with an active management investment program. It is the performance differential between an asset category’s market target and the aggregate of the managers’ benchmarks within the asset category weighted according to a policy allocation specified by the ~~Treasurer~~Chief Investment Officer. This risk is an implementation risk and is the responsibility of the ~~Treasurer~~Chief Investment Officer.
- j. *Manager value-added risk* is also associated with an active management investment program. It is the performance differential between the aggregate of the managers’ actual (active) portfolios and the aggregate of the managers’ benchmarks, both at policy allocation. This risk is an implementation risk and is the responsibility of the ~~Treasurer~~Chief Investment Officer (and indirectly the investment managers retained by the ~~Treasurer~~Chief Investment Officer).
- k. *Tactical/strategic risk* is the performance differential between (1) policy allocations for the GEP’s asset categories and its investment managers and (2) the actual allocations. This risk is the responsibility of the ~~Treasurer~~Chief Investment Officer.

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- l. *Total active risk* refers to the volatility of the difference between the return of the GEP policy benchmark (see [Appendix 1](#)) and the actual return. It incorporates the aggregate of the risks in (i), (j) and (k) above, and is thus the responsibility of the ~~Treasurer~~Chief Investment Officer.
- m. *Total investment risk* refers to the volatility of the return of the total GEP assets. It incorporates all elements of investment risk as enumerated above, and is thus the joint responsibility of the Committee and the ~~Treasurer~~Chief Investment Officer.
- n. *Peer risk* refers to the difference in GEP performance relative to peer institutions. The Committee acknowledges that similar institutions may have different objectives and different levels of investment risk. Comparisons of performance with other institutions are meaningful *only* after adjusting for differences in investment policy and risk among peers. This risk is the responsibility of the Committee.

## **2. Investment Policies**

The policies of the investment program establish the investment strategy and guide its implementation.

- a. The investment policies of the GEP shall be based on a financial plan that will consider:
  - i. The financial condition of the GEP, i.e., the relationship between the current and projected assets of the GEP, projected donor contributions, and the desired spending policy [see [Appendix 3](#)]
  - ii. Future growth of faculty and students; and both general and educational inflation
  - iii. The expected long term capital market outlook, including expected volatility of and correlation among various asset classes
  - iv. The range of possible investment outcomes associated with different policies
  - v. The Committee's risk tolerance, that is, the trade-off between the desire to achieve high returns (and the associated high volatility) and the desire to avoid unacceptable outcomes (and the associated necessity for reduced volatility).
- b. The Committee will consider alternative investment policies and will measure their potential impact on the financial condition of the GEP and assess their suitability in meeting the objectives of the GEP.
- c. The Committee's financial plan will result in a risk budget, that is, an expected amount of volatility associated with a given expected level of investment returns offered by the capital markets including the expected active return.
- d. Based on the risk budget, the Committee, with input from the ~~Treasurer~~Chief Investment Officer and other consultants, will approve a specific allocation of the investments (the asset allocation policy) among the various asset classes considered prudent given the GEP's objectives, time horizon, and constraints, and considering multiple measures of investment risk. The asset allocation policy shall be expressed in terms of a normal percentage allocation, and ranges for each asset class. These normal weights and ranges are found in [Appendix 1](#). Criteria for including an asset class in the strategic allocation are also in [Appendix 1](#).
- e. The asset allocation policy shall be sufficiently diversified to enable the appropriate fiduciary to manage risk without imprudently sacrificing return. The ~~Treasurer~~Chief

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Investment Officer is delegated the responsibility of managing total and active risk within the ranges set by the Committee (see Appendices 1 and 2). Within the limits of prudent diversification and established risk budgets, capital market and active risk exposures are fungible, and the ~~Treasurer~~Chief Investment Officer may allocate risk exposures within and between asset classes in order to optimize return. When necessary, the ~~Treasurer~~Chief Investment Officer may use appropriate risk management strategies to protect portfolio value.

- f. The Committee will approve performance benchmarks for each asset class, based on a pre-approved set of criteria, which are found in Appendix 1, and will approve overall investment guidelines for each asset class, which are found in Appendix 7.
- g. The GEP equity and fixed income assets shall at all times avoid the use of economic leverage. Economic leverage, in the context of portfolio management is defined as a net dollar exposure to assets in excess of the amount of invested capital, as measured by current market value. The term “net dollar exposure” is defined in the Derivatives Policy, Appendix 4. A very small, inadvertent, or temporary violation of this restriction that may occur in the normal course of portfolio management shall *not* be construed as leverage. Notwithstanding the general prohibition against leverage, leverage may be used in Private Equity, Real Estate and Absolute Return strategies, per the limits and guidelines set forth in Appendix 7 and in the conduct of the Securities Lending Program (see section 2l. below).
- h. The ~~Treasurer~~Chief Investment Officer will implement the asset allocation policy as approved by the Committee. The ~~Treasurer~~Chief Investment Officer will select investment professionals (or “managers”) with demonstrated experience and expertise who will be responsible for managing specific portfolios consistent with the Guidelines in Appendices 6 and 7. Each investment manager will function under a formal contract that delineates its responsibilities, investment style and process, performance expectations, administrative requirements, and compensation. Where appropriate, each manager’s contract will include a benchmark and range of probable outcomes relative to that benchmark. The ~~Treasurer~~Chief Investment Officer shall establish and implement procedures for the selection, monitoring, evaluation, and termination of investment managers, which are found in Appendix 6.
- i. The ~~Treasurer~~Chief Investment Officer will allocate funds across managers to develop an efficient investment structure, within the constraints of the prudence requirement, for each asset class, and will monitor whether the aggregate characteristics of all portfolios in an asset class comply with the investment guidelines for that class. The ~~Treasurer~~Chief Investment Officer will determine a policy allocation for each manager to be used in the evaluation of the active management program.
- j. The ~~Treasurer~~Chief Investment Officer shall establish and implement procedures to provide efficient management of liquidity (including timely payouts) for the GEP.
- k. The ~~Treasurer~~Chief Investment Officer shall be responsible for administering the investments of the GEP at the lowest possible cost, being careful to avoid sacrificing quality. These costs include, but are not limited to, management and custodial fees, consulting fees, transaction costs and other administrative costs chargeable to the GEP. The ~~Treasurer~~Chief Investment Officer may establish directed brokerage arrangements with the custodian for the GEP or other qualified third parties in order to reduce overall commissions cost for the GEP.

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- l. The ~~Treasurer~~Chief Investment Officer may participate in securities lending programs, as a means to augment income, with the custodian or other qualified third parties. Cash collateral received from borrowers will be invested by the ~~Treasurer~~Chief Investment Officer or the lending agent, in a short term investment pool, in accordance with guidelines established by the ~~Treasurer~~Chief Investment Officer. Current guidelines are included in Appendix 7.
- m. The Committee considers the active voting of proxies an integral part of the investment process. Proxy voting will occur in accordance with the Proxy Voting Policy found in Appendix 5.
- n. The investment program shall comply with existing and future applicable state and federal laws and regulations and the prudence requirement.
- o. All transactions undertaken on behalf of the GEP will be undertaken solely in the interests of the University and according to the direction of donors.

### **3. Fiduciary Oversight Procedures**

The following procedures for the management of the GEP's assets outline the specific responsibilities of the Committee and other fiduciaries.

- a. The Committee, in developing investment policy for the GEP assets, shall act with the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and with like aims.
- b. The Committee will exercise its fiduciary responsibilities in regard to the investment program in accordance with the GEP Mission [see section 1.a above] and University Bylaws.
- c. The Committee shall review the asset allocation policy, asset class guidelines, and current capital market assumptions at least annually to ensure that the current asset mix can reasonably be expected to achieve the long-term goals of the GEP.
- d. The Committee will review the GEP's financial condition annually, and recommend a Spending Policy for each year to the Finance Committee, which is responsible for approval.
- e. The Committee may appoint investment consultants to review investment performance of the GEP in whole or with respect to specific asset classes, to assist in the development of the GEP's investment policies and asset allocation, to monitor and report on investment risks, and to provide independent assessment of investments proposed by the ~~Treasurer~~Chief Investment Officer.
- f. The Committee has appointed a standing Investment Advisory Committee ("IAC") of selected Regents, investment professionals, faculty, and UC Foundation members to provide input to the Committee on decisions and assist in oversight of the ~~Treasurer~~Chief Investment Officer. The Chair of the Committee shall also be the Chair of the IAC.
- g. The Committee shall review the investments of the GEP no less than quarterly to assess whether policy guidelines continue to be appropriate and are met. The Committee shall monitor investment risk, as well as monitor investment returns on an absolute and benchmark relative basis.



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- h. The ~~Treasurer~~ Chief Investment Officer shall prepare quarterly and annual reports for the Committee and The Regents on the investment program, including
  - i. The achievement of overall performance objectives
  - ii. The type and amount of risk taken to achieve those objectives
  - iii. Attribution of returns to various investment decisions and risks
  - iv. Adherence to budgets set for total and active risk
  - v. Compliance with policy guidelines, particularly asset allocation policy, and
  - vi. The costs of managing the GEP's assets.
- i. Investment performance results shall be calculated and verified at least monthly by an external, independent performance consultant.
- j. The ~~Treasurer~~ Chief Investment Officer, in conjunction with the various investment consultants, will monitor the investment managers for compliance with their investment guidelines, achievement of specific objectives, and individual risk exposures.
- k. The ~~Treasurer~~ Chief Investment Officer shall monitor the conduct of the custodian of the GEP.
- l. The ~~Treasurer~~ Chief Investment Officer shall adopt the CFA Institute Code of Ethics and Standards of Professional Conduct for all employees of the ~~Office of the Treasurer~~ Chief Investment Officer and relevant consultants and managers. These are found at <http://www.cfainstitute.org/cfacentre/pdf/English2006CodeandStandards.pdf> and incorporated by reference. The ~~Treasurer~~ Chief Investment Officer shall develop and enforce other ethics guidelines for the employees of the ~~Office of the Treasurer~~ Chief Investment Officer as needed, consistent with other University policies and guidelines.
- m. The Committee will review this Policy from time to time to determine if modifications are necessary or desirable.

### **4. Performance Objectives**

Performance objectives shall be established for the total GEP, asset class composites and individual manager portfolios. These objectives will be incorporated in the quarterly reviews of the GEP's performance.

The investment strategy articulated in the asset allocation policy found in Appendix 1 has been developed in the context of long-term capital market expectations, as well as multi-year projections of contributions, spending, and inflation. Accordingly, the investment objectives and strategies emphasize a long-term outlook, and interim performance fluctuations will be viewed with the corresponding perspective. The Committee acknowledges that over short time periods (i.e. one quarter, one year, and even three to five year time periods), returns will vary from performance objectives and the investment policy thus serves as a buffer against ill-considered action.

There are four principal factors that affect an endowment fund's financial status: 1) contributions from donors, 2) annual payout to endowment recipients, 3) inflation, and 4) investment performance. Only the last factor is dependent upon the investment policy and guidelines contained herein. However, the Committee's level of risk tolerance will take into account all four factors. At certain levels of assets and a given spending policy, it could be impossible for

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the investments to achieve the necessary performance to meet desired spending. The result is that either spending policy has to be changed, contributions increased or risk tolerance changed.

Rates of return will be calculated based on a time-weighted rate of return formula as recommended by the CFA Institute. Returns will be calculated by the performance consultant and will be reported net of all fees and costs.

The performance of the overall GEP will be measured relative to:

- Inflation
  - Policy benchmarks
- a. Total GEP return should exceed the Consumer Price Index on a consistent basis over time.
- This objective is to achieve a positive return above inflation. The GEP's assets are invested with an infinite time horizon, and failure to keep pace with inflation may jeopardize the endowments' intended purposes.
- b. Total GEP return should match or exceed the total GEP weighted benchmark return, net of all fees and expenses on a consistent basis over time. See [Appendix 1](#) for the composition and calculation of the GEP policy weighted benchmark.
- This objective is to match or exceed a passively managed fund with a similar asset mix, net of all fees and expenses. The value added above the policy benchmark measures the effectiveness of the ~~Treasurer~~ Chief Investment Officer's implementation and management decisions. The policy benchmark should also be adjusted for the costs of passive investing.

Additional metrics with respect to risk are found in the Risk Policy [Appendix 2](#).

### **5. Asset Class and Manager Guidelines**

The general guidelines that apply to all investment managers are:

- a. Subject to constraints and restrictions imposed by the manager guidelines, all decisions regarding sector and security selection, portfolio construction, and timing of purchases and sales are delegated to the investment manager.
- b. The purchase of securities issued by tobacco companies is prohibited in separately managed accounts. The Regents have defined a tobacco company as "a company which derives its revenues from the manufacture and distribution of tobacco products or, if a diversified company, that no other business line contributes more revenues or earnings than tobacco products." The ~~Treasurer~~ Chief Investment Officer will determine what constitutes a tobacco company based on standard industry classification of the major index providers (e.g., Russell, MSCI) and communicate this list to investment managers annually and whenever changes occur. The Committee recognizes that the establishment of social investing restrictions limits investment opportunities and should be accompanied by adjusting performance evaluation standards appropriately.

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- c. The direct purchase of property owned or a security issued by the University, its subsidiaries and affiliates, is prohibited
- d. The purchase of non-negotiable securities is prohibited in the equity and fixed income asset classes.
- e. The use of derivative securities or contracts to create economic leverage in the portfolio is prohibited. Acceptable and prohibited uses of derivatives are found in the derivatives policy in Appendix 4.
- f. Transactions that involve a broker acting as a "principal," where such broker or an affiliate is also the investment manager, who is making the transaction, are prohibited.
- g. Transactions shall be executed at the lowest possible total cost, which includes commissions, efficiency of execution, and market impact.
- h. Any investment or action with respect to an investment not expressly allowed is prohibited, unless presented to and approved prospectively by the Committee. All guidelines must be adhered to; however, if from time to time a manager shall deem an exception to the guidelines appropriate, the ~~Treasurer~~Chief Investment Officer shall seek review and approval by the Committee to make such an exception.

Managers are required to inform the ~~Treasurer~~Chief Investment Officer of significant matters pertaining to the investment of GEP assets, including at a minimum, substantive changes in investment strategy and portfolio structure; significant changes in ownership, organizational structure, financial condition or professional staffing; litigation or violation of securities regulations; significant account losses or growth of new business. Managers must inform the ~~Treasurer~~Chief Investment Officer in the event of discovering an unintended or involuntary violation of their guidelines or of any of the Policies herein pertaining to them.

Managers are required to submit periodic reports to the ~~Treasurer~~Chief Investment Officer summarizing investment activity and strategy, as per Appendices 6 and 7 and individual guidelines. Managers are required to reconcile investment returns with the custodian each month.

Specific guidelines for each major asset class will be found in Appendix 7. Manager guidelines will contain specific provisions to ensure that performance objectives and risk exposures are consistent with their particular investment mandate, which may be a style or subset of their larger asset class. However, all individual manager guidelines will be consistent with broad asset class guidelines and this Policy.

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**APPENDIX 1**

Effective: January 1, 2012

Replaces Version Effective: March 1, 2011

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**ASSET ALLOCATION,  
PERFORMANCE BENCHMARKS,  
AND REBALANCING POLICY**

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Based on the risk budget for the GEP, the Committee has adopted the following asset allocation policy, including asset class weights and ranges, benchmarks for each asset class, and the benchmark for the total GEP.

Criteria for including an asset class in the strategic policy include:

- Widely recognized and accepted among institutional investors
- Has low correlation with other accepted asset classes
- Has a meaningful performance history
- Involves a unique set of investors

The Current Policy Allocation recognizes the current under-investment in illiquid asset classes (real estate, real assets) and the corresponding need to set rebalancing ranges around this effective policy allocation until such time as long-term policy weights in these classes are achieved. The allowable ranges for each asset class and in total have been chosen to be consistent with budgets and ranges for total and active risk.

**A. Strategic Asset Allocation and Ranges**

	<b>Current Policy <u>Allocation</u></b>	<b>Long-Term Target <u>Allocation</u></b>	<b><u>Allowable Ranges</u></b>	
			<b><u>Minimum</u></b>	<b><u>Maximum</u></b>
U.S. Equity	20.0%	18.5%	15	25
Developed Non US Equity	18.5	16.0	13.5	23.5
Emerging Mkt Equity	5.0	6.0	3	7
Global Equity	2.0	2.0	1	3
US Fixed Income	7.5	5.0	4.5	10.5
High Yield Fixed Income	3.0	2.5	2	4
Emerging Mkt Fixed Income	3.0	2.5	2	4
TIPS	4.0	2.5	2	6
Private Equity	7.0	9.0	4	10
Absolute Return	24.0	25.5	19	29
Real Assets	1.0	3.0	0	2
Real Estate	5.0	7.5	2	8
Liquidity	0	0	0	10
Tail Risk Hedging Strategies	0	0	0	2
	100%	100%		
Combined Public Equity	45.5	42.5	35.5	55.5
Combined Fixed Income	17.5	12.5	12.5	22.5
Combined Alternatives*	37.0	45.0	27.0	47.0

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\* Alternatives category including, but not limited to: Real Estate, Private Equity, Real Assets, and Absolute Return Strategies

**B. Asset Class Performance Benchmarks**

The Committee has adopted the following performance benchmarks for each asset class. Criteria for selection of a benchmark include:

- Unambiguous: the names and weights of securities comprising the benchmark are clearly delineated
- Investable: the option is to forego active management and simply replicate the benchmark
- Measurable: it is possible to readily calculate the benchmark’s return on a reasonably frequent basis
- Appropriate: the benchmark is consistent with The Committee’s investment preferences or biases
- Specified in Advance: the benchmark is constructed prior to the start of an evaluation period
- Reflecting Current Investment Opinion: investment professionals in the asset class should have views on the assets in the benchmark and incorporate those views in their portfolio construction

<b><u>Asset Class</u></b>	<b><u>Benchmark</u></b>
U.S. Equity	Russell 3000 Tobacco Free Index
Non US Eq. Devel.	MSCI World ex-US Net Tobacco Free
Emerging Mkt Eq.	MSCI Emerging Market Free Net
Global Equity	MSCI All Country World Index Net – IMI – Tobacco Free
Fixed Income	Barclays Capital US Aggregate Bond Index
High Yield Fixed Income	Merrill Lynch High Yield Cash Pay Index
Emg Mkt Fixed Income	<u>Dollar Denominated</u> : JP Morgan Emerging Markets Bond Index Global Diversified
Emg Mkt Fixed Income	<u>Local Currency</u> : JP Morgan Government Bond Index Emerging Markets Global Diversified
TIPS	Barclays Capital US TIPS Index
Private Equity	N/A (See below note 2.)
Absolute Return	<u>Diversified</u> : HFRX Absolute Return Index (50%) + HFRX Market Directional Index (50%)
Absolute Return	<u>Cross Asset Class</u> : Aggregate GEP Policy Benchmark
Real Assets	Commodities: S&PGSCI Reduced Energy Index All other: N/A (See below note 3.)
Real Estate	<u>Public</u> : FTSE EPRA NAREIT Global Index return
Real Estate	<u>Private</u> : NCREIF Funds Index – Open End Diversified Core Equity (ODCE), lagged 3 months

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Notes on asset class benchmarks:

1. Global Equity: The ~~Treasurer~~ Chief Investment Officer will determine what constitutes a tobacco company based on standard industry classification of the major index providers (e.g., Russell, MSCI) and communicate this list to investment managers annually and whenever changes occur.
2. Private Equity: *Long term* portfolio returns will be compared to investable public equity alternatives as well as non-investable peer group indices. There is no appropriate market benchmark to use for *short term* performance evaluation or decision making.
3. Real Assets (all strategies ex-commodities): similar to Private Equity

**C. Total GEP Performance Benchmark**

This is the composition of the total GEP performance benchmark referred to in the Investment Policy Statement, Part 4(b). The percentages below add to 100%.

<b><u>Percentage</u></b>	<b><u>Benchmark</u></b>
20.0%	× Russell 3000 Tobacco Free Index
18.5%	× MSCI World ex-US Net Tobacco Free
5.0%	× MSCI Emerging Market Free Net
2.0%	× MSCI All Country World Index Net – IMI – Tobacco Free
7.5%	× Barclays Capital US Aggregate Bond Index
3.0%	× Merrill Lynch High Yield Cash Pay Index
3.0%	× [JP Morgan Emerging Market Bond Index Global Diversified × 33%] + [JP Morgan Government Bond Index Emerging Markets Global Diversified × 67%]
4.0%	× Barclays Capital US TIPS Index
7.0%	× Actual return of private equity portfolio
23.5%	× [HFRX Absolute Return Index × 50%] + [HFRX Market Directional Index × 50%] [Abs. Ret. - Diversified]
0.5%	× Aggregate GEP Policy Benchmark [Abs. Ret. - Cross Asset Class]
1.0%	× Aggregate Real Assets benchmark (see section B), with components weighted by their actual weights within the total real assets portfolio
5.0%	× Aggregate of Public and Private Real Estate benchmarks (see section B), with components weighted by their actual weights within the total real estate portfolio

Notes on Total Fund benchmark:

1. The benchmark for private equity is replaced by the private equity portfolio's actual performance. This has the effect of neutralizing the active performance of this class for purposes of total fund performance evaluation.
2. The calculation of the Total Fund benchmark will assume a monthly rebalancing methodology.
3. In the event of a significant change in asset allocation, The Regents' generalist consultant may specify an alternative weighting scheme to be used during a transition period.

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**D. Rebalancing Policy**

There will be periodic deviations in actual asset weights from the long-term/current policy asset weights specified above. Causes for periodic deviations are market movements, cash flows, and varying portfolio performance. Significant movements from the asset class policy weights will alter the intended expected return and risk of the GEP. Accordingly, the Investment Committee authorizes the ~~Treasurer~~Chief Investment Officer to rebalance the GEP when necessary to ensure adherence to the Investment Policy.

The ~~Treasurer~~Chief Investment Officer will monitor the actual asset allocation at least monthly. The Committee directs the ~~Treasurer~~Chief Investment Officer to take all actions necessary, within the requirement to act prudently, to rebalance assets to within the policy ranges in a timely and cost effective manner when actual weights are outside the prescribed ranges. The ~~Treasurer~~Chief Investment Officer may utilize derivative contracts [in accordance with Appendix 4] to rebalance the portfolio.

The ~~Treasurer~~Chief Investment Officer shall assess and manage the trade-off between the cost of rebalancing and the active risk associated with the deviation from policy asset weights. With approval from the Chair of the Committee, the ~~Treasurer~~Chief Investment Officer may delay a rebalancing program when the ~~Treasurer~~Chief Investment Officer believes the delay is in the best interest of the GEP. Results of rebalancing will be reported to the Committee at quarterly meetings.

**UNIVERSITY OF CALIFORNIA GENERAL ENDOWMENT POOL  
INVESTMENT POLICY STATEMENT**

**APPENDIX 2**

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**RISK MANAGEMENT POLICY**

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**RISK PHILOSOPHY**

In its broadest sense, risk refers to the unpredictability of future asset value, and specifically, the chance that assets may decrease, as well as increase, in value. Investment principles and practical experience both support the notion that expected returns are proportional to market risk taken. The Committee recognizes that the assumption of risk is necessary to meet GEP objectives; that is, there are no “risk free” assets, which are sufficient to generate the return needed to support planned spending. Thus GEP risk management does not require the elimination of risk, but the balancing of risk and expected return. Risk in itself is intrinsically neither good nor bad; it is a resource used to generate investment returns. The Committee recognizes that “The essence of investment management is the management of risks, not the management of returns.”

**RISK POLICY**

The Committee’s policy regarding investment risk, consistent with modern portfolio theory, is that risk cannot be eliminated but should be managed. That is, GEP fiduciaries are responsible for understanding the risks in various investment strategies, ensuring that they are properly compensated for these risks, and measuring and monitoring them continually. In particular, the level of risk taken should be consistent with the return objectives of the GEP.

Fiduciaries set the framework for risk management through the investment policy and guidelines, the strategic asset allocation, and the benchmarks used for performance objectives. However, tolerance for risk (alternatively, aversion to risk) may also be expressed in the form of various metrics for risk (volatility) and acceptable budgets and ranges for those metrics. Where appropriate, the Committee shall define these metrics and budgets for risk and establish acceptable ranges for them (see below).

The ~~Treasurer~~Chief Investment Officer is responsible for managing both total and active risk and shall implement procedures and safeguards so that the combined risk exposures of all portfolios in the aggregate are kept within limits established by the Committee (see definitions in section 1 of the Policy above). Further, within limits of prudent diversification and risk budgets, total and active risk exposures are fungible, that is the ~~Treasurer~~Chief Investment Officer may allocate risk exposures within and between asset classes in order to optimize return.

Although the management of investment portfolios may be outsourced, investment oversight and risk management are primary fiduciary duties of the Committee that are delegated to and performed by the ~~Treasurer~~Chief Investment Officer. The ~~Treasurer~~Chief Investment Officer shall report on risk exposures and the values of the several risk measures to the Committee, either quarterly or annually as required below.

**RISK METRICS AND BUDGETS**

There are different types of risk important at each level of GEP investment management and thus different risk metrics are appropriate at each level.



## UNIVERSITY OF CALIFORNIA GENERAL ENDOWMENT POOL INVESTMENT POLICY STATEMENT

- GEP level
  - Spending Risk (insufficient assets to meet planned spending)
  - Measures the risk of inappropriate investment policy and strategy
- Asset class level
  - Total Investment Risk (volatility of total return)
  - Measures the risk of ineffective implementation of strategy
- Portfolio level
  - Active Risk or “Tracking Error” (volatility of deviation from style or benchmark)
  - Measures the risk of unintended exposures or inadequate diversification

- **Spending risk**

The ~~Treasurer~~ Chief Investment Officer shall report on this measure to the Committee annually, in conjunction with endowment financial reviews. However, no objective levels (budget) will be set for this metric due to the separation of responsibility for investment management and spending policy, and the unpredictability of donor contributions. Thus results will be presented for information and use in policy reviews.

- **Metric:** Projected year-to-year change in real spending per student, over a long term forecast horizon

- **GEP Total Investment risk**

The basis for the risk budget at the total asset level is the Policy benchmark, or neutral position. Thus the risk budget starts with the risk of the benchmark index. Assuming an expected benefit from active management, the impact of deviations from the benchmark is added to the benchmark risk to derive the total risk budget. The ~~Treasurer~~ Chief Investment Officer shall report on this metric to the Committee quarterly.

- **Metric:** GEP Total Investment Risk, defined as the annualized standard deviation of the monthly GEP returns, exponentially weighted over the previous 12 months. Benchmark Risk (i.e., the Capital Market risk of the strategic asset allocation) is measured similarly (using returns on the policy benchmark).
- **Budget:** GEP Total Investment Risk shall be maintained at a level equal to the square root of the sum of the squares of Benchmark Risk and the Active Risk budget (see below).
- **Range:** If GEP Total Investment Risk is greater (less) than 20% above (below) the budgeted level at any quarterly measurement date, the ~~Treasurer~~ Chief Investment Officer will take appropriate steps to reduce (increase) total GEP risk to its budget level, including but not limited to rebalancing asset class weights within allowable ranges. (For example, if the risk budget is 12%, the allowable range is +/- 2.4% [20% x 12%.])

- **GEP Active Risk**

There is no neutral or natural budget for active risk. The budget for active risk is determined to be consistent with the tolerance for active risk and the expectation to earn active return due to market inefficiencies and/or investment skill. This budget for active risk includes *all of the following* types of variation from policy:

1. Temporary asset weights different from strategic policy, but within the allowed ranges [Tactical/strategic risk]

**UNIVERSITY OF CALIFORNIA GENERAL ENDOWMENT POOL  
INVESTMENT POLICY STATEMENT**

2. Aggregate manager benchmarks different than asset class benchmark [Investment style risk]
3. Aggregate active manager risks [Manager value-added risk], including
  - o Aggregate portfolio systematic exposures different from the benchmark
  - o Aggregate portfolio security selection decisions
  - o Aggregate portfolio currency exposures different from the benchmark

The ~~Treasurer~~ Chief Investment Officer shall report on this metric to the Committee quarterly.

- o **Metric:** Tracking Error, defined as annualized standard deviation of the difference between monthly GEP returns and monthly policy benchmark returns, exponentially weighted over the previous 12 months
- o **Budget:** Tracking Error budget shall be 3.0% annual standard deviation. It is understood that this budget may change when there is a change in
  - asset allocation, or
  - risk tolerance
- o **Range:** If Tracking Error is greater (less) than 1.0% (one percentage point) above the budget level at any quarterly measurement date, the ~~Treasurer~~ Chief Investment Officer will take appropriate steps to reduce tracking error to its budget level, including but not limited to rebalancing asset class and/or manager weights within allowable ranges.

Both Total Investment Risk and Active Risk for the GEP shall be computed without the impact of Private Equity. For this calculation, it will be assumed that Total Fund performance excludes Private Equity performance and the Total Fund benchmark has no Private Equity component. Private Equity is the asset class defined in Appendix 7K.

**UNIVERSITY OF CALIFORNIA GENERAL ENDOWMENT POOL  
INVESTMENT POLICY STATEMENT**

**APPENDIX 3**

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**SPENDING POLICY**

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The Regents have adopted a Total Return Policy, that is, annual spending may be comprised of income, realized capital gains, or unrealized capital gains, or any combination thereof.

Annual spending shall be calculated as: a percentage times the average of the past 60 months market value of endowment assets, where the percentage may range between 4.35% and 4.75%, inclusive. Even with this smoothing of the impact of investment returns, there is a possibility that both nominal and inflation adjusted spending may experience year-to-year declines.

There are four principal factors that affect an endowment fund's financial status: 1) contributions from donors, 2) annual payout to endowment recipients, 3) inflation, and 4) investment performance. Only the latter is dependent upon the investment policy and guidelines contained herein. However, the Committee's level of risk tolerance will take into account all four factors. At certain levels of assets and a given spending policy, it could be impossible for the investments to achieve the necessary performance to meet the desired spending. The result is that either spending policy has to be changed, contributions increased or risk tolerance changed.

**\*\*\*Additions shown by underscoring; deletions shown by strikethrough\*\*\***

REGENTS POLICY 6103

POLICY ESTABLISHING THE INVESTMENT ADVISORY GROUP

*Adopted November 19, 1999*

*Amended July 19, 2007, September 20, 2007, and September 16, 2010*

**Function:** The Investment Advisory Group shall function in an oversight and evaluative role providing advice to The Regents with respect to establishment of investment policies and investment performance, including, but not limited to, investment strategies, policies and procedures; investment performance; investment personnel ~~in the Office of the Treasurer~~Chief Investment Officer; external investment managers; and the budget of the Office of the Treasurer~~Chief Investment Officer~~ ~~budget~~.

**Authority:** The Committee on Investments has authority under Regents Bylaw 12.5 for management of investments of the Corporation, and the Advisory Group shall have no management or action authority. In addition, the Investment Advisory Group shall have no authority for selection of specific investments, including the selection of investment managers or individual investments.

**Composition:** (a) The Advisory Group shall have not more than seven and not fewer than four members, appointed by the Board of Regents upon recommendation of the Committee on Governance, in consultation with the Chair of the Committee on Investments. (b) Except as provided in subsection (c), membership is limited to investment professionals, faculty, and UC Foundation members not currently serving as Regents. (c) Notwithstanding subsection (b), one member of the Advisory Group shall be a represented employee of the University of California with expertise in investments. (d) Members of the Advisory Group shall serve for an initial term of four years and may serve a second term of four years.

**Meetings:** Members of the Advisory Group shall meet only as non-voting advisors in meetings of The Regents' Committee on Investments, which are noticed and conducted in accordance with the provisions of the Bagley-Keene Open Meeting Act.

**Reports:** The Advisory Group may request the ~~Treasurer~~Chief Investment Officer, other University of California staff, and such external sources as the Group shall determine advisable to provide reports on investment matters.

**Consultant:** The Advisory Group may recommend to the Committee on Investments that one or more consultants be retained from time to time to advise the Advisory Group and the Committee on Investments.

**Conflicts:** Members of the Advisory Group shall upon taking and leaving office and annually during their terms, with updates when information changes, disclose the following: their status and the status of their immediate family, within the meaning of the Political Reform Act, as partners, members, executive officers or employees with any and all investment management firms; any ownership interest in a privately held investment management firm; and any ownership interest of 1 percent or more in a publicly traded investment management firm.

An investment management firm is defined as a for-profit business entity which derives its revenues from the investment of third-party assets or, if it is a diversified business entity, no other business line contributes more revenues or earnings than the investment of third-party assets.

**Expenses:** Members of the Advisory Group shall receive no compensation for their services. They shall be reimbursed for expenses associated with service on the Advisory Group in accordance with policies applicable to members of the Board.

**\*\*\*Additions shown by underscoring; deletions shown by strikethrough\*\*\***

REGENTS POLICY 6104

POLICY ON CONFLICT OF INTEREST REGARDING ASSETS MANAGED BY THE  
~~TREASURER~~ CHIEF INVESTMENT OFFICER

*Adopted September 22, 2005*

*Amended July 19, 2007, November 15, 2007, and March 20, 2008*

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~~ Chief Investment Officer 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.

Individual Regents and members of the Regents' Investment Advisory Group (IAG) are prohibited from contacting the ~~Treasurer's Office~~ Chief Investment Officer, including any officer of that office, to offer advice or recommendations with respect to the selection of specific investments, investment managers, or investment management firms. The General Counsel is responsible for determining, pursuant to the following procedures, that the ~~Treasurer~~ Chief Investment Officer's responsibilities for selecting investment managers have been exercised free of any such prohibited efforts to influence the ~~Treasurer's Office~~ the Chief Investment Officer. The ~~Treasurer's Office~~ Chief Investment Officer will advise the General Counsel's Office if ~~it~~ any employee of that office is contacted by a Regent or an IAG member in connection with the choice of investments, investment managers, or investment management firms. The Office of the General Counsel will then determine whether the communication was prohibited pursuant to this policy. In the event such a prohibited effort to influence a ~~Treasurer's Office~~ the Chief Investment Officer's selection of 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.

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.

**\*\*\*Additions shown by underscoring; deletions shown by strikethrough\*\*\***

## REGENTS POLICY 6105

POLICY ON DISCLOSURE OF UNIVERSITY OF CALIFORNIA RETIREMENT PLAN  
AND GENERAL ENDOWMENT POOL INVESTMENT-RELATED INFORMATION

*Approved May 26, 2005*

This document sets forth the policy of The Regents on disclosure of information relating to the investments of the University of California Retirement Plan (the UCRP) and the General Endowment Pool (the GEP). The purpose of this policy statement is to make clear how and what investment-related information will be routinely disclosed to participants in the UCRP and the general public.

- (1) The ~~Treasurer~~Chief Investment Officer provides investment-related information on the UCRP and the GEP to The Regents' Committee on Investments and the Investment Advisory Committee in a manner consistent with the requirements outlined in the Investment Policy Statement for the University of California Retirement Plan approved by The Regents on November 18, 2004 and the Investment Policy Statement for the General Endowment Pool approved by The Regents on March 17, 2005. Current and historical materials are publicly available on The Regents' website within the section on Meeting Agendas and Schedule.
- (2) A report on private equity internal rates of return is publicly available on the ~~Treasurer~~Chief Investment Officer's website on a quarterly basis.
- (3) The ~~Treasurer~~Chief Investment Officer's Annual Report for the most recent fiscal year is also available on the ~~Treasurer~~Chief Investment Officer's website. The report provides asset allocation and performance of the UCRP, the GEP, and other UC investment funds.
- (4) As soon as practicable after each calendar year, a complete listing of all assets held by the UCRP and the GEP at calendar year end will be posted on the ~~Treasurer~~Chief Investment Officer's website. Each listing will include the asset's market value at the end of the year. The assets will be grouped in the standard categories used by the custodian bank to group the assets in the asset reports provided to the ~~Treasurer~~Chief Investment Officer.



Effective Date: January 1, 2011  
Replaces Version: April 1, 2010

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**TOTAL RETURN INVESTMENT POOL (TRIP)  
INVESTMENT GUIDELINES**

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The purpose for these performance objectives (“Objectives”) and management guidelines (Guidelines”) is to clearly state the investment approach, define performance objectives and to control risk in the management of the University’s Total Return Investment Pool, or TRIP (“Program”). These Objectives and Guidelines shall be subject to ongoing review by the Committee on Investments. Capital market conditions, changes in the investment industry, new financial instruments, or a change in the Committee on Investments’ risk tolerance, are among factors to be considered in determining whether the Guidelines shall be revised.

**1. Investment Policy**

a. Background:

The TRIP is an investment pool established by The Regents and is available to UC Campuses and the UC Office of the President. The TRIP allows Campuses to maximize return on their long-term working capital, subject to an acceptable level of risk, by taking advantage of the economies of scale of investing in a larger pool and investing across a broad range of asset classes.

b. Incorporation of Regents Investment Policies

1. Investment governance, philosophy, policies and oversight procedures for this Program will be similar to those for the University of California Retirement Plan (UCRP) and General Endowment Pool (GEP), as specified in the Investment Policies for the UCRP.

2. Relevant policies from Sections 1-3 of the UCRP Investment Policy Statement are incorporated by reference into this Policy.

c. Investment Objective

The Objective of the Program is to generate a rate of return, after all costs and fees, in excess of the policy benchmark, and consistent with liquidity, cash flow requirements, and risk budget. See Section 2 for asset allocation and benchmark. As its name implies, TRIP is managed according to a total return objective, and will be subject to interest rate risk, credit risk, and equity risk. It is appropriate for longer-term investors who can accept this volatility in exchange for higher expected return.

d. Investment Strategy

The Program shall be implemented by the ~~Treasurer’s Office~~ Chief Investment Officer, using a combination of internal and external management (“Managers”), employing actively managed strategies where appropriate. Active strategies will include both sector allocation and security selection. The ~~Treasurer~~ Chief Investment Officer will monitor the Program’s adherence to these Guidelines.

e. Risk Objective

The Program shall be managed so that its annualized tracking error budget shall be 300 basis points. This budget is consistent with the  $\pm 10\%$  ranges around the combined asset classes (see 2a below), and incorporates both sector allocation and security selection differences from the aggregate benchmark.

Each Manager or asset class segment will have a unique active risk budget, relative to its asset class benchmark, which is appropriate to its individual strategy, and specified in its guidelines, and which will reflect the risk-return profile of its specific investment objectives.

f. Other Constraints and Considerations

- Managers shall comply with applicable State and Federal laws and regulations
- Managers shall at all times act with the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and with like aims
- Managers shall act solely in the interest of the Program's owners.

**2. Investment Guidelines**

The portfolio will be invested primarily in marketable, publicly traded equity and fixed income securities denominated in (or hedged back to) U.S. dollars.

a. Strategic Asset Allocation and Allowable Ranges

	<u>Target Allocation</u>
US Fixed Income – Government	5%
US Fixed Income – Credit	45%
US Fixed Income – Securitized	5%
High Yield Debt	10%
US Equity - All Cap	15%
REITS	5%
Non US Equity (hedged)	15%
Liquidity	0%

<u>Combined Asset Classes</u>	<u>Target Allocation</u>	<u>Minimum</u>	<u>Maximum</u>
Public Equity	35%	25%	45%
US Fixed Income	65%	55%	75%
Liquidity	0%	0%	10%
Total	100%		

b. Total TRIP Performance Benchmark

This is the composition of the total TRIP performance benchmark:

<u>Percentage</u>	<u>Benchmark</u>
5%	× Barclays Capital US Aggregate Government Index
45%	× Barclays Capital US Aggregate Credit Index
5%	× Barclays Capital US Aggregate Securitized Index
10%	× BofA / Merrill Lynch HY Cash Pay BB/B rated Index
15%	× Russell 3000 Index (Tobacco Free)
5%	× FTSE / NAREIT US REIT Index
15%	× MSCI World ex US Net Index (hedged) (Tobacco Free)

Notes on Total Program benchmark:

1. The calculation of the Total Program benchmark will assume a monthly rebalancing methodology.
2. In the event of a significant change in asset allocation, The Regents' generalist consultant may specify an alternative weighting scheme to be used during a transition period.

c. Rebalancing Policy

There will be periodic deviations in actual asset weights from the policy asset weights specified above. Causes for periodic deviations are market movements, cash flows, and varying portfolio performance. Significant movements from the asset class policy weights will alter the intended expected return and risk of the Fund. Accordingly, the Investment Committee authorizes the ~~Treasurer~~ Chief Investment Officer to rebalance the Fund when necessary to ensure adherence to the Investment Policy.

The ~~Treasurer~~ Chief Investment Officer will monitor the actual asset allocation at least monthly. The Committee directs the ~~Treasurer~~ Chief Investment Officer to take all actions necessary, within the requirement to act prudently, to rebalance assets to within the policy ranges in a timely and cost effective manner when actual weights are outside the prescribed ranges. The ~~Treasurer~~ Chief Investment Officer may utilize derivative contracts (in accordance with the Derivatives Policy found in Appendix 4 of the UCRP Policy Statement) to rebalance the portfolio.

The ~~Treasurer~~ Chief Investment Officer shall assess and manage the trade-off between the cost of rebalancing and the active risk associated with the deviation from policy asset weights. With approval from the Chair of the Committee, the ~~Treasurer~~ Chief Investment Officer may delay a rebalancing program when the ~~Treasurer~~ Chief Investment Officer believes the delay is in the best interest of the Plan. Results of rebalancing will be reported to the Committee at quarterly meetings.

d. Asset Class Guidelines

The Program will be invested in a diversified portfolio of equity and fixed income securities. Each Segment of the Program, as defined above, will be subject to the Regents Asset Class guidelines that is appropriate and in effect for that Segment. These Guidelines are found in the

Appendices to the UC Retirement Plan Investment Policies, and are hereby incorporated by reference.

e. Restrictions

The Managers may **not**:

- Purchase securities of tobacco related companies, as per the UCRP Investment Policy, section 5b.
- Invest in mutual funds or group trusts unless specifically allowed in its guidelines
- Buy party-in-interest securities
- Buy securities restricted as to sale or transfer, except for 144A securities, which are permitted
- Buy or write structured (“levered”) notes
- Employ economic leverage in the portfolio through borrowing or derivatives, or engage in derivative strategies that conflict with the Derivatives Policy

Subject to the limitations above, the Managers have complete discretion with regard to choosing sector weights, issuers, and maturities.

### **3. Evaluation and Review**

a. Policy and Guideline Review

The ~~Treasurer’s Office~~ Chief Investment Officer shall review the Objectives and Guidelines at least annually, and report to the Committee on Investments on the impact of the Guidelines on the Program’s performance.

b. Program performance and risk exposures shall be evaluated at multiple levels in accordance with the Objectives of the Program and individual Managers.

### **4. Reporting**

On a quarterly basis, the ~~Treasurer’s Office~~ Chief Investment Officer shall provide the following reports to the Committee on Investments:

- a. A summary of Program investments and risks.
- b. A summary of Program performance, on an absolute and benchmark relative basis.

Each Manager will be required to provide the ~~Treasurer~~ Chief Investment Officer monthly and quarterly reports, including but not limited to:

- a. Monthly accounting statements showing portfolio income, holdings and transactions
- b. Quarterly review of portfolio and strategy performance including a market outlook
- c. Annual statement of compliance with investment guidelines

**5. Investment Operations and Restrictions**

- a. University Financial Management may establish limitations on Campus investments to maintain sufficient short term liquidity for University cash needs, and restrictions on withdrawals as is appropriate for the investment of longer-term assets.
- b. Annual distributions of income and capital gains will be made to participating Campuses, according to a spending rate will be reviewed and approved annually by the Committee on Investments.

**6. Definitions: See Appendix 8 of the UCRP Policy Statement**

\*\*\*Additions shown by underscoring; deletions shown by strikethrough\*\*\*

## APPENDIX 7K

Last approved: February 14, 2006

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### SHORT TERM INVESTMENT POOL (STIP) INVESTMENT GUIDELINES

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The purpose for these performance objectives (“Objectives”) and management guidelines (Guidelines”) is to clearly state the investment approach, define performance objectives and to control risk in the management of the University’s Short Term Investment Pool, or STIP (“Program”). These Objectives and Guidelines shall be subject to ongoing review by the Committee. Capital market conditions, changes in the investment industry, new financial instruments, or a change in the Committee’s risk tolerance, are among factors to be considered in determining whether the Guidelines shall be revised.

#### 1. Investment Policy

##### a. Background:

The STIP is a cash investment pool established by The Regents and is available to all University groups, including retirement and endowment funds. The STIP allows fund participants to maximize income on their short-term cash balances by taking advantage of the economies of scale of investing in a larger pool and investing in a broader range of maturities.

##### b. Investment Objective

The Objective of the Program is to maximize returns consistent with safety of principal, liquidity, and cash flow requirements. The primary investment objective is to generate income from investments in short duration US dollar denominated bonds and cash equivalents. Because the liquidity needs of the University are subject to large and uncertain changes, the fund may materially increase its investments in highly liquid, cash equivalent securities from time to time.

Accordingly, the Benchmark will be a weighted average of the income return on a constant maturity two (2) year Treasury note and the return on US 30 day Treasury Bills. The weights for the two constituents will be the actual average weights of the bond and cash equivalent components of the pool. The Benchmark will be re-balanced monthly.

##### c. Investment Strategy

The Program shall be implemented by the ~~Treasurer~~Chief Investment Officer internal fixed income staff (“Manager”). The ~~Treasurer~~Chief Investment Officer will monitor the Program’s adherence to these Guidelines.

##### d. Performance Objectives

The performance objective of the Program is to meet or exceed the return of the Benchmark, on a consistent basis over time, net of all costs and fees.

e. Risk Objective

The Program shall be managed so that its annualized tracking error budget shall be 75 basis points.

f. Other Constraints and Considerations

- Managers shall comply with applicable State and Federal laws and regulations and the prudence requirement described in section 3(a) of the Policy.
- Manager shall act solely in the interest of the Fund's owners.
- Implementation of this Program shall comply with the Fund's Policy.

**2. Investment Guidelines**

a. Asset Allocation

The portfolio will be invested primarily in marketable, publicly traded, investment grade short term fixed income instruments, notes and debentures denominated in U.S. dollars.

b. Types of Securities

The Program will be invested in a diversified portfolio of fixed income securities, subject to restrictions noted below in section 2c.

The following list is indicative of the investment classes which are appropriate for the Program, given its Benchmark and risk budget. It should not be construed to be an exhaustive list of "allowable" asset types. Security types and/or strategies not specifically enumerated, but which the ~~Treasurer~~ Chief Investment Officer and Regents' Investment Consultant believe are appropriate and consistent with the Investment Policy may also be held, subject to the restrictions in 2c. and 2d. below.

The Program may purchase securities on a when-issued basis or for forward delivery.

1. Fixed income instruments

- a. Obligations issued or guaranteed by the U.S. Federal Government, U.S. Federal Agencies or U.S. government-sponsored corporations and agencies
- b. Obligations of U.S. and foreign corporations such as corporate bonds, notes and debentures, and bank loans
- c. Mortgage-backed and asset-backed securities
- d. Obligations of international agencies, supranational entities, and foreign governments (or their subdivisions or agencies)
- e. Obligations issued or guaranteed by U.S. local, city and state governments and agencies
- f. Private Placements or Rule 144A securities, issued with or without registration rights

2. Short term fixed income instruments (having maturity of less than 13 months)

- a. US Treasury and Agency bills and notes
- b. Certificates of deposit
- c. Bankers acceptances
- d. Commercial paper
- e. Repurchase and reverse repurchase agreements (must be fully collateralized with approved collateral, using approved counterparties only)
- f. Eurodollar CD's, TD's, and commercial paper

- g. US and Eurodollar floating rate notes
- h. Money market funds managed by the custodian

c. Restrictions

The following security types are **not** permitted:

- Interest rate derivative contracts, including options and futures
- Equity like securities, including but not limited to convertible bonds, preferred stocks, warrants, equity linked notes, and commodities
- Bonds issued in currencies other than US Dollar
- Foreign currency linked notes

The Manager may **not**:

- Purchase securities of tobacco related companies, as per the Policy, section 5b.
- Invest in mutual funds or group trusts unless specifically allowed in its guidelines
- Buy securities on margin
- Sell securities short
- Buy party-in-interest securities
- Buy securities restricted as to sale or transfer, except for 144A securities, which are permitted
- Buy or write structured (“levered”) notes
- Employ economic leverage in the portfolio through borrowing or derivatives, or engage in derivative strategies that conflict with the Derivatives Policy
- Purchase or sell foreign exchange contracts

d. Diversification and Concentration

The Program’s investments will be appropriately diversified to control overall risk. The following limitations apply in order to manage risk within acceptable ranges:

- **Interest rate risk**
  - No security may have a maturity of more than 5 ½ years
- **Credit risk**
  - No more than 5% of the Program’s investments, measured by market value, should be below “investment grade”, i.e. rated lower than the following standards or their equivalent by all major NRSRO’s
    - Standard & Poor’s and Fitch (BBB-)
    - Moody’s (Baa3)
  - Commercial Paper must have a rating of at least A-1, P-1, D-1, or F-1
  - The Program’s investments should exhibit an average credit quality of A (or equivalent) or better. Split-rated credits are considered to have the higher credit rating as long as the higher rating is given by one of the NRSRO’s
  - No more than 5% of the Program’s allocation to commercial paper may be invested in any single issuer.
  - Except for securities issued by the US Treasury or Agencies of the US Government, no more than 3% of the Program’s market value (exclusive of commercial paper) may be invested in any single issuer.



- **Liquidity risk**
  - No more than 10% of the Program's market value may be invested in Private Placements or Rule 144A securities
  - The Programs' investments in aggregate of any security may not exceed 20% of that security's outstanding par value, without a written exception approved by the ~~Treasurer~~Chief Investment Officer.

Subject to the limitations above, the investment manager has complete discretion with regard to choosing sector weights, issuers, and maturities.

e. Managers shall employ best execution. Transactions shall be directed to brokers/dealers designated by the ~~Treasurer~~Chief Investment Officer at the Manager's discretion when best execution is available.

### **3. Evaluation and Review**

#### a. Policy and Guideline Review

The ~~Treasurer~~Chief Investment Officer shall review the Objectives and Guidelines at least annually, and report to the Committee on the impact of the Guidelines on the Program's performance.

b. Program performance and risk exposures shall be evaluated at multiple levels in accordance with the Objectives of the Program and individual Managers.

### **4. Reporting**

On a quarterly basis, the ~~Treasurer~~Chief Investment Officer shall provide the following reports to the Committee:

- a. A summary of Program investments and risks.
- b. A summary of Program performance, on an absolute and benchmark relative basis.

Manager will be required to provide the ~~Treasurer~~Chief Investment Officer monthly and quarterly reports, including but not limited to:

- a. Monthly accounting statements showing portfolio income, holdings and transactions
- b. Quarterly review of portfolio and strategy performance including a market outlook
- c. Annual statement of compliance with investment guidelines

### **5. Definitions: See Appendix 8**

**\*\*\*Additions shown by underscoring; deletions shown by strikethrough\*\*\***

REGENTS POLICY 6110

POLICY ON DISCLOSURES REGARDING USE OF PLACEMENT AGENTS FOR  
UNIVERSITY OF CALIFORNIA RETIREMENT SYSTEM INVESTMENTS

*Approved July 14, 2011*

Each External Manager proposing an investment to be made by or on behalf of the University of California Retirement System must comply with one of the following two requirements:

- (1) If the External Manager will not use any Placement Agents in connection with the proposed investment, the External Manager must provide the ~~Treasurer~~Chief Investment Officer with a written statement to that effect.
- (2) If the External Manager will use a Placement Agent in connection with the proposed investment, the External Manager must disclose the following information in writing to the ~~Treasurer~~Chief Investment Officer:
  - A description of the relationship between the External Manager and any Placement Agents for the investment for which funds are being raised.
  - Whether the Placement Agent's mandate includes the Regents of University of California as trustee/custodian.
  - A description of the services performed by the Placement Agent.
  - A description of any and all payments of any kind provided or agreed to be provided to a Placement Agent by the External Manager with regard to investments by the Regents as a plan trustee or custodian of retirement or savings plan assets.
  - Upon request, the resume for each officer, partner or principal of the Placement Agent detailing the person's education, professional designations, regulatory licenses, and investment and work experience.
  - A statement as to whether the Placement Agent, or any of its affiliates, is registered with the Securities Exchange Commission.
  - A statement as to whether the Placement Agent, or any of its affiliates, is registered as a lobbyist under California law.

The ~~Treasurer~~Chief Investment Officer will only enter into agreements to invest in or through External Managers that agree to comply with the Regents' Policy on Disclosures Regarding the

Use of Placement Agents for University of California Retirement System Investments. The ~~Treasurer~~Chief Investment Officer will rely on the written statements made by the External Manager.

For purposes of this Policy:

“External Manager” means a (i) person who is seeking to be, or is, retained by the Regents to manage a portfolio of securities or other assets for compensation or (ii) a person managing an investment fund who offers or sells, or has offered or sold, an ownership interest in the investment fund.

“Placement Agent” means a person directly or indirectly hired, engaged or retained by, or serving for the benefit of or on behalf of, an External Manager or an investment fund managed by an External Manager, who acts, or has acted, for compensation as a finder, solicitor, marketer, consultant, broker or other intermediary in connection with the offer or sale to the Regents of either the investment management services of the External Manager or an ownership interest in an investment fund managed by the External Manager. Any exceptions to this definition of “Placement Agent” available under Sections 7513.8 or Section 82047.3 of the California Government Code will apply under this Policy.

**\*\*\*Additions shown by underscoring; deletions shown by strikethrough\*\*\***

## REGENTS POLICY 6201

### INVESTMENT POLICY FOR THE UNIVERSITY OF CALIFORNIA CAMPUS FOUNDATIONS

*Approved March 19, 2009*

The Regents authorizes the Committee on Investments to review the investment policies and practices of campus foundations and conduct an annual review of statements of investment policy and reports of investment performance in a format approved by the Committee on Investments, together with the annual financial reports of campus foundations as audited by certified public accountants. The ~~Treasurer~~Chief Investment Officer of The Regents is available to provide investment management services, without charge, for any campus foundation which requires such service.

#### **Delegation to Campus Foundations and Statement of Policy**

The Administrative Guidelines for Campus Foundations provide that each Campus Foundation Board of Directors has the duty to develop an appropriate investment policy for such Foundation. It is the policy of the Regents that each Campus Foundation shall develop and follow an appropriate investment policy, and shall act as a prudent investor in accordance with applicable law, using a portfolio approach in making investments and considering the risk and return objectives of the endowment funds. A Campus Foundation may hold and invest endowments and funds functioning as endowments on a long-term basis. All such investments must be consistent with the terms of the gift instrument. Investment operations shall be conducted in accordance with prudent, sound practices to ensure that gift assets are protected and enhanced and that a reasonable return is achieved, and with due regard for the fiduciary responsibilities of the Foundation's governing Board and the Regents. Financial activities of a Campus Foundation shall be administered and reported in accordance with prudent business practices and generally accepted accounting principles.

#### **Reporting from Campus Foundations**

The Regents' generalist investment consultant shall review investment procedures and results annually and report the findings to the Regents. The Administrative Guidelines for Campus Foundations require the following reports from the Campus Foundations to the generalist investment consultant:

- A Campus Foundation's enabling documents (e.g., articles of incorporation, bylaws, constitution) shall be provided, and any amendments shall be forwarded promptly following any revision.

- Within 90 days of the close of each fiscal year, a Campus Foundation shall submit a detailed report comparing budgeted to actual administrative expenditures by fund source.
- Copies of the Foundation's report to the State Registry of Charitable Trusts, tax returns, and a current list of Foundation officers, directors or trustees, and legal counsel shall be provided promptly each year.
- The external auditor shall furnish a copy of the audit report, including the letter to management with management's response, promptly following the completion of the audit each year.
- Copy of each Foundation's investment policy shall be provided, and any amendments thereto shall be forwarded promptly following any revision.
- A copy of each investment performance report shall be provided 45 days following the close of each quarter.

### **Review by Investment Consultant**

The Regents' generalist investment consultant shall review, initially and at the time of any change, each Foundation's investment policy, asset allocation policy, and performance on an annual basis, 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 an annual basis, beginning with 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.

The Regents' generalist investment consultant will raise any issues of concern with the campus foundations, and subsequently, if necessary, with the Committee on Investments.

If any Foundation approves changes to its investment policy (including but not limited to asset allocation targets and policy benchmarks), it must communicate such change to the Regents' generalist investment consultant prospectively before the effective date of such change.

**\*\*\*Additions shown by underscoring; deletions shown by strikethrough\*\*\***

REGENT POLICY 6301

POLICY TO EXCLUDE SECURITIES OF COMPANIES MANUFACTURING TOBACCO PRODUCTS FROM INDEX FUNDS AND TO CONTINUE EXISTING EXCLUSION FROM ACTIVELY MANAGED FUNDS

*Adopted January 18, 2001*

- (1) The ~~Treasurer~~Chief Investment Officer, using the standards established for the Russell 3000 Tobacco Free Index and the MSCI EAFE Tobacco Free Index, shall continue the current practice of not directly investing in tobacco products companies.
- (2) The Russell 3000 Tobacco Free Index and the MSCI EAFE Tobacco Free Index, which exclude the stocks of tobacco products companies, be adopted as the index funds authorized by the Asset Allocation Plan.
- (3) Should the ~~Treasurer~~Chief Investment Officer determine at any time that The Regents' investment objectives are compromised by this policy, a report describing the circumstances shall be prepared by the ~~Treasurer~~Chief Investment Officer with appropriate recommendations.

**\*\*\*Additions shown by underscoring; deletions shown by strikethrough\*\*\***

REGENTS POLICY 6302

POLICY ON DIVESTMENT OF UNIVERSITY HOLDINGS IN COMPANIES WITH  
BUSINESS OPERATIONS IN SUDAN

*Approved March 16, 2006*

*Amended November 20, 2008 and March 19, 2009*

- A. Divest all shares of the following nine companies: Bharat Heavy Electricals Ltd., China Petroleum and Chemical Corp. (Sinopec), Oil & Natural Gas Co. Ltd., PECD Bhd., PetroChina Company Ltd., CNPC Hong Kong, MISC Berhad (Petronas), Lundin Petroleum, and AREF Investment Group held within separately managed equity portfolios of the University of California Retirement Plan (UCRP) and the General Endowment Pool (GEP). The proposed policy would apply to both indexed and actively managed, publicly-traded equity portfolios
- B. Prohibit future purchase of shares in the above nine companies until such time as the ~~Office of the Treasurer~~Chief Investment Officer reports to the Committee on Investment that either there is compelling information that a company has materially improved its operation and is no longer thought to be contributing to the suffering in the Darfur region of Sudan, or that the situation in the Darfur region has improved to such a point that the prohibition on investment is no longer thought to be in the best interests of the people of Sudan.
- C. Condition implementation of the proposed divestment policy upon enactment by the California legislature and signature by the Governor of legislation providing indemnification for past, present, and future individual Regents, and the University, its officers, agents, and employees, for all costs and defense of any claim arising from the decision to divest.
- D. Instruct the ~~Office of the Treasurer~~Chief Investment Officer to contact the management of several other companies identified by the Sudan Divestment Study Group to ask them to ensure that their business operations in Sudan, while providing beneficial effects for the people of Sudan, do not inadvertently contribute to the campaign of genocide.
- E. Instruct the ~~Office of the Treasurer~~Chief Investment Officer to report on the status of this policy to the Committee on Investments as part of the annual review of the Investment Policies for the UCRP and GEP.
- F. Divest all shares held in the nine companies within an 18-month period commencing once indemnification legislation has been enacted.



- G. Communicate the decision to divest shares held in the nine companies to the managers of commingled accounts in which assets of the UCRP and GEP are invested, with a request that they consider the University's stand on this issue as they make their investment decisions.
- H. Communicate the decision to divest shares held in the nine companies to the Investment Committees of the Campus Foundations so that they may consider adopting similar policies for their Funds.

**Additions shown by underscoring; deletions shown by strikethrough**

STANDING ORDER 110.2

MATTERS RELATING TO RESIDENCY

*Includes amendments through November 2010*

- (a) ~~The residence of each student shall be determined in accordance with the rules governing residence prescribed by the provisions of Sections 68000, 68011-68012, 68014-68018, 68022-68023, 68040-68044, but excluding the words "classified as a nonresident seeking reclassification" from Paragraph 1 and substituting the words "seeking classification" and excluding Paragraph 3 of Section 68044; 68050, 68060-68062, but excluding the words "including an unmarried minor alien" from 68062(h); 68070-68075.5, 68076-68078, 68083, 68085, amended to read: "Notwithstanding any other provisions, a student who resides in California and is 19 years of age or under at the time of enrollment, and who is currently a dependent or ward of the state through California's child welfare system, or was served by California's child welfare system and is no longer being served either due to emancipation or aging out of the system, shall be entitled to a resident classification as long as he or she remains continuously enrolled"; and 68133-68134 of the Education Code of the State of California. Each nonresident student at the University of California shall pay a nonresident tuition fee for each term of attendance at the University, except that such fee, with the approval of the President of the University, may be remitted or waived in whole or in part in the case of any student who qualifies as a graduate student with a distinguished record, a foreign student, a teaching assistant or teaching fellow, or a research assistant; or in the case of a nonresident student who is an unmarried dependent son or daughter under age twenty one, or a spouse or registered domestic partner of a member of the University faculty who is a member of the Academic Senate. A student who is a spouse or registered domestic partner or child of a resident law enforcement officer or fire fighter killed on active duty shall be exempted from nonresident tuition and mandatory systemwide fees in accordance with Section 68120 and 68120.5 of the Education Code of the State of California. A student who is the child or dependent of a deceased or disabled veteran, or who is the dependent of or the surviving spouse who has not remarried or registered domestic partner (who has not subsequently married or registered as a domestic partner) of any member of the California National Guard who was killed or permanently disabled while in active service of the state, shall not be exempted from nonresident tuition fees, but may be exempted from mandatory systemwide fees in accordance with Section 66025.3 of the Education Code of the State of California. A student meeting the requirements of Section 68130.5 of the Education Code of the State of California shall be exempt from paying nonresident tuition. For purposes of defining financial independence pursuant to Section 68044, a student shall be considered "financially independent" if the applicant: a) is at least 24 years of age by December 31 of the year the applicant requests residence classification; b) is a veteran of the U.S. Armed Forces; c) is a ward of the court or both parents are dead; d) has legal~~

~~dependents other than a spouse or registered domestic partner; e) is married, or in a registered domestic partnership, or a graduate student or professional student, and will not be claimed as an income tax deduction by any individual other than his or her spouse or domestic partner for the tax year immediately preceding the request for residence classification; or is a single undergraduate student, and was not claimed as an income tax deduction by his or her parents or any other individual for the two years immediately preceding the request for residence classification, and demonstrates self-sufficiency for two years. The student is considered self-sufficient if he or she had total income and other resources of at least \$4,000. The two years used to demonstrate self-sufficiency are the two years immediately preceding the request for residence classification. Nonresident tuition fees shall be payable at the time of registration.~~

- ~~(b) — A student classified as a nonresident shall retain that status until that student makes application in the form prescribed by the University and has been reclassified.~~
- ~~(c) — A student classified as a resident shall be classified as a nonresident whenever there are found to exist circumstances which would have caused that student to be classified as a nonresident. If the cause of incorrect classification is due to any concealment of facts or untruthful statements, the student shall be required to pay all tuition fees which would have been charged but for such erroneous classification and shall be subject also to appropriate University discipline.~~
- ~~(d) — Out of State Employees and Non-University Employees at Los Alamos and Lawrence Livermore National Laboratories (LANL and LLNL)~~
- ~~(1) — An individual who is a full-time University employee assigned to work outside the State of California, or the dependent child, spouse, or registered domestic partner of such an employee, shall be entitled to resident classification for tuition purposes.~~
- ~~(2) — So long as the University continues to participate as a member of a limited liability company holding the contract for the management of LANL or LLNL, an individual who is an employee of such company, or a dependent child, spouse, or registered domestic partner of such an employee, shall be entitled to resident classification for tuition purposes to the same extent as if the employee were an employee of the University assigned to work outside of California.~~
- ~~(3) — An individual who is a full-time employee of the University assigned to work at LANL or elsewhere outside of California, or who is a full-time employee of a company described in (2) above in which the University is a principal, and who transfers without a break in service to full-time University employment within the state of California, shall be entitled to resident classification for tuition purposes. Any dependent child, spouse or registered domestic partner of such an employee also would be entitled to resident classification for tuition purposes.~~

a. ~~An individual who is a full time University employee at LANL or LLNL, or any dependent child, spouse or registered domestic partner of such an employee, and who is enrolled as a student in a degree granting program at a UC campus at such time as the University contract to manage LANL or LLNL expires and the University's participation in the management of LANL or LLNL ceases, shall be exempted from payment of nonresident tuition fees for the remainder of the current quarter or semester.~~

(4) ~~The General Counsel of The Regents may implement this Standing Order by promulgating regulations in accordance therewith.~~

The Regents shall establish policies governing the determination of California residence for purposes of University of California's tuition and fees and the exemption or waiver of such tuition and fees. The President, in consultation with the General Counsel of The Regents, shall implement such policies by establishing all necessary regulations.

POLICY ON RESIDENCY

1. The residence of each student at the University of California shall be determined in accordance with rules governing residence as set forth below. (All statutory references herein, unless otherwise noted, are to the California Education Code.)
  - A. Legislative Matters: Legislative intent, Legal action, and Applicability to the University: as provided in Sections 68000, 68133, and 68134.
  - B. Residence Procedures: Student classification; Information and evidence concerning residence; Oath or affirmation; Person administering oath or affirmation; Nonresident not obtaining residence as a result of maintaining continuous attendance; and Nonresident tuition: as provided in Sections 68040-68043, and 68050.
  - C. Residence Definitions: “Institution”; “District”; “District governing board”; “Governing board”; “Parent”; “Student”; “Continuous attendance”; “Resident”; “Nonresident”; “Resident classification”; “Residence determination date”: as provided in Sections 68011-68012, 68014-68018, and 68022-68023.
  - D. Physical Presence and Intent: Every person has a residence; Residence of persons who are married or 18 years of age; Determination of place of residence: as provided in Sections 68060-68062.
  - E. Financial Independence: Rules and regulations concerning student’s classification:
    - (1) As provided in Section 68044, but excluding the words “classified as a nonresident seeking reclassification” from Paragraph 1 and substituting the words “seeking classification,” and excluding Paragraph 3 of Section 68044.
    - (2) In addition to the provisions of Section 68044, as amended by this policy, a student shall be considered financially independent if the applicant:
      - a. is at least 24 years of age by December 31 of the year the applicant requests residence classification;
      - b. is a veteran of the U.S. Armed Forces;
      - c. is a ward of the court or both parents are dead;
      - d. has legal dependents other than a spouse or registered domestic partner;

- e. is married, or in a registered domestic partnership, or a graduate student or professional student, and will not be claimed as an income tax deduction by any individual other than his or her spouse or domestic partner for the tax year immediately preceding the request for residence classification; or
  - f. is a single undergraduate student, and was not claimed as an income tax deduction by his or her parents or any other individual for the two years immediately preceding the request for residence classification, and demonstrates self-sufficiency for two years. The two years used to demonstrate self-sufficiency are the two years immediately preceding the request for residence classification.
2. Each nonresident student at the University shall pay a nonresident tuition fee for each term of attendance at the University, except that such fee, with the approval of the President of the University, may be remitted or waived in whole or in part in the case of any student who qualifies as a graduate student with a distinguished record, a foreign student, a teaching assistant or teaching fellow, or a research assistant; or in the case of a nonresident student who is an unmarried dependent son or daughter under age twenty-one, or a spouse or registered domestic partner, of a member of the University faculty who is a member of the Academic Senate.
3. The following exceptions shall grant students a resident classification for purposes of tuition and fees:
- A. Minor under age 18 who is a student who remains in California after his or her parent moves elsewhere; Self-supporting student; Minor who has not been an adult more than one year preceding residence determination date; Student under care of adult: as provided in Sections 68070-68073.
  - B. Dependent of member of the Armed Forces; Member of Armed Forces; Armed Forces members; Remaining in state following discharge: as provided in Sections 68074-68075.5.
  - C. Dependent of California resident of more than one year; Parent residing in California for one year and contributing court-ordered support for student: as provided in Section 68076.
  - D. Graduate of California school operated by the United States Bureau of Indian Affairs: as provided in Section 68077.
  - E. Student holding credential; Other conditions: as provided in Section 68078.

- F. Amateur student athlete in training at a U.S. Olympic Training Center: as provided in Section 68083.
  
- G. Student 19 years of age or under; Current or former dependent or ward of state: as provided in Section 68085, amended to read: “Notwithstanding any other provisions, a student who resides in California and is 19 years of age or under at the time of enrollment, and who is currently a dependent or ward of the state through California’s child welfare system, or was served by California’s child welfare system and is no longer being served either due to emancipation or aging out of the system, shall be entitled to a resident classification as long as he or she remains continuously enrolled.”

POLICY ON WAIVER OF TUITION AND FEES

1. The University of California shall exempt students from tuition and/or fees or waive tuition and/or fees, as set forth below. (All statutory references herein, unless otherwise noted, are to the California Education Code.)
  - A. Tuition and fees excused; Surviving spouses or children of employed or contracted law enforcement and fire suppression personnel: a student who is the surviving spouse or registered domestic partner or child of a resident law enforcement officer or fire fighter killed on active duty shall be exempted from nonresident tuition and mandatory systemwide fees in accordance with Section 68120.
  - B. Dependents, children, or surviving spouse of deceased or disabled veterans: a student who is the child or dependent of a deceased or disabled veteran, or who is the dependent of or the surviving spouse who has not remarried or registered domestic partner (who has not subsequently married or registered as a domestic partner) of any member of the California National Guard who was killed or permanently disabled while in active service of the state, shall not be exempted from nonresident tuition fees, but may be exempted from mandatory systemwide fees in accordance with Section 66025.3.
  - C. Nonresident tuition at California State University and California Community Colleges; Payment exemptions; Requirements: as provided in Section 68130.5 (AB 540).
  - D. Students who have obtained a “T” or “U” nonimmigrant visa and otherwise would meet the requirements of Section 68130.5 shall be exempt from paying nonresident tuition at the University until they are eligible to establish a resident classification pursuant to Regents Policy 3401.
  - E. In the case of out-of-state employees and non-University employees at Los Alamos and Lawrence Livermore National Laboratories (LANL and LLNL):
    - (1) An individual who is a full-time University employee assigned to work outside the State of California, or the dependent child, spouse, or registered domestic partner of such an employee, shall be entitled to resident classification for tuition purposes.
    - (2) So long as the University continues to participate as a member of a limited liability company holding the contract for the management of LANL or LLNL, an individual who is an employee of such company, or a dependent child, spouse, or registered domestic partner of such an employee, shall be entitled to resident classification for tuition purposes to the same extent as



if the employee were an employee of the University assigned to work outside of California.

- (3) An individual who is a full-time employee of the University assigned to work at LANL or elsewhere outside of California, or who is a full-time employee of a company described in (2) above in which the University is a principal, and who transfers without a break in service to full-time University employment within the State of California, shall be entitled to resident classification for tuition purposes. Any dependent child, spouse or registered domestic partner of such an employee also would be entitled to resident classification for tuition purposes.
- (4) An individual who is a full-time University employee at LANL or LLNL, or any dependent child, spouse or registered domestic partner of such an employee, and who is enrolled as a student in a degree-granting program at a UC campus at such time as the University contract to manage LANL or LLNL expires and the University's participation in the management of LANL or LLNL ceases, shall be exempted from payment of nonresident tuition fees for the remainder of the current quarter or semester.