

University of California Retirement Savings Program Investment Policy Statement

and regulations. In addition, fiduciaries must act for the purpose of providing benefits to participants and their beneficiaries and defraying reasonable expenses of administering the Plans. They also must act in accordance with the terms of the Plans.

Key investment responsibilities in the oversight and management of the Program are as follows:

- ~~e.a.~~ Under the authority granted by ~~The the~~ Regents' Bylaws ~~Sections~~ 10.1.b and 12.5.a, The Regents has appointed a standing Committee on Investments ("Committee"), charged with responsibility for the management of investments on behalf of the Regents. ~~which~~ The Committee's responsibilities include the establishment of investment policies for the Program and oversight of the ~~management of the Program's assets~~ Core Fund Options.
- ~~d.b.~~ Under ~~University Regents~~ Bylaw ~~Section~~ 21.4, ~~The the~~ Regents has delegated to the ~~Treasurer~~ CIO responsibility for implementation of investment policies established by the Committee for the Program.
- c. Furthermore, ~~t~~The Regents has designated the ~~Treasurer~~ CIO as the primary fiduciary for investment functions of the Program, including the selection of asset classes and ~~Ceore~~ Fund Options investments and the monitoring of investment performance. References to the "Chief Investment Officer~~Treasurer~~" or "CIO" ~~below~~ shall be understood, depending on the context, to mean the "Office of the ~~Treasurer~~ CIO." in the Plan documents.
- d. All transactions undertaken on behalf of the Core Fund Options are undertaken solely in the interests of the Program's participants and their beneficiaries.
- ~~e.~~

~~The principal risks that impact the Program's assets are as follows:~~

- ~~f.~~ **~~Capital market risk is the risk that the investment returns of the Program options do not meet participants' expectations. Responsibility for determining the overall level of capital market risk lies with the Program participant (employee or retiree).~~**
- ~~g.~~ **~~Total active risk refers to the volatility of the difference between the return of the investment product and the return of its Benchmark. Responsibility for active risk is jointly shared by the Treasurer and the Program participant.~~**
- ~~h.~~ **~~Total investment risk refers to the volatility of the return of the products offered. It incorporates both capital market and active risk as enumerated above, and is thus the joint responsibility of the Program participant and the Treasurer.~~**
- ~~i.~~ **~~Participant asset allocation risk: Although The Regents may provide participants with education on retirement planning and asset allocation, responsibility for the determination of appropriate investment objectives and the selection of Core Funds to meet those objectives lies with the Program participant.~~**

Responsibilities of the CIO:

- a. Develop and implement criteria for selecting appropriate asset classes and specific Core Fund Options within those classes for the Program as shown in Section 5.A and 5.B, after consultation with the Retirement Savings Program Advisory Committee ("RSPAC") and the appropriate constituent groups in the University community.
- b. Create and implement a process to monitor and evaluate the Program's investment structure and the Core Fund Options and, based on such periodic evaluations and consultation with appropriate parties, make changes to either the asset classes or Core Fund Options.

University of California Retirement Savings Program Investment Policy Statement

- c. Select investment professionals (“managers”) with demonstrated experience and expertise who are responsible for managing specific portfolios consistent with the Investment Guidelines contained in Section 5.
- d. Select mutual fund options as needed to provide the required diversity within an asset class, taking into account value and fees.
- e. Establish and implement procedures for the selection, monitoring, evaluation, and termination of investment managers, which are found in the next section (Selection, Monitoring, Evaluation and Reporting of Investment Options).
- f. Instruct employees that duties must be performed consistent with CFA Institute Code of Ethics and Standards of Professional Conduct for all employees of the CIO and relevant consultants and managers. These are found at: <http://www.cfapubs.org/doi/pdf/10.2469/ccb.v2010.n14.1> and incorporated by reference.
- g. Enforce other ethics guidelines as needed, consistent with other University policies and guidelines.
- h. Participate in securities lending programs, when advisable, as a means to augment income for the Plans, with the Plan custodian or approved list of qualified third parties. Income generated by the lending program is used to offset expenses.
- i. Instruct the Plans’ custodian bank to vote all proxies on behalf of the Regents according to guidelines established by the Regents.

Responsibilities of the Retirement Savings Program Advisory Committee (RSPAC):

- a. RSPAC was established by the Regents to obtain feedback from the University community on the plans and to discuss coordination of issues that arise between the administrative and investment functions. RSPAC is comprised of the CIO, the Plan Administrator, and other members who serve at the request of the Executive Vice President - Business Operations. RSPAC includes representatives from the Office of the CIO, Business Operations, and the Office of the General Counsel. External consultants are invited to provide advice and counsel on an as-needed basis. Members serve on RSPAC without compensation. An appointed committee member can resign at any time.
- b. RSPAC responsibilities include:
 - Assess the quality of services provided by investment managers against established criteria and/or benchmarks;
 - Reviewing Program fees and expenses;
 - Providing input on the annual report to the Regents;
 - Retaining consultants necessary to assist in reviewing administrative and investment performance;
 - Formulate goals, propose long range improvements, develop policy, and set priorities for the Retirement Savings Program.

34. Investment Policies Selection, Monitoring, Evaluation and Reporting on Investment Managers and Core Fund Options

- a. When selecting investment managers, the CIO follows a due-diligence process to make prudent selections. The process involves analyzing investment manager candidates in terms of certain:

University of California Retirement Savings Program Investment Policy Statement

- i. **Qualitative Characteristics**, such as the manager's key personnel, investment philosophy, investment strategy, research orientation, decision-making process, and risk controls.
- ii. **Quantitative Characteristics** demonstrated by the manager, such as CFA Institute-compliant composite return data, risk-adjusted rates of return (e.g., information ratios), and other risk factors.
- iii. **Organizational Factors**, such as type and size of firm, ownership structure, client-servicing capabilities, record of gaining and keeping clients, and fees.
- b. The CIO considers other factors as part of the due-diligence process as facts and circumstances warrant.
- c. The CIO uses third-party database(s) to access appropriate screening information and ensure an unbiased and objective search process.
- d. Investments included within a Core Fund Option will be chosen to:
 - i. Cover a risk/return spectrum of appropriate investment classes;
 - ii. Provide distinct risk/return characteristics;
 - iii. Offer well diversified and professionally managed options;
 - iv. Provide, in aggregate, a participant with the opportunity to structure a portfolio with risk and return characteristics consistent with the participant's risk tolerance and return objectives; and
 - v. Offer reasonable fees for the asset class and investment style.
- e. Investment consultants may be appointed to review investment performance of the Program as a whole or with respect to specific Core Fund Options, to assist in the development of the Program's investment policies, to monitor and report on investment risks, and to provide independent assessment of investments proposed by the CIO.
- f. The Core Fund Options of the Program are reviewed no less than quarterly to assess whether Investment Guidelines continue to be appropriate and are met.
- g. The CIO prepares quarterly performance reports on the Core Fund Options for the RSPAC, the Committee, and the Regents.
- h. Investment performance results for the Core Fund Options are calculated and verified at least monthly by an external, independent performance consultant.
- i. The CIO monitors the conduct of the Plans' custodian, trustee and record keeper.
- j. The CIO establishes performance benchmarks and overall investment guidelines ("Investment Guidelines") for each Core Fund Option. See Section 5.A.
- k. The following factors govern review and/or termination of investment managers because of qualitative, quantitative, or organizational concerns. This list is representative and other factors may exist
 - i. Significant underperformance of the previously agreed-upon benchmark over the cumulative performance period, with proper adjustment for the manager's active risk;
 - ii. Significant organizational changes, including departure of key investment professionals;
 - iii. Implementation of significant change in strategy;
 - iv. Involvement in material litigation;
 - v. Involvement in an Security and Exchange Commission or other securities investigation;
 - vi. Acquisition by or of another firm.
- l. The CIO may deem it appropriate to terminate or place an investment manager on notice, or to take no action at that time.

University of California Retirement Savings Program Investment Policy Statement

- i. In cases in which the manager is placed on notice, the manager will be informed of this decision in writing. The manager may be removed from this status upon exhibiting significant organizational and/or performance changes.
 - ii. Should the investment manager fail to exhibit the desired changes, the CIO will conduct further discussions and analysis to determine if termination is warranted.
 - iii. The decision to retain or terminate a manager will be made at the discretion of the CIO. However, a systematic process will be carried that depends on the CIO's confidence in the investment firm to perform in the future.
-
- a. ~~The Treasurer will establish performance benchmarks and overall investment guidelines ("Investment Guidelines") for each Core Fund. See Appendices 4.~~
 - b. ~~The assets of the Core Funds 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.~~
 - c. ~~The Treasurer will select investment professionals ("managers") with demonstrated experience and expertise who will be responsible for managing specific portfolios consistent with the Investment Guidelines in Appendices 4. Each investment manager will function under a formal contract ("Individual Manager Guidelines") 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 shall establish and implement procedures for the selection, monitoring, evaluation, and termination of investment managers, which are found in Appendix 3.~~
 - d. ~~The Treasurer shall be responsible for administering the investments of the Program at the lowest possible cost, without 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 Program.~~
 - e. ~~The Treasurer may participate in securities lending programs, as a means to augment income, with the custodian or other qualified third parties. Income generated by such a program will offset expenses for the Core Fund which owns the securities.~~
 - f. ~~The Committee considers the active voting of proxies an integral part of the investment process. Proxy voting for separately managed accounts will occur in accordance with the Proxy Voting Policy found in Appendix 2.~~
 - g. ~~The Program shall comply with existing and future applicable state and federal laws and regulations and the prudence requirement found in section 3(a).~~
 - h. ~~All transactions undertaken on behalf of the Core Funds will be undertaken solely in the interests of those Funds' participants and their beneficiaries.~~

4. Fiduciary Oversight Procedures

- a. ~~The Committee, in developing the investment policy for the Program assets, and the Treasurer, as the Program's primary fiduciary for investment matters, shall act with the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent~~

University of California Retirement Savings Program Investment Policy Statement

- ~~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 has appointed a standing Retirement Savings Program Advisory Committee (RSPAC), chaired by the Senior Vice President for Business and Finance, and including the Treasurer and Associate Vice President—Human Resources and Benefits. Its responsibilities will include:~~
- ~~i. Assess the quality of services provided by investment managers against established criteria and/or Benchmarks;~~
 - ~~ii. Review Program fees and expenses;~~
 - ~~iii. Review and finalize an annual report to The Regents; and~~
 - ~~iv. Retain consultants necessary to assist in reviewing performance.~~
- c. ~~The Treasurer will develop and implement criteria for selecting appropriate asset classes and specific investment options (e.g., Core Funds) within those classes for the Program after consultation with the RSPAC and the appropriate constituent groups in the University community.~~
- d. ~~The Core Funds will be chosen with the following objectives:~~
- ~~i. To cover a risk/return spectrum of appropriate investment classes;~~
 - ~~ii. To provide distinct risk/return characteristics;~~
 - ~~iii. To offer well diversified and professionally managed options;~~
 - ~~iv. To provide, in aggregate, the participant with the opportunity to structure a portfolio with risk and return characteristics at any point within a normally appropriate range of investments; and~~
 - ~~v. To charge fees that are reasonable for the asset class and investment style.~~
- e. ~~The Treasurer will create and implement a process to monitor and evaluate the Program's investment structure and the Core Funds, and based on such periodic evaluations and consultation with appropriate parties, the Treasurer will make changes to either the asset classes or Core Funds.~~
- f. ~~The Treasurer may appoint investment consultants to review investment performance of the Program as a whole or with respect to specific Core Funds, to assist in the development of the Program's investment policies, to monitor and report on investment risks, and to provide independent assessment of investments proposed by the Treasurer.~~
- g. ~~The Treasurer shall review the investments of the Program no less than quarterly to assess whether Investment Guidelines continue to be appropriate and are met.~~
- h. ~~The Treasurer shall monitor investment risk, as well as monitor investment returns on an absolute and Benchmark relative basis. The Treasurer will monitor whether each Core Fund's level of total risk is consistent with the return objectives of the Fund. If conditions warrant, the Treasurer will adjust the investment structure to restore risk to appropriate levels. Where appropriate, active risk (tracking error) budgets will be established and monitored for each of the Core Funds.~~
- i. ~~The Treasurer shall prepare quarterly performance reports on the Core Funds for the RSPAC, the Committee, and The Regents.~~
- j. ~~Investment performance results for the Core Funds shall be calculated and verified at least monthly by an external, independent performance consultant.~~
- k. ~~The Treasurer, in conjunction with the various investment consultants, will monitor the separate account investment managers for compliance with the appropriate Individual Manager Guidelines (as defined in section 5(a)), achievement of specific objectives, and individual risk exposures.~~

University of California Retirement Savings Program Investment Policy Statement

- ~~l. The Treasurer shall monitor the conduct of the custodian of the Program's investments.~~
- ~~m. The Treasurer shall adopt the CFA Institute Code of Ethics and Standards of Professional Conduct for all employees of the Office of the Treasurer and relevant consultants and managers. These are found at http://www.cfainstitute.org/pdf/standards/english_code.pdf and incorporated by reference. The Treasurer shall develop and enforce other ethics guidelines for the Office of the Treasurer as needed, consistent with other University policies and guidelines.~~
- ~~n. The Committee and the Treasurer will periodically review this Policy and the Investment Guidelines to determine if amendments are appropriate based on changed circumstances such as the market environment or the needs of the Program.~~
- ~~o. Notwithstanding the fiduciary responsibility of The Regents, the Committee, and the Treasurer with respect to the investments of the Program, the following limitations apply:
 - ~~i. The dissemination of generic educational information to participants to help them make informed choices about their investment alternatives, and the provision of investment alternatives do not constitute advice from the University to participants.~~
 - ~~ii. Participants bear the risk of their investment choices. Additionally, each individual participant has the responsibility to reallocate assets among funds in his or her personal account as circumstances change.~~
 - ~~iii. Investments outside of the Core Funds are not reviewed by the Treasurer's Office.~~~~

5. Investment Manager Guidelines

The general guidelines that apply to all investment managers are:

- ~~a. Subject to constraints and restrictions imposed by the individual investment manager guidelines ("Individual 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." Recognizing that the establishment of social investing restrictions may limit investment opportunities, the Treasurer has established the use of "tobacco free" benchmarks as appropriate performance evaluation standards.~~
- ~~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 (with the exception of private equity investments in the UC Equity Fund) is prohibited.~~
- ~~e. The use of derivative securities or contracts to leverage the portfolio is prohibited. Acceptable and prohibited uses of derivatives are found in the derivatives policy in [Appendix 1](#).~~
- ~~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.~~

University of California Retirement Savings Program Investment Policy Statement

~~g. Transactions shall be executed at the lowest possible total cost, which includes commissions, efficiency of execution, and market impact.~~

~~Managers are required to inform the Treasurer of significant matters pertaining to the investment of Program 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 in the event of discovering an unintended or involuntary violation of the Individual Manager Guidelines or of any of the Policies herein pertaining to them.~~

~~Investment Guidelines applicable to each Core Fund will be found in Appendices 4. Individual Manager Guidelines, if different, will contain specific provisions to ensure that Objectives and risk exposures are consistent with their particular investment mandate, which may be a style or subset of the Core Fund. However, all Individual Manager Guidelines will be consistent with Core Fund Investment Guidelines and this Policy.~~

~~**NOTE: Performance objectives, benchmarks, risk budgets, and rebalancing policies will be contained in the Investment Guidelines for each Core Fund as applicable**~~

**University of California Retirement Savings Program
Investment Policy Statement**

5. Core Fund Options Investment Guidelines

A. Asset Class, Core Fund Options, and Benchmarks

<u>Asset Class</u>	<u>Core Fund Options</u>	<u>Benchmark*</u>
<u>Equity</u>	<u>UC Equity Fund</u>	<u>85% (less the actual private equity weight from the prior month end) times the Russell 3000 TF¹ Index return, plus 15% times the MSCI World ex-US TF¹ Index return, plus the actual private equity weight of the previous month end times the actual return of the private equity portfolio.</u>
	<u>UC Domestic Equity Index Fund</u>	<u>Russell 3000 TF Index¹</u>
	<u>UC International Index Fund</u>	<u>MSCI World ex-US TF Index¹</u>
	<u>Vanguard FTSE Social Index Fund</u>	<u>FTSE 4Good US Select Index</u>
	<u>Vanguard Small Cap Index Fund</u>	<u>MSCI US Small Cap 1750 Index</u>
	<u>Vanguard REIT Index Fund</u>	<u>MSCI US REIT Index</u>
	<u>DFA Emerging Markets Portfolio</u>	<u>MSCI Emerging Markets Net Index</u>
<u>Fixed Income</u>	<u>UC Bond Fund</u>	<u>Barclays US Aggregate Index</u>
	<u>UC TIPS Fund</u>	<u>Barclays US TIPS Index</u>
	<u>UC Short Term TIPS Fund</u>	<u>Barclays 1 – 3 Year US TIPS Index</u>
<u>Asset Allocation</u>	<u>UC Pathway Funds (Target Date Income Fund to Target Date 2060 Fund)</u>	<u>Each Fund has a custom benchmark which is the weighted sum of the Benchmarks of the component Funds, where the weights used are the policy weights of each Pathway Fund.</u>
	<u>UC Balanced Growth Fund</u>	<u>48% times the Benchmark of the UC Equity Fund, 17% times the MSCI World ex-US TF Index, 5% times MSCI Emerging Markets Net Index, 4% times the MSCI US REIT Index, 18% times the Barclays US Aggregate Index, and 8% times the Barclays 1-3 Year US TIPS Index</u>
<u>Capital Preservation</u>	<u>UC Savings Fund</u>	<u>Income Return of the 2-Year Constant Maturity Treasury Index</u>
	<u>UC ICC Fund (closed to new investments)</u>	<u>Income Return of the 5-Year Constant Maturity Treasury Index</u>
	<u>Dreyfus Treasury Prime Cash Management Fund</u>	<u>Citigroup 3-Month T-Bill Index</u>

* See Glossary for Description of Benchmarks

¹ The abbreviation “TF” is used for “Tobacco Free”

**University of California Retirement Savings Program
Investment Policy Statement**

B. Investment Objectives, Strategy, and Management Style

<u>Core Fund</u>	<u>Investment Objective</u>	<u>Investment Strategy / Management Style</u>
<u>UC Equity Fund</u>	<u>The Fund seeks to maximize long-term capital appreciation through investing in various equity related asset classes.</u>	<u>The Equity Fund asset allocation policy consists of 80% U.S. equity, 15% non-U.S. developed equity, and 5% private equity. The Fund's U.S. equity and non US developed equity allocations are passively* managed by State Street Global Advisors. The Fund's private equity allocation is managed by a diversified group of Buyout* and Venture Capital* firms, and is chosen and overseen by the Office of the Treasurer's Private Equity Group.</u>
<u>UC Domestic Equity Index Fund</u>	<u>The Fund seeks to provide broad and diversified exposure to the US equity market.</u>	<u>The Fund is passively managed by State Street Global Advisors and is invested in a Russell 3000 Tobacco Free (TF) Index Fund.</u>
<u>UC International Index Fund</u>	<u>The Fund seeks to provide broad and diversified exposure to Developed Country (ex-US) equity markets.</u>	<u>The Fund is passively managed by State Street Global Advisors and is invested in a MSCI World ex-US Tobacco Free (TF) Index Fund.</u>
<u>Vanguard FTSE Social Index Fund</u>	<u>The Fund seeks to provide broad and diversified exposure to US equity securities, which have been screened for certain social and environmental criteria.</u>	<u>The Fund is passively managed by Vanguard and is invested in FTSE4Good US Select Index Fund. This index is composed primarily of large- and mid-cap stocks that have been screened for certain social and environmental criteria by the Index sponsor (which is independent of Vanguard).</u>
<u>Vanguard Small Cap Index Fund</u>	<u>The Fund seeks to provide broad and diversified exposure to the smaller capitalization companies in the US equity market.</u>	<u>The Fund is passively managed by Vanguard and is invested in a MSCI US Small Cap 1750 Index Fund. This index is a broadly diversified index of stocks of smaller U.S. companies.</u>
<u>Vanguard REIT Index Fund</u>	<u>The Fund seeks to provide a high level of income and moderate long-term capital appreciation by investing in publicly traded equity US REITs.</u>	<u>The Fund is passively managed by Vanguard and is invested in a MSCI US REIT Index Fund. This index is a broadly diversified index of US Real Estate Investment Trusts* stocks.</u>
<u>DFA Emerging Markets Portfolio</u>	<u>The Fund seeks to achieve long-term capital appreciation by investing in stocks issued in or domiciled in Emerging Market countries.</u>	<u>The Emerging Markets Portfolio is actively managed by Dimensional Fund Advisors (DFA). It invests broadly in large capitalization companies across the seventeen emerging market* and frontier market* countries approved by DFA. The portfolio maintains limits on single-country exposure to reduce market and political risk.</u>

* See Glossary for additional description

**University of California Retirement Savings Program
Investment Policy Statement**

B. Investment Objectives, Strategy, and Management Style, continued

<u>Core Fund</u>	<u>Investment Objective</u>	<u>Investment Strategy / Management Style</u>
<u>UC Bond Fund</u>	<u>The Fund seeks to maximize long-term investment returns by investing in intermediate term debt securities.</u>	<u>The Fund is actively managed by the Office of the Treasurer Fixed Income group. It utilizes extensive analysis of economic and political factors using a “top-down” approach and fundamental, “bottom-up” analysis for individual security selection. It maintains a diversified portfolio primarily of high-quality debt securities, denominated in US Dollars.</u>
<u>UC TIPS Fund</u>	<u>The Fund seeks to provide long-term return and inflation protection consistent with an investment in U.S. Government inflation-indexed securities or TIPS*.</u>	<u>The Fund invests in inflation-indexed securities* issued by the U.S. Treasury. The Fund is actively managed by the Office of the Treasurer Fixed Income group but its performance tends to track closely with the return on the Benchmark.</u>
<u>UC Short Term TIPS Fund</u>	<u>The Fund seeks to provide returns more closely correlated with realized inflation over the near term and to offer investors the potential for less volatility of returns relative to a longer duration TIPS fund.</u>	<u>The Fund invests in inflation-indexed securities* issued by the U.S. Treasury with a shorter duration focus typically 1-3 years. The Fund is actively managed by the Office of the Treasurer Fixed Income group but its performance tends to track closely with the return on the Benchmark.</u>
<u>UC Pathway Funds (Pathway Income Fund to Pathway Fund 2060)</u>	<u>The Funds in this series are designed for investors who want a single, diversified approach to saving for retirement. The UC Pathway Funds are managed to adjust the investment risk level lower as each approaches its specified target date.</u>	<u>Each Pathway Fund is diversified across several asset classes (stocks, bonds, and short-term investments) by investing in a variety of Core Funds. Over time, the amount invested in equity-related funds is gradually reduced, while the amount invested in fixed income-related funds is increased.</u>
<u>UC Balanced Growth Fund</u>	<u>The Fund seeks to provide long-term growth and income through a single balanced portfolio of equity and fixed income securities which maintains a similar asset allocation as the University of California Retirement Plan (UCRP).</u>	<u>The Fund is comprised of a variety of Core Funds. It is rebalanced periodically to maintain a fixed ratio of the underlying Core Funds. The proportion of each constituent Fund is chosen to mirror the asset allocation of the UCRP (making allowance for asset classes included in UCRP but not available as Core Funds).</u>

* See Glossary for additional description

**University of California Retirement Savings Program
Investment Policy Statement**

B. Investment Objectives, Strategy, and Management Style, continued

<u>Core Fund</u>	<u>Investment Objective</u>	<u>Investment Strategy / Management Style</u>
<u>UC Savings Fund</u>	<u>The Fund seeks to maximize interest income returns, while protecting principal, in order to provide a stable, low-risk investment, with attractive returns that attempts to exceed the rate of inflation.</u>	<u>The Fund is actively managed by the Office of the Treasurer Fixed Income group, and invests solely in fixed-income securities issued by the U.S. Treasury, U.S. government agencies and U.S. government-sponsored enterprises (GSEs) such as Fannie Mae, Freddie Mac and the Federal Home Loan Banks. The maturity of all investments must be five years or less.</u>
<u>UC ICC Fund (closed to new investments)</u>	<u>The Fund seeks to maximize interest income, while protecting principal. The Fund strives to provide income returns that exceed the rate of inflation.</u>	<u>The Fund is actively managed by the Associate CIO of the Office of the Treasurer, and invests solely in insurance company contracts* and other short term fixed income securities.</u>
<u>Dreyfus Treasury Prime Cash Management Fund</u>	<u>The fund seeks as high a level of current income as is consistent with the preservation of capital and the maintenance of liquidity.</u>	<u>The fund is actively managed by Dreyfus, and only invests in securities issued or guaranteed as to principal and interest by the U.S. government.</u>

* See Glossary for additional description

University of California Retirement Savings Program Investment Policy Statement

C. Risk Factors

The UC Retirement Savings Program offers the Core Fund Options, which include a full range of asset classes. Participants in the Program should consider their unique needs and goals, along with any savings held outside of the Program, when building an appropriately diversified asset allocation of funds.

There are many factors that can affect the value of the individual investments within each of the Core Fund Options. These vary depending on the type of investment – e.g., equity securities respond to such factors as economic conditions, individual company earnings performance, and market liquidity, while fixed income securities are particularly sensitive to changes in interest rates and credit risks. Fund managers attempt to identify and analyze these and other potential risks in managing the funds, although they cannot guarantee that their decisions will produce the desired results.

“Risk” refers to the possibility of loss of principal, or alternatively to a rate of investment return below expectations or requirements. While volatility (price fluctuation) is not synonymous with risk, it is true that high volatility on the downside results in loss, and therefore higher volatility is associated with higher risk. Volatility, however results in realized losses *only if securities are sold after a fall in price.*

It is expected (but not assured) that for diversified portfolios, in the long run, higher risk is necessary to achieve higher expected returns. Thus, the length of an individual’s investment horizon will to some degree determine the appropriate amount of investment risk. All risk factors can be partially mitigated by diversification, both within a fund and across a person’s entire assets.

Market Risk – the broad risk that securities prices may fluctuate, due to a variety of factors, potentially reducing the value of an investment.

Individual Company or Issuer Risk – the value of an individual stock or corporate bond may vary according to a number of factors directly related to the company’s own performance, such as: management expertise, the company’s financial condition, changes in demand for the company’s products, changes in the regulatory environment, etc.

Concentration Risk (non-diversification) – the risk of having too much money invested in a few individual issuers, similar industries, or countries, thereby exposing a Fund to greater risks resulting from adverse economic, political, regulatory, geographic, or credit developments.

Credit Risk – the risk that a company will be unable to repay its debt obligations, relating to a variety of factors such as financial weakness or bankruptcy, litigation, and/or adverse political or regulatory developments. This risk is often quantified by credit ratings issued by several leading ratings agencies, such as Moody’s and Standard & Poor’s.

Prepayment Risk – Prepayment features on debt securities can increase volatility and affect returns, as cash flows may have to be reinvested at lower yields.

University of California Retirement Savings Program Investment Policy Statement

Interest Rate Risk – as interest rates rise, the market value of fixed income investments normally falls. The prices of fixed income securities with longer time to maturity (duration) tend to be more sensitive to changes in interest rates, and therefore more volatile, than those with shorter durations.

Liquidity Risk – the risk that certain securities may be difficult to buy or sell at various times in the markets, resulting in potentially unfavorable prices. Liquidity can be affected by a variety of factors, such as security type, general market conditions, and credit risk.

Foreign Security Risk – foreign securities may carry greater risk than domestic securities for a variety of reasons such as increased political risks; smaller or less liquid markets; higher transaction costs; less rigorous accounting and reporting standards for corporations; and changes in currency rates vs. the U.S. dollar. This last factor may be most significant, as the value of foreign currencies may fluctuate considerably over short periods of time, potentially reducing the market value of the security.

University of California Retirement Savings Program Investment Policy Statement

D. Glossary

1. **Active Management:** an investment approach in which securities are purchased in different proportions than in the Benchmark in the expectation of earning a greater return than would be earned by replicating the Benchmark portfolio (“passive” investing).
2. **Passive Management (Indexing):** an investment approach designed to track the performance of a particular market index by investing all, or substantially all, of its assets in the stocks that make up the index, holding each stock in approximately the same proportion as its weighting in the index.
3. **Buyout:** The purchase of a company's shares in which the acquiring party gains controlling interest of the targeted firm. Incorporating a buyout strategy is a common technique used to gain access to new markets and is one of the most common methods for inorganically growing a business.
4. **Venture Capital:** Money provided by investors to startup firms and small businesses with perceived long-term growth potential. This is an important source of funding for startups that do not have access to capital markets. It typically entails high risk for the investor, but it has the potential for above-average returns.
5. **Developed Market Country:** A country which achieved an advanced stage of economic development, whose securities markets have met certain standards for stability and are included in one or more index provider’s Developed Markets indexes; to be distinguished from “Emerging Markets.”
6. **Emerging Market Country:** A country at varying stages of economic development, whose securities markets have only recently met certain standards for stability and been included in one or more index provider’s Emerging Markets indexes; to be distinguished from “Developed Markets.”
7. **Frontier Market Country:** Less advanced capital markets from the developing world. Frontier markets are countries with investable stock markets that are less established than those in the emerging markets. They are also known as "pre-emerging markets".
8. **REIT (Real Estate Investment Trust):** A security that sells like a stock on the major exchanges and invests in real estate directly, either through properties or mortgages. REITs receive special tax considerations and typically offer investors high yields, as well as a highly liquid method of investing in real estate.
9. **TIPS (Treasury Inflation Protected Securities):** U.S. Treasury notes and bonds which are designed to protect future purchasing power. The principal value is adjusted for changes in inflation, and a fixed interest rate is accrued on the inflation-adjusted principal.
10. **Insurance Company Contracts:** A contract with a highly rated, financially sound insurance company, which guarantee a fixed annual rate of interest for a specified time period and the repayment of principal at the end of that time period. Insurance contract guarantees are backed by the general account assets of the issuing insurance company and are not insured or guaranteed by any third party

**University of California Retirement Savings Program
Investment Policy Statement**

E. Description of Benchmarks

1. **Russell 3000 Tobacco Free Index:** Measures the performance of the largest 3000 U.S. companies representing approximately 98% of the investable U.S. equity market excluding companies manufacturing tobacco products.
2. **MSCI World ex-US Tobacco Free Index:** A free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of developed markets. The index consists of the following 24 developed market country indices: Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Greece, Hong Kong, Ireland, Israel, Italy, Japan, Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Switzerland, and the United Kingdom.
3. **FTSE4Good US Select Index:** Composed primarily of large- and mid-cap stocks that have been screened for certain social and environmental criteria by the Index sponsor, which is independent of the Fund manager
4. **MSCI Emerging Markets Net Index:** A free float-adjusted market capitalization index that is designed to measure equity market performance of emerging markets. The MSCI Emerging Markets Index consists of the following 21 emerging market country indices: Brazil, Chile, China, Colombia, Czech Republic, Egypt, Hungary, India, Indonesia, Korea, Malaysia, Mexico, Morocco, Peru, Philippines, Poland, Russia, South Africa, Taiwan, Thailand, and Turkey.
5. **MSCI US Small Cap 1750 Index:** Represents the universe of small capitalization companies in the US equity market. This index targets for inclusion 1,750 companies and represents, as of October 29, 2004, approximately 12% of the capitalization of the US equity market.
6. **MSCI US REIT Index:** A free float market capitalization weighted index that is comprised of Equity REITs securities that belong to the MSCI US Investable Market 2500 Index.
7. **Income Return of the 2-Year Constant Maturity Treasury Index:** The average yield of a range of Treasury securities, all adjusted to the equivalent of a 2-year maturity.
8. **Income Return of the 5-Year Constant Maturity Treasury Index:** The average yield of a range of Treasury securities, all adjusted to the equivalent of a 5-year maturity.
9. **Citigroup 3-Month T-Bill Index:** Measures monthly return equivalents of yield averages that are not marked to market. The Three-Month Treasury Bill Indexes consist of the last three three-month Treasury bill issues.
10. **Barclays U.S. Aggregate Index:** Covers the investment-grade, U.S. dollar-denominated, fixed-rate taxable bond market, including Treasuries, government-related and corporate securities, MBS (agency fixed-rate and hybrid ARM pass-throughs), Asset Backed Securities, and Collateralized Mortgage Backed Securities. Issues are market capitalization weighted. Securities must have a minimum maturity of one year to remain in the index. Securities must have a minimum quality investment grade by middle rating of Moody's, S&P, and Fitch.
11. **Barclays U.S. TIPS Index:** Covers all publicly issued US Treasury issued inflation linked bonds (linked to the US Consumer Price Index). Issues are market capitalization weighted. Securities must have a minimum maturity of one year to remain in the index.
12. **Barclays 1 – 3 Year U.S. TIPS Index:** Covers publicly issued U.S. Treasury issued inflation linked bonds (linked to the U.S. Consumer Price Index) with a maturity between 1 – 3 years. Issues are market capitalization weighted. Securities must have a minimum maturity of one year to remain in the index.

Additions shown by underscoring; deletions shown by strikethrough

BYLAW 12.8

COMMITTEE ON COMPENSATION

12.8 Committee on Compensation

The Committee on Compensation shall:

- a. On an ongoing basis, advise the Board on all matters pertaining to the elements of compensation and benefits for University employees to ensure that compensation and benefits policies, procedures, programs, and practices are fair, effective, clear, comprehensible, transparent, and accountable, and inspire the trust of the University community and the public.
- b. Assess the University's progress in achieving the goals of obtaining, prioritizing, and directing funds to increase salaries to achieve market comparability for all groups of employees over periods established by the Board.
- c. Review and advise the Board on all matters relating to the implementation of any Senior Management Group compensation policies approved by The Regents, and other Regental policies or actions that require Regental authorization for employee compensation.
- d. Undertake actions as necessary to carry out 12.8(a), (b), and (c), including:
 - (1) Conduct regular studies to examine the competitiveness of the compensation for faculty and all categories of administrative employees relative to comparable institutions;
 - (2) Review the compensation of ~~members of the Senior Management Group, and other~~ all University employees ~~which for whom require~~ Regental approval is required prior to review and approval by the Board;

f. Recommend to the Board:

- (1) All compensation of employees for whom Regental approval is required pursuant to Regental policies ~~Officers of the University and other members of the Senior Management Group, including those individuals serving in an acting capacity in those positions;~~ and

Additions shown by underscoring; deletions shown by strikethrough

STANDING ORDER 100.2

OFFICERS OF THE UNIVERSITY

EMPLOYMENT STATUS

100.2 Employment Status

- (b) Appointment (including temporary appointment of acting or interim status), or reemployment after retirement of all Officers of the University for whom Regental approval is required pursuant to Regental policies ~~and other members of the Senior Management Group~~ shall be voted by the Board upon recommendation of the President of the University following consultation, as appropriate, with an appropriate Standing Committee of the Board, as determined by the President, or with a special committee established for that purpose.

- ~~(e) — Temporary appointments of acting status in Officer of the University or other Senior Management Group positions shall be voted by the Board upon recommendation of the President of the University.~~
- ~~(f) — Minor changes in titles of Officers of the University and other members of the Senior Management Group may be approved by the President of the University. Any such changes shall be reported to the Board in the Bi-Monthly Transaction Monitoring Report.~~

Additions shown by underscoring; deletions shown by strikethrough

STANDING ORDER 100.3

OFFICERS OF THE UNIVERSITY

COMPENSATION

100.3 Compensation

- (a) Compensation of the President of the University shall be determined by the Board upon recommendation of the Committee on Compensation.
- (b) Compensation of all other Officers of the University ~~and other members of the Senior Management Group, including those individuals serving in an acting capacity, and including compensation upon appointment and subsequent changes in compensation for whom Regental approval is required pursuant to Regental policies~~ shall be determined by the Board upon recommendation of the President of the University through the Committee on Compensation.

Additions shown by underscoring; deletions shown by strikethrough

STANDING ORDER 101.1

FACULTY MEMBERS AND OTHER EMPLOYEES OF THE UNIVERSITY

EMPLOYMENT STATUS

101.1 Employment Status

- (c) Appointments, promotions, demotions, and dismissals of all faculty members and other employees, except as otherwise provided in the Bylaws, ~~and Standing Orders, or Regental policies,~~ shall be under the jurisdiction of the President of the University, and of the Secretary and Chief of Staff, Chief Investment Officer, and General Counsel of The Regents in their respective areas of responsibility.

- (e) Reemployment appointments of retired University employees to any Senior Management Group or other staff position whose annualized base salary plus any other cash compensation in the rehire position meets or exceeds the Indexed Compensation Level shall be voted by the Board upon recommendation of the President of the University shall be governed by the Regents policy on Reemployment of UC Retired Employees.

Additions shown by underscoring; deletions shown by strikethrough

STANDING ORDER 101.2

FACULTY MEMBERS AND OTHER EMPLOYEES OF THE UNIVERSITY

COMPENSATION

101.2 Compensation

- a. ~~Rate of compensation~~Compensation and subsequent changes in rate of ~~compensation~~ shall be determined by the Board upon recommendation of the President of the University or upon recommendation of the Secretary and Chief of Staff, Chief Investment Officer, or General Counsel of The Regents in their respective areas of responsibility through the Committee on Compensation for:

1. All employees for whom Regental approval is required pursuant to Regental policies~~members of the Senior Management Group.~~

3. Other University personnel, except faculty other than Regents' Professors and University Professors, whose total cash compensation exceeds the Indexed Compensation ~~Limit Level~~ (ICL), and who meet the criteria listed below. The Indexed Compensation Level shall be adjusted annually in accordance with the California Consumer Price Index (CPI) Urban Consumers for all items as determined by the Bureau of Statistics, said percent increase to be reported annually to the Board. Board approval pursuant to this subsection shall only be required for employees that are in the following categories:

- b. Compensation of other employees except as otherwise provided in the Bylaws, ~~and Standing Orders of The Regents,~~ and Regental policies shall be under the jurisdiction of the President of the University and of the Secretary and Chief of Staff, Chief Investment Officer, and General Counsel of The Regents in their respective areas of responsibility.