

# THE REGENTS OF THE UNIVERSITY OF CALIFORNIA

November 14, 2013

The Regents of the University of California met on the above date at UCSF–Mission Bay Conference Center, San Francisco.

Members present: Regents Brown, De La Peña, Feingold, Flores, Gould, Island, Kieffer, Lansing, Makarechian, Napolitano, Pattiz, Ruiz, Schultz, Varner, and Zettel

In attendance: Regents-designate Engelhorn, Leong Clancy, and Saifuddin, Faculty Representatives Gilly and Jacob, Secretary and Chief of Staff Kelman, Associate Secretary Shaw, General Counsel Robinson, Provost Dorr, Executive Vice President Brostrom, Chief Financial Officer Taylor, Senior Vice Presidents Dooley and Stobo, Vice Presidents Beckwith, Duckett, Lenz, Mara, and Sakaki, Chancellors Block, Blumenthal, Dirks, Leland, Wilcox, and Yang, and Recording Secretary Johns

The meeting convened at 11:10 a.m. with Chairman Varner presiding.

## 1. APPROVAL OF MINUTES OF PREVIOUS MEETING

Upon motion duly made and seconded, the minutes of the meetings of September 18 and the meetings of the Committee of the Whole of September 17 and 18, 2013 were approved.

## 2. REPORT OF THE COMMITTEE ON COMPENSATION

The Committee presented the following from its meeting of November 14, 2013:

### A. *Extension of Administrative Stipend for Martha Arvin as Systemwide Health Sciences Privacy Liaison, Office of Ethics, Compliance and Audit Services, Office of the President*

The Committee recommended approval of the following items in connection with the extension of the administrative stipend for Martha Arvin as Systemwide Health Sciences Privacy Liaison, Office of Ethics, Compliance and Audit Services, Office of the President:

- (1) Per policy, continued appointment of Martha Arvin as Chief Compliance Officer, UCLA Health Sciences with an appointment at 100 percent time.
- (2) Per policy, continued base salary of \$244,902 as Chief Compliance Officer. This position will continue to be paid by UCLA Health Sciences.

- (3) As an exception to policy, continuation of the previously approved administrative stipend of \$30,000, which is 12.25 percent of Ms. Arvin's current annual base salary of \$244,902. This constitutes an exception to policy because the applicable policy authorizes stipends for up to 12 months in duration and provides that extensions of stipend arrangements may only be granted in intervals not to exceed 12 additional months. This stipend will continue until the conclusion of Ms. Arvin's duties as Systemwide Health Sciences Privacy Liaison or until the appointment of a permanent Systemwide Health Sciences Privacy Liaison, whichever occurs first.
- (4) Per policy, continued eligibility to participate in the Clinical Enterprise Management Recognition Plan (CEMRP) with a target award of 15 percent of base salary plus administrative stipend (\$41,235) and a maximum potential award of 25 percent of base salary plus administrative stipend (\$68,726). Actual award will be determined based on performance against pre-established objectives. Ms. Arvin's CEMRP eligibility is associated with her role as the Chief Compliance Officer, UCLA Health Sciences.
- (5) Per policy, continuation of a five percent monthly contribution to the Senior Management Supplemental Benefit program, with the contribution calculation based on the sum of Ms. Arvin's annual base salary and administrative stipend.
- (6) Per policy, continued standard pension and health and welfare benefits and standard senior management benefits (including senior management life insurance and executive salary continuation for disability after five years of Senior Management Group service).
- (7) This action will be effective retroactive to June 1, 2013. This constitutes an exception to policy because the effective date and approval date are not within the same month.

### COMPARATIVE ANALYSIS

#### **Recommended Compensation**

**Effective Date:** June 1, 2013

**Title:** Chief Compliance Officer, UCLA Health Sciences, and Systemwide Health Sciences Privacy Liaison

**Base Salary:** \$244,902

**Stipend:** \$30,000 (12.25 percent of base salary)

**CEMRP:** \$41,235 (at target rate of 15 percent)

**Target Cash Compensation:\*** \$316,137

**Market Reference Zone:** (25th %: \$145,000, 50th %: \$185,000, 60th %: \$205,000, 75th %: \$235,000, 90th %: \$283,000)

**Funding:** partially or fully State-funded

**Budget &/or Prior Incumbent Data**

**Title:** Chief Compliance Officer, UCLA Health Sciences, and Systemwide Health Sciences Privacy Liaison

**Base Salary:** \$244,902

**Stipend:** \$30,000 (12.25 percent of base salary)

**CEMRP:** \$41,235 (at target rate of 15 percent)

**Target Cash Compensation:\*** \$316,137

**Market Reference Zone:** (25th %: \$145,000, 50th %: \$185,000, 60th %: \$205,000, 75th %: \$235,000, 90th %: \$283,000)

**Funding Source:** partially or fully State-funded

\*Target Cash Compensation consists of base salary and, if applicable, incentive and/or stipend.

**COMPETITIVE ANALYSIS FOR CHIEF COMPLIANCE OFFICER**

Percentiles	MARKET REFERENCE ZONE FOR BASE SALARY					Percentiles	MARKET COMPOSITE FOR TARGET CASH COMPENSATION				
	25 <sup>th</sup>	50 <sup>th</sup>	60 <sup>th</sup>	75 <sup>th</sup>	90 <sup>th</sup>		25 <sup>th</sup>	50 <sup>th</sup>	60 <sup>th</sup>	75 <sup>th</sup>	90 <sup>th</sup>
Market Data	\$145K	\$185K	\$205K	\$235K	\$283K	Market Data	\$156K	\$190K	\$214K	\$249K	\$328K
% Difference from Market	68.9%	32.4%	19.5%	4.2%	-13.5%	% Difference from Market	102.7%	66.4%	47.7%	27.0%	-3.6%

**Survey Source:** Mercer Council of Teaching Hospitals and Health Systems (COTH) Custom Analysis 4A Module and Mercer Council of Teaching Hospitals and Health Systems (COTH) Custom Analysis 4B Module.

The compensation described above shall constitute the University's total commitment until modified by the Regents and shall supersede all previous oral and written commitments. Compensation recommendations and final actions will be released to the public as required in accordance with the standard procedures of the Board of Regents.

**Submitted by:** President Napolitano

**Reviewed by:** Committee on Compensation Chair Kieffer  
Office of the President, Human Resources

**B. *Extension of Term Appointment of and Compensation for David Bergquist as Interim Chief Campus Counsel, Riverside Campus***

The Committee recommended approval of the following items in connection with the extension of the term appointment of and compensation for David Bergquist as Interim Chief Campus Counsel, Riverside campus:

- (1) As an exception to policy, extension of the term appointment of David Bergquist as Interim Chief Campus Counsel at 100 percent time.
- (2) Per policy, continuation of the base salary of \$221,450 and continued assignment to the Market Reference Zone for Chief Campus Counsel.
- (3) Per policy, continuation of standard pension and health and welfare benefits.
- (4) This appointment will be effective from November 1, 2013 through October 31, 2014, or until the appointment of a new chief campus counsel, Riverside campus, whichever occurs first.

### COMPARATIVE ANALYSIS

#### **Recommended Compensation**

**Effective Date:** November 1, 2013

**Base Salary:** \$221,450

**Target Cash Compensation:**\* \$221,450

**Market Reference Zone:** (25th %: \$210,000, 50th %: \$238,000, 60th %: \$252,000, 75th %: \$273,000, 90th %: \$304,000)

**Funding:** partially or fully State-funded

#### **Budget &/or Prior Incumbent Data**

**Title:** Chief Campus Counsel, Riverside campus

**Base Salary:** \$215,000

**Target Cash Compensation:**\* \$215,000

**Market Reference Zone:** (25th %: \$210,000, 50th %: \$238,000, 60th %: \$252,000, 75th %: \$273,000, 90th %: \$304,000)

**Funding:** partially or fully State-funded

\*Target Cash Compensation consists of base salary and, if applicable, incentive and/or stipend.

### COMPETITIVE ANALYSIS FOR CHIEF CAMPUS COUNSEL

Percentiles	MARKET REFERENCE ZONE FOR BASE SALARY					MARKET COMPOSITE FOR TARGET CASH COMPENSATION					
	25 <sup>th</sup>	50 <sup>th</sup>	60 <sup>th</sup>	75 <sup>th</sup>	90 <sup>th</sup>	Percentiles	25 <sup>th</sup>	50 <sup>th</sup>	60 <sup>th</sup>	75 <sup>th</sup>	90 <sup>th</sup>
Market Data	\$210K	\$238K	\$252K	\$273K	\$304K	Market Data	\$248K	\$318K	\$345K	\$386K	\$449K
% Difference from Market	5.5%	-7.0%	-12.1%	-18.9%	-27.2%	% Difference from Market	-10.7%	-30.4%	-35.8%	-42.6%	-50.7%

**Survey Source:** Radford Benchmark Survey and Mercer Benchmark Database Survey.

The compensation described above shall constitute the University's total commitment until modified by the Regents and shall supersede all previous oral and written commitments. Compensation recommendations and final actions will be released to the public as required in accordance with the standard procedures of the Board of Regents.

**Submitted by:** UC Riverside Chancellor Wilcox  
General Counsel and Vice President – Legal Affairs  
Robinson  
**Reviewed by:** President Napolitano  
Committee on Compensation Chair Kieffer  
Office of the President, Human Resources

Upon motion of Regent Kieffer, duly seconded, the recommendations of the Committee on Compensation were approved.

### 3. **REPORT OF THE COMMITTEE ON FINANCE**

The Committee presented the following from its meeting of November 14, 2013:

A. ***Approval of University of California 2014-15 Budget for Current Operations and 2013-14 and 2014-15 Budget for State Capital Improvements***

- (1) The Committee recommended that the budget plan included in the document, *2014-15 Budget for Current Operations*, and shown in Attachment 1, be approved.
- (2) The Committee concurred with the recommendation of the Committee on Grounds and Buildings that the 2013-14 Budget for State Capital Improvements (Attachment 2) be approved.
- (3) The Committee concurred with the recommendation of the Committee on Grounds and Buildings that the 2014-15 Budget for State Capital Improvements (Attachment 3) be approved.

B. ***University of California Financial Reports, 2013***

The Committee recommended that the Regents adopt the 2012-13 Annual Financial Reports for the University of California; the University of California Retirement System; and the five University of California Medical Centers.

C. ***Revisions and Modifications to University of California Loan Program Policies and Procedures***

The Committee recommended that the Regents:

- (1) Amend the Mortgage Origination Program (MOP) Policies, as shown in Attachment 4, to:
  - a. Implement an interest rate cap of ten percent over the starting interest rate for MOP, Graduated Payment MOP (GP-MOP), Interest-Only MOP (IO-MOP), and 5/1 MOP loans made after January 1, 2014.
  - b. Establish a new 5/1 Adjustable Rate Mortgage loan product (5/1 MOP).
- (2) Authorize the President to develop and implement 5/1 MOP loan underwriting standards that are consistent with the Regents policies and applicable federal lending regulations.
- (3) Authorize the President to implement new federal Truth in Lending regulations, effective January 10, 2014, according to Presidential discretion and in the best interests of the MOP and Supplemental Home Loan Program.

D. ***Approval of Terms of a Facility Sublease between the Regents and the Department of Food and Agriculture of the State of California, South Valley Animal Health Laboratory, Tulare, Davis Campus***

The Committee recommended that the President be authorized, following consultation with the General Counsel, to execute a Facility Sublease between the Regents and the California Department of Food and Agriculture (CDFA) in connection with the financing, construction, equipping, and operation of the South Valley Animal Health Laboratory on the same material terms and conditions previously approved in November 2008 and subject to the following additional terms and conditions:

- (1) The term of the Facility Sublease shall begin on the date of the issuance of the State Public Works Board (SPWB) bonds and shall terminate on the date the SPWB bonds are retired.
- (2) The Regents are not obligated to pay rent to the CDFA under the Facility Sublease.
- (3) Pursuant to the terms of the Facility Sublease the Regents shall operate and maintain the South Valley Animal Health Laboratory in support of the California Animal Health and Food Safety Laboratory System.
- (4) CDFA shall fund all costs associated with the operation and maintenance of the Laboratory.

- (5) At the expiration of the term of the Facility Sublease, title to the improvements shall transfer to the Regents at no cost.

Upon motion of Regent Ruiz, duly seconded, the recommendations of the Committee on Finance were approved.

#### 4. **REPORT OF THE COMMITTEE ON GROUNDS AND BUILDINGS**

The Committee presented the following from its meeting of November 12, 2013:

##### A. ***Approval of External Financing, Solar Energy Research Center, Berkeley Campus/Lawrence Berkeley National Laboratory***

The Committee recommended that:

- (1) The President be authorized to obtain additional external financing not to exceed \$30 million (plus related interest expense and financing costs) for the Project. This authority, together with the previously authorized \$14.4 million, equals \$44.4 million of total authorized external financing. The President shall require that:
  - a. Interest only, based on the amount drawn down, shall be paid on the outstanding balance during the construction period.
  - b. The primary source of repayment of the requested additional external financing of \$30 million plus related interest expense and financing costs shall be from State appropriations.
  - c. The general credit of the Regents shall not be pledged.
- (2) The President be authorized to execute all documents necessary in connection with the above.

##### B. ***Approval of University of California 2013-14 and 2014-15 Budgets for State Capital Improvements and Acceptance of the 2013-23 Capital Financial Plan***

The Committee recommended that:

- (1) Subject to concurrence of the Committee on Finance, the amended 2013-14 Budget for State Capital Improvements as shown in Attachment 5 be approved.
- (2) Subject to concurrence of the Committee on Finance, the 2014-15 Budget for State Capital Improvements as shown in Attachment 6 be approved.
- (3) The 2013-23 Capital Financial Plan be accepted.

C. ***Approval of Preliminary Plans Funding and External Financing, Outpatient Pavilion, San Diego Campus***

The Committee recommended that:

- (1) The 2013-14 Budget for Capital Improvements and the Capital Improvement Program be amended to include the following project:

San Diego: Outpatient Pavilion – preliminary plans – \$4.78 million to be allocated to the UC San Diego Health System from the Century Bond proceeds previously allocated to the campus.

- (2) The President be authorized to direct the campus to allocate to the UC San Diego Health System preliminary plans funding not to exceed \$4.78 million for the Outpatient Pavilion project from the Century Bond proceeds previously allocated to the campus. The President shall require that as long as the allocation is outstanding, the UC San Diego Health System gross revenues be maintained in amounts sufficient to pay the annual principal and interest on the preliminary plans funding allocation.
- (3) The President be authorized to execute all documents necessary in connection with the above.

D. ***Approval of Design following Action Pursuant to California Environmental Quality Act, Stuart House Replacement, Los Angeles Campus***

Upon review and consideration of the environmental consequences of the proposed Stuart House Replacement Project, the Committee reported its:

- (1) Adoption of the Mitigated Negative Declaration under the California Environmental Quality Act (CEQA).
- (2) Adoption of the Mitigation Monitoring and Reporting Program and CEQA Findings.
- (3) Approval of the design of the Stuart House Replacement Project, Los Angeles campus.

[The Final Initial Study/Mitigated Negative Declaration, Mitigation Monitoring and Reporting Program, and California Environmental Quality Act Findings were provided to Regents in advance of the meeting, and copies are on file in the Office of the Secretary and Chief of Staff.]

Upon motion of Regent Makarechian, duly seconded, the recommendations of the Committee on Grounds and Buildings were approved.



5. **REPORT OF THE COMMITTEE ON INVESTMENTS**

The Committee presented the following from its meeting of November 5, 2013:

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

The Committee recommended that the Investment Policy Statement for the UC Retirement Savings Program be amended, as shown in Attachment 7.

Upon motion of Regent Gould, duly seconded, the recommendation of the Committee on Investments was approved.

6. **AMENDMENT OF BYLAW 12 – RESPONSIBILITIES OF STANDING COMMITTEES, STANDING ORDER 100 – OFFICERS OF THE UNIVERSITY, AND STANDING ORDER 101 – FACULTY MEMBERS AND OTHER EMPLOYEES OF THE UNIVERSITY**

In accordance with notice previously served and upon motion of Regent Island, duly seconded, the amendment of Bylaw 12.8 – Committee on Compensation as shown in Attachment 8, Standing Order 100.2 – Officers of the University, Employment Status as shown in Attachment 9, Standing Order 100.3 – Officers of the University, Compensation as shown in Attachment 10; Standing Order 101.1 – Faculty Members and Other Employees of the University, Employment Status as shown in Attachment 11, and Standing Order 101.2 – Faculty Members and Other Employees of the University, Compensation as shown in Attachment 12 was approved.

7. **REPORT OF THE PRESIDENT**

The President presented her report concerning University activities and individuals. Eight members of the UC faculty were elected to the National Academies' Institute of Medicine. Election to the Institute recognizes outstanding professional accomplishment and commitment to service; it is considered one of the greatest honors that can be bestowed upon those in the medical and health science fields. Since 1970, more than 200 individuals affiliated with UC have been elected to the Institute, including President Emeritus Richard Atkinson.

8. **REPORT OF INTERIM AND CONCURRENCE ACTIONS**

Secretary and Chief of Staff Kelman reported that, in accordance with authority previously delegated by the Regents, interim or concurrence action was taken on routine or emergency matters as follows:

The Chairman of the Board, the Chair of the Committee on Finance, and the President of the University approved the following recommendation:

***Approval to Execute Interest Rate Swaps to Fix Variable Rate Interest Payments to Fixed Payments for Variable Rate Bonds in Connection with State Public Works Board Restructuring***

That the President be authorized to execute the proposed interest rate swap transaction as follows:

- A. Execute interest rate swap for an amount not to exceed \$600 million to hedge variable interest rate exposure on the University's General Revenue Bonds in such amounts and with such counterparties as the Chief Financial Officer (CFO) shall determine in accordance with the Interest Rate Swap Guidelines. The swap will be executed under interest rate swap agreements secured by a parity lien on the University's general revenues. Authorization is evergreen and allows for successive and/or replacement swap(s) until the final maturity of the bonds that is anticipated to be May 15, 2048.
- B. The swap will only be procured in a manner which is consistent with the Guidelines.
- C. The President authorizes the CFO, in consultation with the General Counsel and Vice President, to take all necessary actions related to the execution of the interest rate swaps including approval, execution, and delivery of all necessary or appropriate financing documents.

**9. REPORT OF COMMUNICATIONS RECEIVED**

Secretary and Chief of Staff Kelman reported that, in accordance with Bylaw 16.9, Regents received a summary of communications in reports dated October 1 and November 1, 2013.

**10. REPORT OF MATERIALS MAILED BETWEEN MEETINGS**

Secretary and Chief of Staff Kelman reported that, on the dates indicated, the following were sent to the Regents or to Committees:

**To Members of the Committee on Investments**

- A. From the Co-Acting Chief Investment Officers, Investments Performance Summaries and Updates. (August 26, 2013)

**To Members of the Committee on Grounds and Buildings**

- B. From the President, Annual Report on President's and Chancellors' Residences and Offices Capital Projects, FY 2012-13. (September 18, 2013)

**To Members of the Committee on Oversight of the Department of Energy Laboratories**

- C. From the President, update on the Department of Energy Laboratories. (October 3, 2013)

**To the Regents of the University of California**

- D. From the Secretary and Chief of Staff, invitation from Chairman Varner and other Regents to participate in the Promise for Education Program. (August 23, 2013)
- E. From the Secretary and Chief of Staff, summaries of correspondence sent to the Regents for the month of August. (September 4, 2013)
- F. From the President, UC Retirement System Plan updates. (September 11, 2013)
- G. From the Secretary and Chief of Staff, revised membership of the Committee to Consider the Selection of a Chief Investment Officer. (September 16, 2013)
- H. From the Chairman, letter regarding the Regents' Lawrence Livermore National Laboratory visit on September 19, 2013. (September 27, 2013)
- I. From the Secretary and Chief of Staff, summaries of correspondence sent to the Regents for the month of September. (October 1, 2013)
- J. From the President, the announcement of Randy Schekman, UCB Professor of Molecular and Cell Biology, as the winner of the Nobel Prize in Medicine. (October 7, 2013)
- K. From the Secretary and Chief of Staff, revised membership of the Committee to Consider the Selection of a Chief Investment Officer. (October 17, 2013)
- L. From the President, communication from Chancellor Block and the "Independent Investigative Report on Acts of Bias and Discrimination Involving Faculty at the University of California, Los Angeles" (Moreno Report). (October 18, 2013)
- M. From Regent Pattiz, announcement of the resignation of Lawrence Livermore National Laboratory Director Parney Albright. (October 24, 2013)
- N. From the President, update on progress and action taken in response to the Moreno Report. (October 25, 2013).

The meeting adjourned at 11:15 a.m.

Attest:

Secretary and Chief of Staff

**2014-15 BUDGET PROPOSAL** (Dollars in Millions)**2013-14 OPERATING BUDGET**

State General Funds	\$ 2,844.4
Less General Obligation Bond Debt Service	200.4
State General Funds (excluding GO Bond Debt Service)	<u>\$ 2,644.0</u>
Total Core Funds (State General Funds, Student Tuition and Fee Revenue, and UC General Funds)	\$ 6,600.0

**PROPOSED INCREASES IN REVENUE*****State General Funds (as proposed in Governor's multi-year plan)***

2014-15 Base Budget Adjustment (5%)	\$ 142.2
Annuitant Health Benefits	4.0
Subtotal	<u>\$ 146.2</u>

***Additional State General Funds***

State Share of UCRP	\$ 64.1
1% Enrollment Growth	21.8
Reinvestment in Academic Quality	35.0
Subtotal	<u>\$ 120.9</u>

***UC General Funds***

Nonresident Supplemental Tuition (related to new enrollment)	\$ 26.0 <sup>1</sup>
Indirect Cost Recovery	- <sup>2</sup>
Subtotal	<u>\$ 26.0</u>

***Alternative Revenues/Cost Savings***

Asset Management (STIP to TRIP)	\$ 35.0
Systemwide Contracts	30.0
Philanthropy	25.0
Subtotal	<u>\$ 90.0</u>

**TOTAL NEW REVENUE AVAILABLE  
FOR 2014-15**      **\$ 383.1**

**PROPOSED INCREASES IN EXPENDITURES*****Mandatory Costs***

Retirement Contributions	\$ 73.0
Employee Health Benefits	20.3
Annuitant Health Benefits	4.0
Contractually Committed Compensation	16.3
Academic Merit Increases	30.0
Non-salary Price Increases	24.5
Subtotal	<u>\$ 168.1</u>

***High-Priority Costs***

Compensation Increases (3% all employees)	\$ 117.2 <sup>3</sup>
1% Enrollment Growth	21.8
Deferred Maintenance	11.0
High-Priority Capital Needs	15.0
Subtotal	<u>\$ 165.0</u>

***Reinvestment in Academic Quality***

Reduce Student-Faculty Ratio	TBD
Support Startup Costs for New Faculty	TBD
Reduce Faculty Salary Gap	TBD
Reduce Staff Salary Gap	TBD
Increase Graduate Student Support	TBD
Enhance Undergraduate Instructional Support	TBD
Subtotal	<u>\$ 50.0</u>

**TOTAL EXPENDITURES COVERED BY  
AVAILABLE REVENUES**      **\$ 383.1**

**Notes:**

1. Assumes revenue from nonresident enrollment growth of 2,000 undergraduate students, net of instructional costs.
2. Assumes no change in 2013-14 levels of indirect cost recovery.
3. Represents a 3% overall compensation increase less 2014-15 increases already committed to under existing collective bargaining agreements.

**2013-14 BUDGET FOR STATE CAPITAL IMPROVEMENTS (\$000s)**  
**CCCI 6077**

CRITERIA	CAMPUS	PROJECT	PHASE	2013-14 REQUEST	FUTURE STATE FUNDS	NON- STATE FUNDS
Shovel Ready	MC	Classroom & Academic Office Building	C	\$ 45,144	\$ 4,079	
Equipment	MC	Science & Engineering Building 2	E	4,220		
Infrastructure	SD	SIO Nimitz Marine Facility Berthing Wharf	C	5,000		\$ 20,053
<b>TOTAL APPROPRIATED</b>				<b>\$ 54,364</b>	<b>\$ 4,079</b>	<b>\$ 20,053</b>
Capital Renewal	ANR	Ext Centers Renewal & Improvements	PWC	1,850		200
Seismic/Life Safety	DV	Walker Hall Renewal & Seismic Corrections	PW	2,731	28,081	
Shovel Ready	LA	CHS Seismic Correction & Fire Life Safety	C	48,349		
Infrastructure	MC	Central Plant/Telecomm Reliability Upgrade	PW	1,400	15,000	
Seismic/Life Safety	SF	Clinical Sciences Building Seismic Retrofit	W	2,800	21,735	66,933
Shovel Ready	SF	Academic Support Facility	C	26,505		7,395
Previous Growth	SC	Coastal Biology Building	W	3,530	64,443	3,985
<b>TOTAL PROPOSED</b>				<b>\$ 87,165</b>	<b>\$ 129,259</b>	<b>\$ 82,319</b>
<b>TOTAL STATE PROGRAM</b>				<b>\$ 141,529</b>	<b>\$133,338</b>	<b>\$102,372</b>

**Note:** The State adopted legislation in 2013-14, Assembly Bill No. 94, Chapter 50, Section 8 (AB 94), which adds, among other provisions, sections 92495 et seq. to the Education Code. AB 94 required that the University submit its *2013-14 State Capital Outlay* request by August 1, 2013. The University submitted seven additional projects totaling \$87 million; these plus the projects previously approved total \$141.5 million.

**2014-15 BUDGET FOR STATE CAPITAL IMPROVEMENTS (\$000s)**  
**CCCI 6151**

<b>CRITERIA</b>	<b>CAMPUS</b>	<b>PROJECT</b>	<b>PHASE</b>	<b>2014-15 REQUEST</b>	<b>FUTURE STATE FUNDS</b>	<b>NON- STATE FUNDS</b>
Modernization	ANR	Intermountain Research Extension Center	PW	\$ 200	\$ 1,786	\$ 100
Seismic/Life Safety	DV	Walker Hall Renewal & Seismic Corrections	C	27,917	509	
Seismic/Life Safety	DV	Chemistry Seismic & Life Safety	PW	3,482	30,418	
Equipment	IR	Business Unit 2	E	1,094		3,281
Infrastructure	IR	Primary Electrical Improvements Step 4	DC	19,462		
Infrastructure	MC	Central Plant/Telecomm Reliability Upgrade	C	15,183		
Seismic/Life Safety	SD	Campus Life/Safety Improvements	WD	49,010		
Infrastructure	SB	Infrastructure Renewal Phase 1	C	12,136		
Previous Growth	SC	Coastal Biology Building	C	64,127	1,100	
Seismic/Life Safety	SC	Life Safety Upgrades	PWC	10,201		
<b>TOTAL STATE PROGRAM</b>				<b>\$ 202,812</b>	<b>\$ 33,813</b>	<b>\$ 3,381</b>

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

**UNIVERSITY OF CALIFORNIA  
MORTGAGE ORIGATION PROGRAM POLICIES**

**A. ELIGIBILITY AND PARTICIPATION POLICIES**

In all eligibility and participation policies described herein, it is understood that any appointee in a position specifically designated by The Regents as requiring Regents' approval for compensation-related matters, must be approved for Mortgage Origination Program participation by The Regents.

All references to MOP loan eligibility, participation policies, and loan policies also apply to GP-MOP, IO-MOP and 5/1-MOP loans unless otherwise described herein.

1. The eligible population for the Mortgage Origination Program (MOP) consists of full-time University appointees who:
  - are members of the Academic Senate or hold academic titles equivalent to titles held by such members;
  - hold the title of Acting Assistant Professor;
  - are members of the Senior Management Group; or
  - will be appointed to any of these eligible positions effective no more than 180 days after loan closing.
2. From the eligible population, the Chancellor or Lawrence Berkeley National Laboratory (LBNL) Director shall designate eligible individuals for participation in MOP based on each location's determination of its requirements for recruitment and retention. Additionally, the Chancellor or LBNL Director may recommend, and the President is authorized to approve, individuals not in the eligible population defined in Section A.1 for participation in MOP, based upon the essential recruitment and retention needs and goals of the institution.
3. Effective with the 2010-2012 MOP allocation and for all subsequent allocations, a minimum of 60% of funds allocated for MOP is designated for participants who are purchasing their first principal place of residence within a reasonable distance of their campus or laboratory. These loans are further designated for participants who have not owned a principal place of residence within a reasonable distance of their campus or laboratory within the 12-month period preceding the closing date of their MOP loan.
4. If, in the judgment of the Chancellor or LBNL Director, individual circumstances warrant the making of a loan that does not meet the intent of Section A.3, up to 40% of the allocation is available to address essential recruitment or retention needs of the campus or laboratory for otherwise eligible appointees for one or more of the following purposes (Limited Purpose loans):



- to refinance existing qualifying housing-related debt secured on a participant's principal residence, including related loan transaction expenses included in the prior loan balance or related to the MOP loan, with the understanding that the MOP loan cannot be used to pay off loans, secured or not secured, used for non-housing-related expenses or for any mortgages on other properties. For any debt secured on a participant's principal residence that was incurred during the five years prior to loan closing, the participant must document the purpose and use of funds as qualifying housing-related indebtedness associated with the subject property;
- to provide a new MOP loan to a current or prior MOP participant at the same campus or laboratory; or
- to provide a MOP loan to a participant who has owned a home within a reasonable distance of the campus or laboratory within a 12 month period prior to the funding of a MOP loan.

5. MOP participation may continue for the term of employment by the University of California, as long as the property securing the loan continues to meet the specifications outlined in Section B.1, it being understood that:

- if the property securing the loan no longer meets the specifications outlined in Section B.1, the MOP loan shall be reviewed for appropriate disposition; and
- if University employment is terminated or, in the case of academic appointees, there is a permanent change to an appointment status not considered to be in full-time service to the University, the MOP loan is to be repaid within 180 days of such date of separation or change in status, with the understanding that:
  - participation can continue when separation is due to disability or retirement under the provisions of the University of California Retirement Plan or other retirement plan to which the University contributes on behalf of the participant; or
  - in the event of the death of the participant, participation can continue for a surviving spouse or surviving Domestic Partner or, in the absence of a surviving spouse or surviving Domestic Partner, for a surviving Eligible Child (as the terms Domestic Partner and Eligible Child are defined by the University of California Retirement Plan); or
  - in hardship cases, reasonable forbearance beyond the 180 day period may be granted for repayment, provided all other terms and conditions of the loan are satisfied.

## **B. MOP LOAN POLICIES**

1. MOP loans shall be secured, using a recorded deed of trust for residences that are:

- owner-occupied single-family residences, including planned unit development and condominium units, which may include one secondary unit that does not comprise more than one-third of the total living area of the home;

- the principal place of residence for the participant, other than during absences for sabbatical leave or other approved leaves of absence;
  - used primarily for residential, non-income producing purposes; and
  - 50% or more participant-owned.
2. MOP loans may not be used for direct construction loans; however, MOP loans may be used to refinance commercial construction loans upon completion of a new residence or the completion of the renovation of an existing residence.
  3. The maximum loan-to-value ratio (LTV) of a MOP loan is to be determined as follows:
    - for loans up to (including) \$845,000 (indexed limit as of April ~~2010~~ 2013), the maximum LTV is 90% when the loan does not include any financing of closing costs and 92% with financing of documented closing costs;
    - for loans greater than \$845,000 up to (including) the Indexed Program Loan Amount (\$1,330,000 as of April ~~2010~~ 2013), the maximum LTV is 90%;
    - for loans greater than the Indexed Program Loan Amount, the maximum LTV is 80%; and
    - MOP loan amounts greater than the Indexed Program Loan Amount shall require the approval of the President and the concurrence of the Chairman of the Board of Regents and Chairs of the Committees on Finance and Compensation.

An increase to the 80% maximum LTV for loans in excess of the Indexed Program Loan Amount to no more than 85% may be approved upon recommendation by the President, with concurrence of the Chairman of the Board of Regents and the Chairs of the Committees on Finance and Compensation. The value of the residence is, in all cases, defined as the lesser of the purchase price or current appraised value. The above dollar threshold amounts for determining the maximum LTV and for the Indexed Program Loan Amount reflect applicable levels in effect as of April ~~2010~~ 2013, which shall be adjusted annually in April, based upon any increases in the All-Campus Average Sales Price determined by the annual zip code study performed by the Office of Loan Programs.

4. The maximum term of a MOP loan shall be 40-years.
5. The standard mortgage interest rate (Standard MOP Rate) will be equal to the most recently available average rate of return earned by the Short-Term Investment Pool (STIP) for the four quarters preceding the issuance of a loan commitment letter for the mortgage loan, plus an administrative fee component:
  - the President shall determine the level of the administrative fee component of the rate up to an amount not to exceed 0.25%;
  - the Standard MOP Rate will be adjusted annually on the anniversary date of the loan;
  - the maximum amount of adjustment up or down of the Standard MOP Rate will be 1% per year;

- ~~there will be no overall cap on the total amount of adjustment of the Standard MOP Rate over the term of the loan;~~
- for MOP, GP-MOP and IO-MOP loans made on or after January 1, 2014, the overall cap on the adjustment of the interest rate over the term of the loan will be 10% above the initial interest rate for the loan;
- effective with loans approved on or after August 1, 2010 the minimum initial Standard MOP Rate shall be 3.0%, and the annual rate adjustment on these loans will have a floor rate of 3%;
- in the event a loan commitment letter is issued for a MOP, GP-MOP or IO-MOP loan and the Standard MOP Rate subsequently decreases prior to the loan funding, the participant will receive the more favorable rate; and
- the difference between the weighted average rate of return of the UC-Owned MOP, GP-MOP, and IO-MOP mortgage portfolios versus that of STIP will be calculated monthly, with any earnings shortfall in the combined MOP, GP-MOP, IO-MOP portfolios being covered by the Faculty Housing Program Reserve. The rate of return of the 5/1 MOP mortgage loans will not be included in this calculation during the Fixed Rate Term, as defined in this document. Following the Fixed Rate Term, the 5/1 MOP loans will be considered MOP loans for the purposes of the monthly calculation. Any earnings excess will be retained in the Faculty Housing Program Reserve. The Faculty Housing Program Reserve will reimburse STIP for any principal losses resulting from portfolio loan losses.

6. Participants may request an Interest-Only MOP loan (IO-MOP) that has a temporary interest-only repayment feature for up to 10 years (IO-Period) with the following parameters:

- the maximum overall term of the loan is 40 years and the minimum remaining term after the IO-Period is 30 years;
- an additional interest rate margin of 0.25% will be added to the Standard MOP Rate during the IO-Period (IO-Rate);
- the additional 0.25% margin amounts collected during the period of UC-ownership of any such loan shall be held in a separate loss protection account within the Faculty Housing Programs Reserve to offset any losses of principal attributed to this class of loans;
- during the IO-Period, the maximum annual adjustment to the IO-Rate, up or down, is 1%;
- after the IO-Period, the fully amortized payment will be calculated using the remaining loan balance and term at the underlying Standard MOP Rate in effect at the end of the IO-Period, subject to the maximum annual interest rate adjustment of the Standard MOP Rate, up or down, of 1%; and
- the IO-Period is not renewable beyond the maximum 10-year IO-Period term.

Beginning with the 2010-2012 MOP allocation and for all subsequent allocations, IO-MOP loans shall be limited to 15% of the cumulative allocation.

7. Each Chancellor and the LBNL Director is authorized to designate eligible participants for participation in the Graduated Payment Mortgage Origination Program (GP-MOP) option, which provides for a reduction in the Standard MOP Rate in the manner described below:
- the maximum rate reduction in the Standard MOP Rate is 3.0% and the minimum resulting mortgage interest rate for such loans shall be 3.0%;
  - the rate reduction amount will be decreased by a predetermined annual adjustment (ranging from 0.25% to 0.50%) until the mortgage interest rate equals the Standard MOP Rate;
  - for the time period in which the rate reduction is in effect for each GP-MOP loan, the campus shall provide for a monthly transfer of funds (from available campus funds, including discretionary funds, as well as unrestricted and appropriate restricted gift funds) to STIP or to a third-party investor, if the loan has been sold, to provide the same yield that would have been realized under the Standard MOP Rate; and
  - the President is authorized to approve an initial rate reduction greater than 3.0% and an annual adjustment amount outside the standard range of 0.25% to 0.50% based upon the essential recruitment and retention needs and goals of the institution.
8. Participants may request a 5/1 ARM product (5/1 MOP) that has a temporary fixed-rate period (Fixed Rate Term), after which the loan converts to a standard MOP loan.
- The initial interest rate (Initial Rate) will remain fixed until the date that the 60<sup>th</sup> payment is due, resulting in a fixed payment amount for the first 60 monthly payments.
  - The minimum Initial Rate will be 3.5%.
  - The overall cap on the adjustment of a 5/1 MOP loan's interest rate over the term of the loan will be 10% above the Initial Rate for the loan.
  - After the Fixed Rate Term, the interest rate will adjust to the Standard MOP Rate in effect at that time, subject to a 5% interest rate adjustment cap, and a 3% minimum interest rate.
  - After the Fixed Rate Term and the initial rate adjustment at the end of the Fixed Rate Term, the maximum annual adjustment is 1%.
  - There is no Interest-Only option available under the 5/1 MOP.
  - The Fixed Rate Term is not renewable beyond 5 years.
9. The sum of monthly mortgage payments (principal and interest) of the MOP loan and all other loans secured by the residence may not exceed 40% of the participant's household income.
10. When administratively feasible, MOP loan payments shall be made by payroll deduction while on salary status.
11. MOP loans are not assumable.

12. MOP loans carry no prepayment penalty.
13. MOP loans carry no balloon payments.

**2013-14 BUDGET FOR STATE CAPITAL IMPROVEMENTS (\$000s)**  
**CCCI 6077**

CRITERIA	CAMPUS	PROJECT	PHASE	2013-14 REQUEST	FUTURE STATE FUNDS	NON- STATE FUNDS
Shovel Ready	MC	Classroom & Academic Office Building	C	\$ 45,144	\$ 4,079	
Equipment	MC	Science & Engineering Building 2	E	4,220		
Infrastructure	SD	SIO Nimitz Marine Facility Berthing Wharf	C	5,000		\$ 20,053
<b>TOTAL APPROPRIATED</b>				<b>\$ 54,364</b>	<b>\$ 4,079</b>	<b>\$ 20,053</b>
Capital Renewal	ANR	Ext Centers Renewal & Improvements	PWC	1,850		200
Seismic/Life Safety	DV	Walker Hall Renewal & Seismic Corrections	PW	2,731	28,081	
Shovel Ready	LA	CHS Seismic Correction & Fire Life Safety	C	48,349		
Infrastructure	MC	Central Plant/Telecomm Reliability Upgrade	PW	1,400	15,000	
Seismic/Life Safety	SF	Clinical Sciences Building Seismic Retrofit	W	2,800	21,735	66,933
Shovel Ready	SF	Academic Support Facility	C	26,505		7,395
Previous Growth	SC	Coastal Biology Building	W	3,530	64,443	3,985
<b>TOTAL PROPOSED</b>				<b>\$ 87,165</b>	<b>\$ 129,259</b>	<b>\$ 82,319</b>
<b>TOTAL STATE PROGRAM</b>				<b>\$ 141,529</b>	<b>\$133,338</b>	<b>\$102,372</b>

**Note:** The State adopted legislation in 2013-14, Assembly Bill No. 94, Chapter 50, Section 8 (AB 94), which adds, among other provisions, sections 92495 et seq. to the Education Code. AB 94 required that the University submit its *2013-14 State Capital Outlay* request by August 1, 2013. The submittal of seven additional projects totaled \$87 million. This item requests approval of the seven projects plus the projects previously approved for a total \$141.5 million.

**2014-15 BUDGET FOR STATE CAPITAL IMPROVEMENTS (\$000s)**  
**CCCI 6151**

<b>CRITERIA</b>	<b>CAMPUS</b>	<b>PROJECT</b>	<b>PHASE</b>	<b>2014-15 REQUEST</b>	<b>FUTURE STATE FUNDS</b>	<b>NON- STATE FUNDS</b>
Modernization	ANR	Intermountain Research Extension Center	PW	\$ 200	\$ 1,786	\$ 100
Seismic/Life Safety	DV	Walker Hall Renewal & Seismic Corrections	C	27,917	509	
Seismic/Life Safety	DV	Chemistry Seismic & Life Safety	PW	3,482	30,418	
Equipment	IR	Business Unit 2	E	1,094		3,281
Infrastructure	IR	Primary Electrical Improvements Step 4	DC	19,462		
Infrastructure	MC	Central Plant/Telecomm Reliability Upgrade	C	15,183		
Seismic/Life Safety	SD	Campus Life/Safety Improvements	WD	49,010		
Infrastructure	SB	Infrastructure Renewal Phase 1	C	12,136		
Previous Growth	SC	Coastal Biology Building	C	64,127	1,100	
Seismic/Life Safety	SC	Life Safety Upgrades	PWC	10,201		
<b>TOTAL STATE PROGRAM</b>				<b>\$ 202,812</b>	<b>\$ 33,813</b>	<b>\$ 3,381</b>

**UNIVERSITY OF CALIFORNIA RETIREMENT  
SAVINGS PROGRAM  
DEFINED CONTRIBUTION PLAN, TAX DEFERRED 403(b) PLAN, and  
457(b) DEFERRED COMPENSATION PLAN**

**INVESTMENT POLICY  
STATEMENT**



This version dated ~~May 2, 2006~~[November 14, 2013](#)



University of California Retirement Savings Program  
Investment Policy Statement

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# University of California Retirement Savings Program Investment Policy Statement

• ~~4M1-M6: UC Pathway Funds: 2050,2040,2030,2020,2010, Income Fund~~  
**Definitions**

## NOTES:

- ~~1 These Policies (approved by The Regents) are applicable to all assets managed by the Treasurer (retirement, endowment, and savings).~~
- ~~2 Investment Guidelines for the Core Options of the Program have been established by the Treasurer.~~
- ~~3. These Appendices are not included herein but incorporated by reference.~~

# University of California Retirement Savings Program Investment Policy Statement

## 1. Introduction, ~~and~~ Scope, and Purpose

This Investment Policy Statement (“Policy” or “IPS”) provides the framework for the management of the investments of the University of California Retirement Savings Program (“UCRSP” or the “Program”), which includes the Defined Contribution (DC) Plan, the 403(b) Tax Deferred Plan, and the 457(b) Deferred Compensation Plan, (collectively “the Plans”). The purpose of a this policy statement is to ~~document the investment management process~~ assist the Committee by:

- Identifying the key roles and responsibilities relating to the ongoing investment management of the Program’s ~~assets~~;
- Setting forth an investment structure and guidelines for the Program’s ~~assets~~
- Establishing formalized criteria to measure, monitor, and evaluate performance results on a regular basis; and
- Encouraging effective communication among all fiduciaries, including external parties engaged to execute investment strategies.

~~This document is divided into five sections. There are also a number of Appendices, which are integral parts of this document, and are incorporated by reference.~~

The Policy applies to a core set of investment ~~products~~ options (“Core Funds Options” ~~described below~~) under the direction selected and monitored by of the Office of the ~~Treasurer~~ Chief Investment Officer (CIO) as provided in Section 5. The Policy does not extend to the Fidelity and Calvert mutual funds that have been retained as Program investment options as an accommodation to participants. Nor does it apply to mutual funds selected by participants through the individual brokerage accounts option ~~purchased through the Brokerage Link (individual brokerage account)~~ provided through the record keeper Fidelity.

References to “Program Options” refer only to the Core Funds Options referenced in Section 5. If any term of the IPS should conflict with the Plan Documents, the terms and conditions in the Plan Documents will prevail. The IPS will be periodically reviewed to determine if amendments are appropriate based on changed circumstances such as the market environment or the needs of the Program.

### **RETIREMENT SAVINGS PROGRAM CORE FUNDS**

- **Managed by the Treasurer (single asset class funds)**
  - ~~UC Equity Fund~~
  - ~~UC Domestic Equity Index Fund~~
  - ~~UC International Equity Index Fund~~
  - ~~UC Bond Fund~~
  - ~~UC TIPS (Treasury Inflation-protected Securities) Fund~~
  - ~~UC Savings Fund~~
  - ~~UC ICC (Insurance Company Contract) Fund~~
- **Managed by Firms selected by the Treasurer for particular mandates**
  - ~~Vanguard Small Cap Index Fund Institutional Shares~~

# University of California Retirement Savings Program Investment Policy Statement

- ~~○ Vanguard REIT Index Fund—Institutional Shares~~
- ~~○ Vanguard FTSE Social Index Fund Investor Shares~~
- ~~○ Dimensional Emerging Markets Portfolio~~
- ~~**Managed by the Treasurer (asset allocation funds, built from other Core Funds)**~~
  - ~~○ UC Balanced Growth Fund~~
  - ~~○ UC Pathway Funds:~~
    - ~~▪ 2050 Fund~~
    - ~~▪ 2040 Fund~~
    - ~~▪ 2030 Fund~~
    - ~~▪ 2020 Fund~~
    - ~~▪ 2010 Fund~~
    - ~~▪ Income Fund~~

## 2. Investment Goals, Key Responsibilities, and Risks Program Objectives and Participant Risks

The investment ~~goals~~ state the mission of the Program and its investment programs.

- a. ~~The mission of the~~ primary objective of the Program is to facilitate retirement savings for employees and retirees by providing a ~~core~~ set of Core Fund Options ~~investment options~~ (“Program options” or “Core Funds”) ~~which will~~ that allow participants to tailor the investment of their retirement savings assets to their unique risk and return preferences, at ~~low~~ reasonable costs.
- a.
- b. Participants are responsible for their investment decisions; they bear the financial risk for their investment choices. After making the initial decisions on investments, each participant has the responsibility to reallocate assets in his or her personal account as the participant’s circumstances or the market environment changes.
- c. The investment objectives of the Core Fund Options offered by asset class selected by the Office of the CIO are shown in Section 5.A and 5.B.
- d. A description of the principal risks that impact the Program and participants can be found in Section 5.C.
- b. ~~The overall investment goal for each of the Core Funds is to maximize return within reasonable and prudent levels of risk, and to ensure that each investment option consistently follows its guidelines and objectives.~~

## 3. Fiduciary Responsibilities and Oversight on Investments

The fiduciary oversight structure of the Plans aligns Regental oversight of the Plans through the Committee on Finance, which oversees the administration of the Plans, and the Committee on Investments, which recommends investment policy for the Plans for Regental approval and oversees the investment management function carried out by the Office of the CIO.

Under the terms of the Plans, the fiduciaries must 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. The fiduciaries must comply with existing and future applicable state and federal laws

## 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](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**

<b><u>Asset Class</u></b>	<b><u>Core Fund Options</u></b>	<b><u>Benchmark*</u></b>
<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 TF<sup>1</sup> Index return, plus 15% times the MSCI World ex-US TF<sup>1</sup> 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 Index<sup>1</sup></u>
	<u>UC International Index Fund</u>	<u>MSCI World ex-US TF Index<sup>1</sup></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

<sup>1</sup> 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**

<b><u>Core Fund</u></b>	<b><u>Investment Objective</u></b>	<b><u>Investment Strategy / Management Style</u></b>
<a href="#"><u>UC Bond Fund</u></a>	<a href="#"><u>The Fund seeks to maximize long-term investment returns by investing in intermediate term debt securities.</u></a>	<a href="#"><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></a>
<a href="#"><u>UC TIPS Fund</u></a>	<a href="#"><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></a>	<a href="#"><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></a>
<a href="#"><u>UC Short Term TIPS Fund</u></a>	<a href="#"><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></a>	<a href="#"><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></a>
<a href="#"><u>UC Pathway Funds (Pathway Income Fund to Pathway Fund 2060)</u></a>	<a href="#"><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></a>	<a href="#"><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></a>
<a href="#"><u>UC Balanced Growth Fund</u></a>	<a href="#"><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></a>	<a href="#"><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></a>

[\\* See Glossary for additional description](#)

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

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

<b><u>Core Fund</u></b>	<b><u>Investment Objective</u></b>	<b><u>Investment Strategy / Management Style</u></b>
<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~~

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

STANDING ORDER 100.2

OFFICERS OF THE UNIVERSITY

EMPLOYMENT STATUS

100.2 Employment Status

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- (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.

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- (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

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- (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:  
  
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- 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.