The Regents of the University of California

COMMITTEE ON INVESTMENTS
INVESTMENT ADVISORY GROUP
November 5, 2013

The Committee on Investments met on the above date by teleconference at the following locations: James West Alumni Center, Los Angeles campus; 1111 Franklin Street, Oakland; 1130 K Street, Suite 340, Sacramento.

Members present: Representing the Committee on Investments: Regents Feingold, Gould, Kieffer, Makarechian, Napolitano, Schultz, Wachter, and Zettel; Advisory members Barton, Coyne, and Jacob
Representing the Investment Advisory Group: Members Crane, Martin, Rogers, and Chief Financial Officer Taylor, Consultants Klosterman and Lehmann

In attendance: Faculty Representative Gilly, Secretary and Chief of Staff Kelman, Associate Secretary Shaw, General Counsel Robinson, Co-Acting Chief Investment Officers Stanton and Wedding, Executive Vice President Brostrom, and Recording Secretary McCarthy

The meeting convened at 1:40 p.m. with Committee Chair Wachter presiding.

1. **PUBLIC COMMENT**

There were no speakers wishing to address the Committee.

2. **APPROVAL OF MINUTES OF PREVIOUS MEETING**

Upon motion duly made and seconded, the minutes of the meeting of May 21, 2013 were approved, Regents Feingold, Gould, Kieffer, Makarechian, Napolitano, Schultz, Wachter, and Zettel (8) voting "aye."[1]

3. **PRELIMINARY THIRD QUARTER 2013 INVESTMENT PERFORMANCE UPDATE**

[Background material was provided to the Committee in advance of the meeting, and a copy is on file in the Office of the Secretary and Chief of Staff.]

Co-Acting Chief Investment Officer (CIO) Wedding noted that he would discuss preliminary investment performance for the third quarter of 2013; final performance results for the third quarter would be reported shortly. Mr. Wedding displayed a graph showing equity and fixed income returns for the quarter, the calendar year to date, and

[1] Roll call vote required by the Bagley-Keene Open Meeting Act [Government Code §11123(b)(1)(D)] for all meetings held by teleconference.

one-year periods. U.S. and non-U.S. developed equities had excellent performance for the year and the third quarter; emerging market equities lagged for the year. Third quarter returns exhibited volatility, with the markets affected by the Federal Reserve System's Board of Governors' Chairman Bernanke's mention in May of the possibility of reducing the amount of its purchase of securities.

Mr. Wedding reported that all portfolios managed by the Office of the CIO outperformed their benchmarks for both the quarter and the year ending September 30, 2013. For the quarter, the UC Retirement Plan (UCRP) generated a return of 5.4 percent. For the year, UCRP had excess returns of 120 basis points (bps) above its benchmark and the General Endowment Pool (GEP) had excess returns of 210 bps.

Regent Makarechian observed that the expected actuarial rate of return for UCRP is 7.5 percent and asked about the implications of not meeting that rate of return. Mr. Wedding noted that UCRP had returned 12.3 percent for the year ending September 30, 2013, substantially outperforming the 7.5 percent actuarial benchmark. Chief Financial Officer Taylor explained that 7.5 percent is the assumed actuarial rate of return over a long period of time. The University uses a five-year rolling average of returns in determining UCRP's funded ratio. Mr. Taylor characterized UC's 7.5 percent actuarial rate of return as somewhat conservative compared with those of other large statewide pension funds. Should the excellent returns of the past year continue for several years, the improvement in UCRP's funded ratio would allow the University to gain more flexibility with regard to its operating expenses. In response to a question from Regent Kieffer, Mr. Taylor said the University smooths its five-year returns to avoid effects of shorter term market fluctuations. UCRP's 20-year returns have exceeded its actuarial benchmark. Mr. Wedding displayed a graph showing that UCRP returned 6.9 percent over the past ten years. He pointed out that returns have recovered from the sharp declines in equities during the 2008 financial crisis. A few more years of good returns would help the University recover from the effects of that period.

Mr. Wedding discussed asset allocation in UCRP. Primary active exposures, or asset classes where the current allocation differed from the policy long-term asset allocation, were overweights in equity and real estate, and an underweight in fixed income. The Office of the CIO had tactically overweighted equities for several years within allowable ranges. Similarly, fixed income has been tactically underweighted because of anticipated poor returns, particularly in U.S. core fixed income and Treasury Inflation-Protected Securities (TIPS). There were slight underweights in some alternatives, not representing intentional underweights but rather an effect of efforts to build the portfolios in those areas. Regent Makarechian asked whether the slight overweight in private real estate was intentional. Mr. Wedding said that the portfolio has benefited from some attractive real estate separate account investments. The GEP asset allocation is overweight in equity, private equity, and real estate, and underweight in fixed income.

Mr. Wedding noted that the Total Return Investment Pool (TRIP) portfolio, now in existence for five years, began in August to transition to its new asset allocation, with a much lower allocation to fixed income, and a higher allocation to public equity and alternatives.

Mr. Wedding displayed a graph of UC asset class performance, showing the amounts each asset class over- or under-performed relative to its benchmark. The absolute return asset class had excellent performance for the year, calendar year-to-date, and quarter; the cross asset class performed poorly in relation to its benchmark. In the GEP, opportunistic equity performed extremely well since its inception in January, outperforming its benchmark by more than seven percent.

Committee Chair Wachter asked about the performance of the cross asset class. Mr. Wedding reported that the cross asset class had underperformed its benchmark by more than four percent for the past calendar year. He explained that the cross asset class is composed of carefully chosen strategic partners who try to improve upon UC's asset allocation to achieve better returns. The cross asset class also makes opportunistic investments by taking advantage of market dislocations. Mr. Wedding attributed the cross asset class's underperformance to the recent excellent returns in public equity. If the cross asset portfolio did not contain a large allocation to public equity, it would be difficult to outperform the benchmark. Committee Chair Wachter observed that the benchmark for the cross asset class in the UCRP is the overall UCRP benchmark. He expressed concern about the underperformance, since this asset class is intended to benefit from the best ideas of the chosen strategic partners. He asked what the absolute return was for the cross asset class. Mr. Wedding reported that the 12-month absolute return for the cross asset class was 6.39 percent, and the UCRP benchmark return was 11.14 percent.

Committee Chair Wachter asked about the holdings in the cross asset class. Managing Director Timothy Recker reported that the one-year absolute return for the cross asset class was 6.39 percent; the two-year return was 11 percent; the three-year return was 10.6 percent. Since its inception, the cross asset class had good returns of 9.4 percent, but had been underperforming in the past 18 months. One reason for this underperformance was that risk parity strategies were used that were particularly hurt in recent months relative to other asset areas. He explained that risk parity strategies are a differentiated way of investing that attempts to avoid equity risk premium exposures by identifying four types of key risks and weighting those risks equally in the portfolio. One underperforming manager had equally weighted an asset mix that would perform well in scenarios of rising or falling growth, and rising or falling inflation. However, in the current environment, equities have performed extremely well and that manager's strategy could not yield results that kept pace. While this is understandable in the short term, Mr. Recker asserted that the more appropriate question is whether this strategy would be effective over a longer period of time.

Mr. Wedding discussed performance attribution in UCRP. Absolute return contributed 16 of the overall 28 bps of outperformance in UCRP in the third quarter. For the past year, underweights to core fixed income and TIPS contributed 22 and 19 bps to the overall 114 bps of UCRP outperformance. An overweight to U.S. equity contributed 26 bps of outperformance. These tactical allocation decisions improved returns.

In the GEP, opportunistic equity contributed 17 bps of outperformance for the quarter and 52 bps for the calendar year, even though it was initiated only in January, primarily because of its outperformance relative to its benchmark.

TRIP was in transition to its new asset allocation, making performance attribution difficult. Opportunistic equity and cross asset class contributed to TRIP's total 16 bps of outperformance for the quarter. Mr. Wedding pointed out that the TRIP portfolio outperformed its benchmark by 16 bps during a quarter in which the Office of the CIO made approximately $5 billion in transactions in TRIP, moving toward the new asset allocation, including $1.7 billion moved from the Short Term Investment Pool (STIP) to TRIP. Mr. Wedding expressed pride in the team that made these transactions, while maintaining such good returns for TRIP. Investment Advisory Group consultant Lehmann noted that the transition in the TRIP asset allocation is being managed internally by the Office of the CIO.

Regent Kieffer asked how UC's third-quarter returns compared with those of other large universities. Mr. Wedding responded that information was not available for the third quarter; the Cambridge Associates' survey of college endowments for the second quarter was close to being completed. Committee Chair Wachter requested that the Committee be provided with that information at its next meeting and asked whether informal interim results were available. Mr. Wedding commented that the preliminary second quarter results available to his office lacked any information from the Ivy League and several other large universities. Investment Advisory Group Member Rogers offered that publicly released returns from endowments of the larger universities indicated that UC's returns were in the lower third. Committee Chair Wachter remarked that the data should be reviewed when it is received from Cambridge. Mr. Lehmann added that the other endowments' asset allocations should be analyzed along with their returns. Committee Chair Wachter stated that review of this data would be a regular part of the Committee's discussions.

Investment Advisory Group Member Crane asked how frequently the duration of UCRP's liabilities were recalculated and for clarification of their current duration. Mr. Taylor responded that the duration is recalculated every three years; he would provide Mr. Crane with the current duration.

4. TOTAL RETURN INVESTMENT POOL TRANSITION AND IMPLEMENTATION UPDATE

[Background material was provided to the Committee in advance of the meeting, and a copy is on file in the Office of the Secretary and Chief of Staff.]

Co-Acting Chief Investment Officer Wedding recalled that the transition to a new asset allocation in the Total Return Investment Pool (TRIP) began on August 1, 2013. The fixed income allocation in TRIP was moving from 65 percent under the prior policy to 20 percent. New allocations of ten percent to opportunistic equity, and 30 percent to alternatives were made. Mr. Wedding reported that through November 1, $1.7 billion had been transferred from the Short Term Investment Pool (STIP) to the new allocation in TRIP. Most of the transition had been accomplished, with the exception of the cross asset class, which is still underfunded by 9.35 percent and investment grade credit, which is correspondingly overfunded by 9.66 percent. Mr. Wedding explained that the cross asset class is illiquid and not easily scalable, as strategic partners must be found and opportunistic investments are not always available.

Regent Kieffer asked whether the University's disclosure requirements affect the availability of possible strategic partners. Mr. Wedding answered in the negative. He said the cross asset class is a relatively new concept for the Office of the CIO, and one that his office believes will be worthwhile.

Investment Advisory Group Member Crane asked whether TRIP has to meet any established liabilities. Chief Financial Officer Taylor said that TRIP has no established liabilities; rather, it is a pool of long-term working capital. Executive Vice President Brostrom explained that TRIP was established because the University had excess liquidity in STIP; the additional returns earned in TRIP are distributed to the chancellors as discretionary funds for their campuses. Mr. Crane asked how the Office of the CIO determines the appropriate level of volatility risk for TRIP; if a campus needs funds, it would not be desirable to sell securities at an inopportune time. Mr. Brostrom added that there is a rolling three-year lock-up period for new investments in TRIP, during which only the returns can be used for campus operations budgets.

Regent Makarechian asked about the current balance in STIP. Mr. Wedding responded that STIP contains approximately $8 billion. He added that the funds in TRIP came from STIP. Campuses wanted to put some funds into an investment vehicle that was illiquid, but would have better long-term returns. The campuses would still have more than enough liquidity in STIP. Mr. Taylor said his office analyzed the daily flow of funds in and out of STIP since 2004 and found that 99 percent of the time no more than $400 million was needed to fund the daily operations of the University. Even more money could be moved from STIP into TRIP and still leave the University with more than enough liquidity for any contingency.

Regent Kieffer asked for a clarification of the differences in asset allocation between TRIP and the General Endowment Pool (GEP). Mr. Wedding responded that these allocations are becoming more similar, with the addition of alternatives and diversification of the equity exposure in TRIP. The prior TRIP asset allocation with its major allocation to credit yielded excellent returns because credit had been inexpensive. However, the expected returns on fixed income are not good currently. Regent Kieffer asked whether more funds would be moved from STIP to TRIP. Mr. Taylor commented that his office has been communicating with the campuses about moving more funds into TRIP to gain greater returns and he anticipated that such a proposal could be made before June.

Committee Chair Wachter asked Mr. Wedding for an explanation of his earlier characterization of the cross asset class as illiquid. Mr. Wedding advised that some of the opportunistic investments in the cross asset class were illiquid. Committee Chair Wachter said that he understood the cross asset class to hold investments in strategic partners' best ideas for hedge funds and long portfolio managers. He asked which of those holdings would be illiquid. Managing Director Timothy Recker said that investments through strategic partnerships, which represent about two-thirds of the cross asset class, were relatively liquid. One-third of the cross asset class portfolio is invested in satellite strategies, a subcomponent of which is less liquid. The bulk of this portion is invested in whole loan mortgages; they could be sold within 30 days in a healthy market, but would become illiquid in a market downturn. Committee Chair Wachter asked if these were originated or secondary-market mortgages. Mr. Recker explained that these investments were underwater mortgages that were purchased from money center banks at deep discounts from the quick sale prices of the homes. The holdings have embedded value both in the purchase price and from appreciation of the home prices. They are whole loans and the Office of the CIO can deal with the servicing and make loan modifications to create more value for the University as an investor.

Committee Chair Wachter expressed concern about the lack of definition in the holdings in the cross asset class. Since TRIP has a 20 percent allocation to the cross asset class, it might be more beneficial to have its holdings more clearly defined. Regent Kieffer asked why investments would be held in the cross asset class that could be held in other, more clearly defined asset classes, such as real estate. Committee Chair Wachter acknowledged that the cross asset class has the advantage of flexibility, but expressed discomfort with the vagueness of the category, particularly when it has a 20 percent allocation in the TRIP portfolio. Investment Advisory Group Member Martin stated that the purpose of the cross asset class was to bring in talented external managers and new thinking about investments that could cut across asset classes, with the additional benefit of informing the Office of the CIO about possible new strategies.

Committee Chair Wachter said that the Regents are responsible for decisions about asset allocation. While other asset classes are defined, the holdings in the cross asset class are not defined and the Regents may not be aware of the nature of its holdings. He questioned allocating such a large portion of the portfolio to the cross asset class's external managers. Mr. Lehmann noted that the strategic partners' managers would actually be the assets, rather than the nature of their holdings. Committee Chair Wachter requested a presentation to the Committee about the cross asset class, including information about the managers, their holdings, and the rationale for the holdings. Regent Kieffer agreed that this information would be helpful. Investment Advisory Group consultant Klosterman asked that this presentation on the cross asset class also include an analysis of its total risk and active risk. Committee Chair Wachter emphasized that it is difficult for the Regents to fulfill their responsibility of determining asset allocation without knowing the nature of the holdings of 20 percent of the TRIP portfolio. It was less significant when the cross asset class was only a small portion of the portfolio.

Mr. Recker questioned whether the cross asset class should have a 20 percent allocation in TRIP. The cross asset class was originally designed to be a three to five percent portion of the portfolio to provide an area in which to explore new investment strategies to determine their effectiveness and applicability to other parts of the portfolio. He agreed that the cross asset class is very different from any other asset class.

Mr. Wedding added that these questions also relate to the kinds of risk in the portfolio and how they are defined. For example, the fixed income, absolute return, and private equity asset classes all carry credit risk. Co-Acting Chief Investment Officer Stanton added that the TRIP portfolio is similar to the GEP in that the payout rate is 4.75 percent of a 60-month moving average of its net asset value.

5. AMENDMENT OF INVESTMENT POLICY STATEMENT FOR UNIVERSITY OF CALIFORNIA RETIREMENT SAVINGS PROGRAM

The Office of the Chief Investment Officer recommended that the Investment Policy Statement for the UC Retirement Savings Program be amended, as shown in Attachment 1.

[Background material was provided to the Committee in advance of the meeting, and a copy is on file in the Office of the Secretary and Chief of Staff.]

Co-Acting Chief Investment Officer (CIO) Stanton explained that the proposed amendment of the Investment Policy Statement for the UC Retirement Savings Program (UCRSP), last approved by the Regents in May 2006, would consolidate and update the investment policy and guidelines for the University's defined contribution plans to be consistent with current industry practices and the fiduciary structure approved by the Regents in March 2005. The amendments have been approved by the Office of the General Counsel (OGC) as to form and consistency with the procedural requirements established in 2005.

Regent Kieffer asked Mr. Stanton to summarize the amendments. Mr. Stanton said the amendments: (1) streamlined the policy from two documents into a single document; (2) updated the fiduciary roles and responsibilities of the Offices of the CIO and Business Operations; (3) added UC Core Fund investment options created since the policy was last updated; and (4) reorganized the policy to reflect current operational procedures. He recalled that in 2005 Fidelity Brokerage Services (Fidelity) had been selected as the record keeper for the UCRSP and had changed from a monthly to a daily valuation, a significant improvement.

Regent Makarechian asked about the prior two documents to which Mr. Stanton had referred. Mr. Stanton said one document focused on procedural matters, the other on Core Fund options. The documents were combined to simplify them and to reduce duplication, incorporating all changes that had been made since 2005. Regent Makarechian inquired whether changes were supposed to be brought to the Committee before they were made. Mr. Stanton said that some changes had been implemented by the UC Office of the President (OP) Human Resources department and some Core Fund options had been added by the Office of the CIO. Regent Makarechian questioned why approval was being sought at the present time if the changes had already been made. Mr. Stanton said the

Committee had been informed of the changes as they were being made and the OGC had reviewed the proposed amendments.

Regent Kieffer asked for examples of changes that had been made. Mr. Stanton said that a number of Core Fund options had been added. A new Treasury Inflation-Protected Securities fund had been added to the plan recently. The glide path for target funds had been changed. The UCRSP, a voluntary plan for employees, currently holds approximately $16 billion, $14 billion of which is managed by the Office of the CIO, with the remaining $2 billion invested in mutual funds managed by Fidelity and Calvert Investments.

Regent Makarechian asked whether the responsibilities of the CIO or the Chief Financial Officer relative to the UCRSP had changed. Mr. Stanton said that the responsibilities of the OP Human Resources department and the CIO had been delineated in 2005. Prior to that time, the Human Resources department had been responsible for selecting some of the Core Fund options. The CIO was given responsibility for selecting and monitoring the plan's investment options and the Human Resources department would be responsible for the plan design. A Retirement Savings Program Advisory Committee (RSPAC) was established, including members of the Office of the CIO, the Executive Vice President – Business Operations, and the Vice President – Human Resources. The RSPAC meets four times a year to review changes to the UCRSP such as investment options or plan design.

Upon motion duly made and seconded, the Committee approved the Chief Investment Officer's recommendation, and voted to present it to the Board, Regents Feingold, Gould, Kieffer, Makarechian, Napolitano, Schultz, Wachter, and Zettel (8) voting "aye."

6. **INVESTMENT CONSULTANT REVIEW OF UNIVERSITY OF CALIFORNIA CAMPUS FOUNDATIONS SECOND QUARTER 2013 AND ANNUAL PERFORMANCE REPORT**

[Background material was provided to the Committee in advance of the meeting, and a copy is on file in the Office of the Secretary and Chief of Staff.]

Mr. Terry Dennison of Mercer Investment Consulting (Mercer) stated that one of the roles of the general investment consultant is to monitor, on behalf of the Regents, the performance, asset allocations, and risk profiles of the ten campus foundations. The current report was for the year and quarter ending June 30, 2013. Mr. Dennison displayed charts showing the foundations' performance relative to a universe of other foundations, in absolute terms, relative to their benchmarks, and in relation to their risk profiles.

Discussing a graph showing the performance of the ten UC campus foundations compared with the performance of the Mercer Trust – Foundation and Endowment Universe, Mr. Dennison said that the data show that most of the UC campus foundations for most time periods have performed similarly, roughly around the median of the Mercer universe. Mr. Dennison mentioned that UCLA's foundation had improved its performance dramatically over the past several quarters. Performance of the foundations of UC Riverside and UC Santa Barbara continued to lag.

Mr. Dennison displayed a graph showing the ten campus foundations' absolute returns over six different time periods for the past ten years ending June 20, 2013. For the calendar year ending June 30, 2013, most campus foundations' absolute returns were roughly similar, with the exception of UCLA and UC Berkeley, which outperformed. Absolute returns for all the campus foundations were similar for three- and five-year periods. A graph of the campus foundations' returns versus their benchmarks for similar time periods showed that UCLA's performance had improved dramatically and that the UC Davis and UC Santa Barbara foundations had performed poorly relative to their benchmarks.

Mr. Dennison displayed graphs showing the foundations' returns relative to risk. For the three years ending June 30, 2013, the foundations were generally similar, with the exception of UC Riverside and UC Santa Barbara whose foundations posted returns below the median and with higher volatility for three- and five-year periods. Mr. Dennison pointed out that the UC Riverside Foundation's assets are invested almost entirely in daily valued assets, which experience the full volatility of the market. Many other foundations' assets are not valued daily, for example appraised assets, hedge funds, real estate, or private equity. Such assets would show the same economic volatility, but not the same accounting volatility. Investment Advisory Committee consultant Lehmann asked whether the UC Riverside Foundation still had the same manager. Ursula Niederberger of Mercer said that manager is a consultant and has invested mainly in mutual funds. Mr. Dennison showed another graph, showing the foundations' portfolios' active risk for three- and five-year periods.

Mr. Dennison confirmed that Mercer had no concerns about the foundations' asset allocations or risk to bring to the Regents' attention. Committee Chair Wachter asked how returns of the UC General Endowment Pool (GEP) would compare with those of the endowments in the Mercer Trust – Foundation and Endowment Universe. Mr. Dennison said that UC Merced's Foundation's ranking would be the same as the GEP's, since the UC Merced Foundation is invested entirely in the GEP.

Regent Kieffer asked about the size of the GEP compared with the size of the combined campus foundations. Mr. Dennison referred to a chart indicating that the GEP's value as of June 30, 2013 was $6.4 billion and the campus foundations' total value was $4.8 billion. Regent Kieffer observed that in the future the size of the campus foundations would increase relative to the size of the GEP. He expressed his view that it was appropriate that the campuses are given a certain amount of independence in managing their own foundations, with systemwide oversight, although this arrangement had changed over time. Chief Financial Officer Taylor agreed with Regent Kieffer and noted that the campuses have been very active in their fundraising. Mr. Taylor emphasized that it would be important for the new CIO to communicate to the campuses the option of investing their foundations' funds in the GEP, to gain good returns at a reasonable cost. He noted that the UC San Diego Foundation had invested two-thirds of its holdings in the

GEP. Mr. Lehmann, who is also a member of the UC San Diego Foundation Investment Committee, said it is hard for a campus foundation to improve upon the access to managers and the investment cost structure of the Office of the CIO, and he anticipated that UC San Diego would increase its investment in the GEP to 70 percent. He envisioned a partnership between the campus foundations and the Office of the CIO.

Investment Committee Advisory Group Member Martin commented that the campus foundations would naturally compare their investment returns with the GEP's returns. To the degree that the GEP outperforms the foundations, the campuses would want to allocate more money to the GEP. Many campus foundations lack the staff resources of the Office of the CIO and so are unable to perform the same evaluation of investment options. The campus foundations also might lack the capital necessary for some investments that the Office of the CIO can make. Mr. Lehmann added that the campus foundations could not replicate the Office of the CIO's private equity investments.

Investment Committee Advisory Group Member Crane asked how risk is measured for the campus foundations. Mr. Dennison responded that risk is measured as the standard deviation of the returns. Mr. Crane noted that such a risk measure would equal the portfolio's volatility and asked why volatility would be important, when the GEP has a draw that can be suspended at any time by the Regents and no statutory or contractual liabilities. Mr. Dennison said that volatility is examined as part of the oversight of the choices being made by the campus foundations between opportunities to enhance returns and the accompanying increase in volatility. Mr. Crane pointed out that emphasizing volatility could mislead the Regents into thinking that a less volatile six-percent return would be preferable to a more volatile eight-percent return, when in fact over the long term, the eight-percent return would be far better. Mr. Dennison said that would be a policy decision related to the level of comfort with the volatility during downturns.

The meeting adjourned at 3:05 p.m.

Attest:

Secretary and Chief of Staff

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

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- ~~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 Fund~~s~~ 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 O~~o~~ptions" refer only to the Core Fund~~s~~ 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~~

- ~~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 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:

~~c.~~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~~T~~he Regents has designated the ~~Treasurer~~ CIO as the primary fiduciary for investment functions of the Program, including the selection of asset classes and C~~c~~ore 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.

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.

~~3~~4. ~~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:

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.

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~~

~~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.~~

~~l. The Treasurer shall monitor the conduct of the custodian of the Program's investments.~~

~~m. The Treasurer shall adopt the CFA Institute Code of Ethics and Standards of Professional Conduct for all employees of the Office of the Treasurer and relevant consultants and managers. These are found at http://www.cfainstitute.org/pdf/standards/english_code.pdf and incorporated by reference. The Treasurer shall develop and enforce other ethics guidelines for the Office of the Treasurer as needed, consistent with other University policies and guidelines.~~

~~n. The Committee and the Treasurer will periodically review this Policy and the Investment Guidelines to determine if amendments are appropriate based on changed circumstances such as the market environment or the needs of the Program.~~

~~o. Notwithstanding the fiduciary responsibility of The Regents, the Committee, and the Treasurer with respect to the investments of the Program, the following limitations apply:~~

~~i. The dissemination of generic educational information to participants to help them make informed choices about their investment alternatives, and the provision of investment alternatives do not constitute advice from the University to participants.~~

~~ii. Participants bear the risk of their investment choices. Additionally, each individual participant has the responsibility to reallocate assets among funds in his or her personal account as circumstances change.~~

~~iii. Investments outside of the Core Funds are not reviewed by the Treasurer's Office.~~

~~5. Investment Manager Guidelines~~

~~The general guidelines that apply to all investment managers are:~~

~~a. Subject to constraints and restrictions imposed by the individual investment manager guidelines ("Individual Manager Guidelines"), all decisions regarding sector and security selection, portfolio construction, and timing of purchases and sales are delegated to the investment manager.~~

~~b. The purchase of securities issued by tobacco companies is prohibited in separately managed accounts. The Regents have defined a tobacco company as "a company which derives its revenues from the manufacture and distribution of tobacco products or, if a diversified company, that no other business line contributes more revenues or earnings than tobacco products." Recognizing that the establishment of social investing restrictions may limit investment opportunities, the Treasurer has established the use of "tobacco free" benchmarks as appropriate performance evaluation standards.~~

~~c. The direct purchase of property owned or a security issued by the University, its subsidiaries and affiliates, is prohibited.~~

~~d. The purchase of non-negotiable securities (with the exception of private equity investments in the UC Equity Fund) is prohibited.~~

~~e. The use of derivative securities or contracts to leverage the portfolio is prohibited. Acceptable and prohibited uses of derivatives are found in the derivatives policy in Appendix 1.~~

~~f. Transactions that involve a broker acting as a "principal," where such broker or an affiliate is also the investment manager, who is making the transaction, are prohibited.~~

~~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~~

5. Core Fund Options Investment Guidelines

A. Asset Class, Core Fund Options, and Benchmarks

Asset Class	Core Fund Options	Benchmark*
Equity	UC Equity Fund	85% (less the actual private equity weight from the prior month end) times the Russell 3000 TF[1] Index return, plus 15% times the MSCI World ex-US TF[1] Index return, plus the actual private equity weight of the previous month end times the actual return of the private equity portfolio.
	UC Domestic Equity Index Fund	Russell 3000 TF Index[1]
	UC International Index Fund	MSCI World ex-US TF Index [1]
	Vanguard FTSE Social Index Fund	FTSE 4Good US Select Index
	Vanguard Small Cap Index Fund	MSCI US Small Cap 1750 Index
	Vanguard REIT Index Fund	MSCI US REIT Index
	DFA Emerging Markets Portfolio	MSCI Emerging Markets Net Index
Fixed Income	UC Bond Fund	Barclays US Aggregate Index
	UC TIPS Fund	Barclays US TIPS Index
	UC Short Term TIPS Fund	Barclays 1 – 3 Year US TIPS Index
Asset Allocation	UC Pathway Funds (Target Date Income Fund to Target Date 2060 Fund)	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.
	UC Balanced Growth Fund	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
Capital Preservation	UC Savings Fund	Income Return of the 2-Year Constant Maturity Treasury Index
	UC ICC Fund (closed to new investments)	Income Return of the 5-Year Constant Maturity Treasury Index
	Dreyfus Treasury Prime Cash Management Fund	Citigroup 3-Month T-Bill Index

* See Glossary for Description of Benchmarks
[1] The abbreviation “TF” is used for “Tobacco Free”

B. Investment Objectives, Strategy, and Management Style

Core Fund	Investment Objective	Investment Strategy / Management Style
UC Equity Fund	The Fund seeks to maximize long-term capital appreciation through investing in various equity related asset classes.	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.
UC Domestic Equity Index Fund	The Fund seeks to provide broad and diversified exposure to the US equity market.	The Fund is passively managed by State Street Global Advisors and is invested in a Russell 3000 Tobacco Free (TF) Index Fund.
UC International Index Fund	The Fund seeks to provide broad and diversified exposure to Developed Country (ex-US) equity markets.	The Fund is passively managed by State Street Global Advisors and is invested in a MSCI World ex-US Tobacco Free (TF) Index Fund.
Vanguard FTSE Social Index Fund	The Fund seeks to provide broad and diversified exposure to US equity securities, which have been screened for certain social and environmental criteria.	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).
Vanguard Small Cap Index Fund	The Fund seeks to provide broad and diversified exposure to the smaller capitalization companies in the US equity market.	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.
Vanguard REIT Index Fund	The Fund seeks to provide a high level of income and moderate long-term capital appreciation by investing in publicly traded equity US REITs.	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.
DFA Emerging Markets Portfolio	The Fund seeks to achieve long-term capital appreciation by investing in stocks issued in or domiciled in Emerging Market countries.	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.

* See Glossary for additional description

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

Core Fund	Investment Objective	Investment Strategy / Management Style
UC Bond Fund	The Fund seeks to maximize long-term investment returns by investing in intermediate term debt securities.	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.
UC TIPS Fund	The Fund seeks to provide long-term return and inflation protection consistent with an investment in U.S. Government inflation-indexed securities or TIPS*.	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.
UC Short Term TIPS Fund	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.	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.
UC Pathway Funds (Pathway Income Fund to Pathway Fund 2060)	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.	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.
UC Balanced Growth Fund	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).	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).

* See Glossary for additional description

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

Core Fund	**Investment Objective**	**Investment Strategy / Management Style**
UC Savings Fund	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.	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.
UC ICC Fund (closed to new investments)	The Fund seeks to maximize interest income, while protecting principal. The Fund strives to provide income returns that exceed the rate of inflation.	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.
Dreyfus Treasury Prime Cash Managemen t Fund	The fund seeks as high a level of current income as is consistent with the preservation of capital and the maintenance of liquidity.	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.

* See Glossary for additional description

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.

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.

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

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.