The Regents of the University of California

COMMITTEE ON INVESTMENTS
September 17, 2014

The Committee on Investments met on the above date on the above date at UCSF–Mission Bay Conference Center, San Francisco.

Members present: Regents De La Peña, Lozano, Makarechian, Pattiz, Saifuddin, Sherman, and Zettel; Ex officio members Napolitano and Varner; Advisory members Gorman, Hare, and Oved; Faculty Advisors Acker and Coyne

In attendance: Regents Blum, Engelhorn, Gould, Island, Leong Clancy, Newsom, Reiss, and Ruiz, Regent-designate Davis, Faculty Representative Gilly, Secretary and Chief of Staff Shaw, General Counsel Robinson, Chief Compliance and Audit Officer Vacca, Chief Investment Officer Bachher, Provost Dorr, Executive Vice President and Interim Chief Financial Officer Brostrom, Senior Vice Presidents Dooley and Stobo, Vice Presidents Allen-Diaz, Andriola, Brown, Budil, Duckett, Lenz, and Sakaki, Chancellors Block, Blumenthal, Dirks, Hawgood, Katehi, Leland, Wilcox, and Yang, Interim Chancellor Gillman, and Recording Secretary McCarthy

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

1. **READING OF NOTICE OF MEETING**

For the record, it was confirmed that notice had been given in compliance with the Bylaws and Standing Orders for a special meeting of the Committee on Investments to be held concurrently with the regularly scheduled meeting of the Committee, for the purpose of considering the establishment of an investment vehicle to invest in the University's innovation economy.

2. **FISCAL YEAR 2013-14 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.]

Committee Vice Chair Sherman stated that Chief Investment Officer (CIO) Bachher would provide a brief overview of 2013-14 investment performance. The Committee heard a detailed report on investment performance at its meeting the prior Friday. The request had been made that the CIO present this information occasionally to all the Regents.

Mr. Bachher stated that during the 2013-14 fiscal year the actions of the Federal Reserve Board had been the key driver of returns. The ten-year U.S. Treasury Bond rate was 2.5 percent at the beginning of the fiscal year, climbed to 3.5 percent in the middle of the year, and ended the year back at 2.5 percent. Investors became comfortable with the rate of the Federal Reserve Board's tapering of its program of quantitative easing. These factors resulted in investors' willingness to take on more risk by buying equities and high-yield bonds.

The assets under management of the Office of the CIO grew during the fiscal year from $78.4 billion to $90.6 billion, a peak since inception, and a net annual return of 14.9 percent. Market gains accounted for $11.7 billion of these gains; in addition, $0.5 billion of returns above the benchmarks were earned. Mr. Bachher said that these excellent returns would be difficult to replicate with markets currently at all-time highs.

Mr. Bachher reviewed events of the past year that would provide an indication of how to position the portfolios for future market conditions. The healthy market returns were accompanied by risk, and it would be important to consider risk and return assumptions for each portfolio. The UC Retirement Plan (UCRP), General Endowment Pool (GEP), and working capital portfolios must also be examined according to their different objectives. Mr. Bachher expressed his view that there were very few risk-free returns remaining in the current marketplace, aside from managing the portfolios' costs. He anticipated a low-return environment in which investment costs and active management by the Office of the CIO would be increasingly important. The size, scale, and long-term horizon of UC investments provide competitive advantages. The wealth of knowledge available at UC also gives the Office of the CIO an advantage; the Office of the CIO can collaborate with the wider University to gain information that could inform investment decisions.

Mr. Bachher displayed a chart showing investment returns for periods from one to ten years, showing both the benchmark returns and the returns above the benchmark earned through the active management of the Office of the CIO. The UC Entity earned returns of 6.4 percent over ten years. Mr. Bachher noted that consistently achieving returns that are one percent above benchmarks is very difficult to accomplish. Through its active management, the Office of the CIO added almost $35 billion above benchmark returns over the past five years. UC invests globally, with approximately 70 percent of its investments in North America, $10 billion of assets in Asia, and five percent in emerging markets. Almost 50 percent of the UC Entity is invested in equities, 30 percent in fixed income, and the balance in alternative assets including real estate, private equity, hedge funds, and venture capital. UCRP and UC's participant-defined plans comprise 75 percent, or $67.6 billion, of the $91 billion UC Entity; the GEP represents nine percent, or $8.3 billion; and the working capital 16 percent, or $14.7 billion.

The secular decline in interest rates over the past 30 years coupled with an accommodative monetary policy has resulted in short-term interest rates close to zero, leading investors to take on assets yielding higher returns than can be earned in fixed income. Economic conditions in the United States have slowly improved, but increasing geopolitical tensions must be considered. From the depths of the global financial crisis, stock markets have gained almost 200 percent in the past five years, demonstrating the benefit of being a long-term investor.

Mr. Bachher stated that the GEP earned 18.7 percent in net returns and 20.3 percent in gross returns for the past fiscal year. His reports would include gross returns to bring transparency to costs, to evaluate whether adequate performance is being gained for the cost. Management costs in the GEP were 1.6 percent. The GEP began the fiscal year with assets of $7.2 billion and market gains yielded $1.1 billion. The GEP, which was started 80 years ago with $100 million to support the needs of 3,500 students, paid out $290 million during the past fiscal year to support UC's 233,000 students. The GEP returned 9.8 percent annually over the past 20 years, and returns for the past fiscal year were 220 basis points (bps) above the benchmark. The GEP's returns benefited from the evolution of its asset mix over the past five years. Its private investments were beginning to experience positive cash flows rather than the negative cash flows typical of such investments during the initial part of the J-curve.

The UCRP grew from $45.1 billion to $52.1 billion during the fiscal year, and was about half that size five years prior. During the past fiscal year, the UCRP paid out benefits of about $1 billion and took in contributions of $450 million. Returns for the fiscal year were healthy at 17.4 percent net and 18.2 percent gross. Mr. Bachher stated that these figures indicated that his office should examine management fees carefully. Since the objectives of the UCRP differ from those of the GEP, the portfolios' risk profiles are different, which would be important to consider in positioning the portfolios for the anticipated investment environment. The UCRP, which has been invested for 52 years, earned 6.9 percent annually over the past ten years and 9.4 percent over the past 20 years. The actuarial rate of return for the UCRP is 7.5 percent. Mr. Bachher emphasized the importance of the health of the UCRP in attracting talent to the University.

Of the University's working capital, 48 percent is held in the Short Term Investment Pool (STIP) and 52 percent in the Total Return Investment Pool (TRIP). After beginning the fiscal year with assets of $4.6 billion, TRIP had $2.1 billion of inflows, earned $0.9 billion, or 14.6 percent, in market gains with minimal fees, ending the year with assets of $7.6 billion. Mr. Bachher expressed his view that the size of these returns in comparison with TRIP's anticipated return of two to three percent above STIP indicated a need to examine TRIP's asset allocation. The TRIP portfolio has been invested for five years and its proceeds go directly to benefit UC's campuses, medical centers, and National Laboratories. TRIP's five-year returns were 10.9 percent per year.

The STIP portfolio had assets of $7.1 billion at the close of the fiscal year. The 20-year returns for STIP were 4.4 percent. STIP's market returns for the past fiscal year were 0.2 percent, dictated by the secular decline in interest rates, but the active management of the Office of the CIO added 1.4 percent to that amount, for a total return of 1.6 percent.

Mr. Bachher gave credit to the staff of the Office of the CIO for the excellent investment returns in all the portfolios. He would focus in the upcoming fiscal year on reviewing the portfolios' long-term asset allocations, optimizing portfolios for the plans' different objectives, managing costs in a low-return environment, ensuring that active management plays an increasing role in seeking returns, and taking advantage of UC's competitive advantages of size, scale, and patience as a long-term investor.

Regent Makarechian complimented Mr. Bachher on the clarity of the displays and information presented in his report. He suggested that Mr. Bachher add information to his reports about UCRP's funding level. Executive Vice President and Interim Chief Financial Officer Brostrom stated that this information would be included in the actuarial report that would be presented to the Regents at the November meeting. Mr. Bachher stated that the current funding ratio was estimated to be 85 percent, with a 2:1 ratio of active plan members to retirees. His office would also focus on doing an asset-liability study for UCRP.

Regent Makarechian commented that investment returns could be augmented by calculating how much working capital is needed for the University's operations and moving funds above that amount from STIP to TRIP, which earned much higher returns. He emphasized the importance of doing this quickly, because of the extra annual income that could be earned. Mr. Brostrom agreed, stating that prior reviews of liquidity requirements indicated excess liquidity in STIP. Funds have been moved from STIP into TRIP, including $2 billion in the past fiscal year. STIP had also loaned UCRP $2 billion. He cautioned that TRIP returns would not continue at the level of the last fiscal year, but would probably be two to three percent above STIP returns. Regent Makarechian asked when the amount of necessary working capital could be determined. Mr. Brostrom responded that a working group with the campuses was currently examining the issue.

Committee Vice Chair Sherman asked Mr. Bachher for his view on hedge funds, given that the California Public Employees' Retirement System had recently announced that it would divest from its hedge fund holdings primarily because of their management expenses. Mr. Bachher stated that the UC Entity holds $5.5 billion in hedge fund investments, in UCRP, GEP, and TRIP, and that he remained optimistic about investing in hedge funds. In the past fiscal year, UC's hedge fund investments yielded returns of almost 15 percent, eight percent above the benchmark. On a ten-year basis, UC's annual return on its hedge fund investments was 6.19 percent. UC was currently invested with about 30 hedge fund managers with different types of strategies. Mr. Bachher stated that his office considers its hedge fund holdings to be a good diversifier of its overall portfolio. He noted the importance of using UC's size and scale to gain access to some of the best managers in the world.

Regent Reiss asked whether excess working capital could be a source of funds to defer a tuition increase. Mr. Brostrom agreed that investment returns in TRIP generate discretionary revenue. His office was working with the campuses on ways to use UC's balance sheet to reduce operating expenses. All the campuses have large deferred maintenance projects and excess returns could be used to create a revolving loan fund on each campus to perform deferred maintenance over time. Regent Reiss expressed her support for using excess returns to defer a tuition increase. President Napolitano observed that excess returns from a good investment year were one-time funds, while tuition and core State spending were continuing funds. Regent Reiss expressed interest in using excess investment returns for a one-time buyout of a tuition increase. President Napolitano responded that she had asked the same question, but did not consider that strategy to be the best way forward for the University.

Regent Gould asked about active management, considering the difficulty of obtaining better returns than the benchmarks. He asked whether active management meant by the staff of the Office of the CIO or by external managers hired by the University. Mr. Bachher said the term “active management” referred to both. He cited the example of the UC Entity’s equity holdings, which recently were invested 60 percent with active managers and 40 percent through passive investments. Allocating more funds to high-conviction managers would be a way to increase active management in the portfolio. Another way would be to co-invest in the best ideas of UC’s external private equity managers; UC could invest alongside these managers for reduced or no fees. Taking advantage of such opportunities could involve revision of existing investment guidelines to enable deployment of more capital.

Regent De La Peña asked whether it would be possible to establish a separate entity through which individuals or companies could invest with the Office of the CIO, which would earn a small management fee of around 50 bps. Mr. Bachher expressed his view that this would be possible, but he cautioned that his office’s focus is on investing the existing UC Entity. The Office of the CIO also has relationships with the campus foundations, which have their own management or investment committees. Mr. Bachher said that his office can be a good collaboration partner to these foundations by sharing ideas, exchanging opportunities, or co-investing.

Regent Pattiz commented on a possible misconception that one year of good investment returns could be interpreted to mean that UC needed less money from the State. Mr. Bachher noted that 75 percent of the UC Entity is the UCRP, which still had a funding shortfall. Mr. Brostrom added that the fiscal year’s good returns brought the time when UCRP would be fully funded closer, from the year 2042 to 2039. He expressed his view that tremendous opportunities exist to use the investment returns to reduce operating costs. For example, the majority of the University’s debt is fixed-cost. With $7 billion in short-term liquidity, more short-term debt could be used, reducing the cost of debt service. Mr. Brostrom emphasized the importance of the GEP to the University’s financial stability. The GEP and the campus foundations’ assets total approximately $12 billion; Harvard, with one-tenth the number of students, has a $32 billion endowment. Increasing UC’s endowment is the key to remaining competitive with private universities with larger endowments and far fewer students. Mr. Bachher expressed his desire to integrate the Office of the CIO with the overall financial functioning of the University.

Regent Island asked about the risk of active management compared with passive investment. Mr. Bachher responded that his office examines return and risk of any possible investment, as well as of the asset classes and the overall portfolio, in accordance with the investment guidelines. The risk in the portfolios as a consequence of active management is not close to the limits allowed by the investment guidelines. A culture of risk management in the Office of the CIO would mean that staff would examine the many kinds of risk associated with all investments.

3. **AUTHORIZATION TO ESTABLISH AN INVESTMENT VEHICLE TO INVEST IN THE UNIVERSITY'S INNOVATION ECONOMY**

The Chief Investment Officer (CIO) recommended that the Committee on Investments recommend that the Regents:

A. Approve participation in an investment vehicle referred to herein as "UC Ventures" which would consist of:

(1) A venture fund entity (the "Fund") to make and hold investments in innovative companies that are spun out from or associated with the University (collectively referred to as the "University ecosystem") on behalf of the investors in such entity, which is to include the following:

a. The Fund will be created and managed on behalf of the University and other investors, if any, by an independent team (the "Team"). Team members will not be University employees, members of the Board of Regents, immediate family members of University employees, nor will members of the Team serve in a staff capacity for the University.

b. Be subject to an investment strategy mandate to fund companies arising from the University ecosystem and have a goal to generate commercially attractive rates of return.

c. Fund agreements to contain certain governance provisions such that the University, acting pursuant to its rights as an investor in the Fund, maintains certain limited control to ensure that the Fund's activities fit within the envisioned investment strategy and the University's interests are protected, including the ability of the CIO to:

i. Approve the business plan of the Fund.

ii. Approve an annual dollar-based budget.

iii. Terminate the Fund.

iv. Meet customary information rights and reporting requirements as reasonably determined by the CIO.

v. Remove and replace the Team.

vi. Approve any new Fund investors.

(2) If determined at the discretion of the CIO to be beneficial, a Holding Company wholly owned by the University to hold the University's interest in the Fund.

B. Require that the CIO:

(1) Present the detailed legal structure of UC Ventures to the Committee for informational purposes.

(2) Submit regular reports no less than annually to the Committee on the Fund's status.

C. Authorize the CIO, after consultation with the Office of the General Counsel, to approve and execute: (i) any documents reasonably required to accomplish the above; and (ii) any modifications, addenda or amendments (collectively, "amendments") thereto; provided such amendments or other documents are materially consistent with the terms and conditions set forth above.

[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.]

Chief Investment Officer (CIO) Bachher stated that this item involved creating a way to fund the excellent network of innovation opportunities across the University's campuses, medical centers, and National Laboratories. Funding would be only one component necessary to support such innovation. A series of changes have been made in the University's innovation ecosystem, such as permitting acceptance of equity in startups, and actively promoting incubators, accelerators, and other entrepreneurial engines on the campuses. Capital is an important ingredient and catalyst to help companies succeed, as demonstrated by the many well-publicized Silicon Valley successes that have been funded through venture capital.

UC clearly has a very robust innovation ecosystem. Mr. Bachher stated that he learned in his visits with campus personnel involved with incubators and accelerators that other investors have made billions of dollars from UC innovations, such as development of breast cancer drug Herceptin at UCLA. Several Regents had examined this subject through the Working Group on Technology Transfer, which recommended that the University do more to put capital to work to fund UC innovations.

The proposed UC Ventures would be a new way to finance and benefit from innovation within the University. UC creates on average five inventions each day, a robust pipeline of opportunities for investment that could generate attractive returns. The Office of the CIO has successfully invested in venture capital through external managers for the past 30 years, currently holding venture capital investments of $2 billion. UC Ventures would complement the work of these external managers, providing another source of capital that could benefit from the success of these innovations. Gains from these investments would support the University. Mr. Bachher estimated that such opportunities at UC lie half in the life sciences, one-fourth in the fields of food, agriculture, energy, and materials science, and one-fourth in information technology. His office holds equity that it manages passively in 120 companies launched at UC. Some of these companies, with investment by external venture capital firms, became successful and UC benefited from its equity holding. It would have been more beneficial for the University to have invested further in some of these companies alongside external venture capital firms.

Mr. Bachher stated that UC Ventures would like an initial $250 million commitment from the Office of the CIO's existing pools of capital. To provide context, Mr. Bachher reiterated that the Office of the CIO already had $2 billion in venture capital holdings and its asset allocation guidelines would allow further investment. Certain key aspects emerged as crucial in the establishment of UC Ventures. The President's Innovation Council, consisting of successful entrepreneurs, faculty, and venture capitalists, endorsed the concept that UC Ventures should be an entity independent from the Office of the CIO. The UC Ventures team should have the ability and available capital to make investments on a day-to-day basis. The team would be provided an operating budget on an annual basis, rather than being compensated by a typical base fee of two percent of assets managed plus 20 percent of profits. The Office of the CIO would have governance rights, including approval of the business plan, fees, and the amount of capital deployed. It would be essential to hire a very strong team, which would have access to information from UC's ten campuses, five medical centers, and National Laboratories. Team members would receive market-based compensation and an opportunity to participate in possible gains.

Mr. Bachher stated that the current item requested approval of the concept of UC Ventures. The pillars underlying the concept are UC's deep pool of capital, a long-term investment horizon that would enable nurturing of companies through their development, and privileged access to UC opportunities. UC Ventures could partner with external venture capital firms that have been active in supporting UC innovation. UC Ventures would be a commercial investor, with the goals of earning commercial rates of return on its investments and over time earning the respect of UC innovators as a good source of attractive capital. It would also be important that UC Ventures' investments be diversified across various fields, which should not be difficult given UC's breadth of research. Mr. Bachher reported that his office had received many emails from UC alumni supporting the establishment of UC Ventures.

Regent Makarechian expressed support for UC Ventures, which he said was a response to the most important recommendation of the Working Group on Technology Transfer. In addition to the potential for returns, UC Ventures' support for innovation would attract high-level researchers to the University.

Regent Blum cautioned that the University was not in the venture capital business. He commented that in the past, many companies had been started based on innovations developed at UC, but the University had no financial interest in them. He requested the General Counsel's opinion on his view that UC should be entitled, without an additional investment, to part ownership of any company formed as a direct result of fundamental research performed at the University. Regent Blum stated that none of the companies funded in the past five years through the $25 million grant the UC Berkeley Blum Center for Developing Economies received from the United States Agency for International Development had earned a profit yet. Regent Blum pointed out that UC entrepreneurs could seek funding from established venture capital firms that can offer more support than UC Ventures could in the difficult task of creating a profitable company. It would be hard for UC Ventures to compete with the expertise of established venture capital firms. Mr. Bachher stated that gaining a return on UC's investment would be paramount. He added that UC Ventures could invest alongside external venture capital firms and could also participate in capital pools for companies in the later stages of their development. Mr. Bachher agreed that this project would be challenging.

Regent Ruiz asked about the proposal's risks and its effect on the University's culture, for instance by increasing campuses' interest in hiring researchers who might develop for-profit companies. Mr. Bachher responded that the current proposal was only a concept. He would come back to the Regents regularly to report transparently on the business plan and the implementation of UC Ventures. A variety of models have been employed by other universities, and the execution and implementation of UC Ventures would be very important. He expressed his view that UC Ventures would not change the University, but would complement the University's existing mission and current efforts on UC campuses. Establishing an excellent management team would be critical. Establishing the right structure to give the team the ability to execute the business plan would also be essential. It would be important to work with the Academic Senate and UC faculty about potential conflicts of interest and commitment. The integrity of the academic process must be maintained. Mr. Bachher stated that UC Ventures would be a long-term project.

Committee Vice Chair Sherman commented that partnering with the venture capital industry would provide a way to appraise ideas. Mr. Bachher agreed.

Regent Newsom expressed his support for this initiative. However, he cautioned that his San Francisco mayoral administration had attempted a similar venture that had not gone well because of conflicts of interest. He warned that potential conflicts of interest and resulting litigation are real concerns. Mr. Bachher commented that his focus would remain on the management of the assets of the Office of the CIO, and emphasized the importance of establishing an excellent team to manage UC Ventures. Regent Newsom added that media focus on failed startups also became a distraction, even though a success rate of one out of ten companies would be anticipated. Publicity associated with failures in the case of the City of San Francisco venture outweighed any potential return. Mr. Bachher stated that it would be important that his office could defend the return on the investment; objectives should be clearly defined.

Regent Pattiz expressed support for this proposal, but cautioned that his experience with the National Laboratories had demonstrated the bureaucratic difficulty of collaborating on research.

Regent Blum expressed support for the comments of Regent Newsom. He also emphasized the importance of finding UC Ventures management team members with proven track records, so that the endeavor would not distract from the main mission of the Office of the CIO. Regent Blum cautioned that UC researchers whose ideas were not capitalized by UC Ventures could be offended.

Regent Engelhorn encouraged communication with UC alumni and distribution of UC Ventures investments throughout the state. Alumni often establish businesses near the campus they attended and later support those campuses through philanthropy.

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

4. **ESTABLISHMENT OF A FRAMEWORK FOR SUSTAINABLE INVESTING**

The Chief Investment Officer recommended that the Committee on Investments recommend that the Regents:

A. Approve the establishment and implementation of a framework on sustainable investment with the goal of completion by the end of the current fiscal year.

B. Integrate Environmental, Social, and Governance (ESG) factors as a core component of portfolio optimization and risk management. Evaluate all strategies for achieving ESG goals as soon as practical, including whether to use divestment.

C. Allocate $1 billion over a period of five years to solutions-oriented investments such as renewable power and fuels, energy efficiency, and/or sustainable food and agriculture.

[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.]

Committee Vice Chair Sherman stated that this item was the result of the work of the Task Force on Sustainable Investing (Task Force). He thanked students for their work on this issue and their participation on the Task Force.

Chief Investment Officer (CIO) Bachher acknowledged those who contributed to raising awareness of the challenges presented by climate change, one of the most important issues of this generation, and expressed his view that the University must contribute to solutions to these challenges. In quantitative terms, almost 14 percent of the world's economy, or $11 trillion of global gross domestic product, is driven by energy and energy-related services. Of the $91 billion UC Entity managed by the Office of the CIO, approximately $10 billion is invested in energy and energy-related services. Mr. Bachher thanked UC students involved in Fossil Free UC for their passion, particularly acknowledging Task Force student members Alden Phinney and Victoria Fernandez for the determination with which they put forth their case in representing Fossil Free UC. Mr. Bachher added that his office received a large volume of communication calling for action. Some requested selling the $10 billion of UC's investments in energy and energy-related services. Some requested divesting from the Carbon Underground 200, the 200 companies with the largest potential carbon emissions content of their reported reserves, which would require the University to sell $3 billion of its investments. Divesting from the coal industry would require selling $500 million of assets. Mr. Bachher stated that any of these actions would have financial consequences for UC's portfolios.

Mr. Bachher recalled that President Napolitano in consultation with Chairman Varner established the Task Force, consisting of a cross-section of students, Regents, faculty, and experts in finance and sustainability from within and outside the University, to consider issues related to UC's investments in fossil fuels. The Task Force members agreed on the challenge presented by climate change, engaged in productive debate, considered a wide range of ideas and solutions, asking what UC should do, as a University and as an institutional investor with significant exposure to energy assets, to combat climate change while meeting its fiduciary duty and financial obligations. The Task Force gravitated toward to the need to be positive and proactive in its pursuit of solutions to climate change. It sought to take a holistic approach and make recommendations that could have meaningful, long-term effects.

Mr. Bachher reviewed the recommendations of the Task Force: (1) establish and implement a framework for sustainable investment with the goal of completion by the end of the current fiscal year; (2) integrate Environmental, Social, and Governance (ESG) factors as core components of investment decision-making, and evaluate all possible strategies for achieving these goals as soon as practical, including whether to use divestment; (3) become a signatory to the United Nations' Principles for Responsible Investment (UNPRI), making UC the largest and first public university to do so; and (4) allocate $1 billion over the next five years for direct investment in solutions to climate change. UC would engage with other institutions around the world representing $45 billion in assets who have already signed on to the UNPRI to learn how to build its framework. With the help of Faculty Representative Gilly, the Office of the CIO consulted with the Academic Senate's Committee on Faculty Welfare Task Force on Investments and Retirement and its Committee on Planning and Budget, which supported the recommendations and ongoing communication about these issues as the recommendations are implemented. These groups represent important constituents, since 75 percent of the assets held by the Office of the CIO are the retirement and participant-defined contribution plans managed on behalf of faculty and staff.

Mr. Bachher provided more detail about the recommendations. By allocating $1 billion in capital over the next five years to invest in solutions to climate change, UC could be an important facilitator of innovative technology, energy, food, agriculture, and water solutions that would make a contribution to needed climate solutions. This allocation would align with UC's leadership in sustainability and climate research, and is indicative of the seriousness with which the challenge of climate change is viewed. An opportunity exists to make a difference by investing in opportunities that enhance sustainability, while earning a suitable return on investment. Such investments would also create jobs and contribute to reducing dependence on fossil fuels. In the energy sector, Mr. Bachher anticipated paradigm shifts from centralized to distributed energy generation. Social issues, such as those involving labor, and governance concerns, such as compensation and shareholder activism, are important external factors that can affect future investment returns. As a long-term investor, the University must pay attention to these issues and must begin to contribute to solutions. These efforts should not be piecemeal, but should be a holistic approach that provides the Office of the CIO a framework to evaluate the effect of these outside factors. This framework would not exclude consideration of divesting. Mr. Bachher stated that there would be financial consequences each time the University would respond to an unfavorable industry or temporary moral cause. The University must be a thoughtful, disciplined, and prudent investor, assessing the long-term consequences of its investment policies. The Office of the CIO must remain focused on fulfilling its pension obligations; the University's donors rely on the Office of the CIO to be stewards of their contributions, maximizing their donations for future generations of students.

UC has a clear vision of its role in contributing to solutions for climate change. With President Napolitano's leadership, UC has made a commitment to achieve carbon neutrality by 2025. The Global Climate Leadership Council co-chaired by Executive Vice President and Interim Chief Financial Officer Brostrom and UC Irvine Vice Chancellor Wendell Brase is tasked with evaluating all possible ideas to achieve carbon neutrality. Mr. Bachher expressed his commitment to collaborating across the University and with the campus foundations in any possible way to help achieve this vision, while delivering on his office's core financial obligations. Implementing these recommendations would be difficult, requiring hard work to be positive and proactive. He called upon UC alumni and other universities to invest alongside UC.

Regent Reiss, who served on the Task Force, commented that, although some members of UC's investment team believe that divestment should not be considered, the Regents had supported divestment in particular instances in the past, such as from holdings in Darfur, tobacco industries, and South Africa. She expressed her view that divestment should be used very rarely because of the University's fiduciary responsibilities. She thanked student leaders for their work. Regent Reiss expressed support for the recommendations, urged continuation of student representation in the implementation of the recommendations, and expressed support for future consideration of divestment from the coal industry. She affirmed the Task Force's belief that their recommendations were significant.

Regent Saifuddin pointed out that the Task Force was established because of the long-term work of students, faculty, and staff. She expressed disappointment that a student was not involved in the presentation of the Task Force's recommendations, as a student had participated in the presentation of the recommendations of the Task Force on Preventing and Responding to Sexual Violence and Sexual Assault at an earlier meeting that day. Regent Saifuddin emphasized the importance of maintaining the involvement of students who worked with Fossil Free UC in the creation of the ESG framework. She noted that neither she nor Regent-designate Oved were members of the Task Force or had worked with Fossil Free UC long enough to understand the issue's complexities as well as those students long involved in the campaign. Regent Saifuddin added that she would like the recommendations to include stronger language regarding the possibility of divestment from the coal industry.

Regent Zettel expressed her view that the Committee should respect the majority opinion of the Task Force. Mr. Robinson said the Regents could either accept the recommendations of the Task Force or amend them. Regent Zettel believed that the University should proceed judiciously and cautiously, since it has a fiduciary duty regarding its investments, the bulk of which is a retirement fund for UC employees. She stated that the current recommendation is an aggressive proposal that would require a great deal of work by the Office of the CIO in the upcoming six months.

Regent Lozano commended the work of the Task Force. She stated that the Committee on Investments and the Investment Advisory Group had met the prior week and discussed the Task Force's recommendations. The Task Force's recommendations to establish an ESG framework and allocate $1 billion to solutions-oriented investments were very well received. Work would be done in the upcoming six months to establish the ESG framework, after which the CIO would report to the Committee with a more fully developed plan. The issue of student representation was discussed at the prior Committee on Investments meeting and it was agreed that continued student representation would be important and that possible divestment would continue to be considered. The current recommendations would authorize the Office of the CIO to move forward and then come back to the Regents with a more specific plan built around the governing principles in the current recommendation. Mr. Bachher agreed, stating that development of the framework would result in an investment policy. The Committee on Investments approves all investment policies, which are then implemented by the Office of the CIO. President Napolitano expressed agreement with Regent Lozano.

Regent Newsom expressed his view that the University should show the same leadership in its investment strategy as it does in its research on environmental issues. He encouraged the Office of the CIO to be aggressive in considering divestment from the coal industry and supported incorporating students in a more permanent way in these considerations, while being thoughtful and judicious. Regent Newsom suggested that the Office of the CIO also consider its indirect investment in the gun industry.

Regent-designate Oved expressed agreement with Regent Saifuddin about the importance of ensuring the continuing involvement of students in shaping the ESG framework. He requested clarification of the language regarding continuing student representation, which he said offered a unique opportunity to improve communication with students.

Regent Saifuddin expressed her view that the current conversation should be allotted sufficient time, since the Task Force met for only five hours. She stated that language regarding student involvement should be clarified and that the recommendations should be amended to (1) include at least two student representatives on the group that crafts the ESG framework and (2) to specify that divestment, particularly from the coal industry, would be considered as a possible option in the future. She moved to amend the recommendation to include these items. The motion was not seconded.

President Napolitano stated that the intention of these recommendations was to move forward and adopt the framework as noticed. Work would continue to develop the ESG framework. These recommendations would make the significant change of considering investment return within the context of ESG principles, a different framework from considering only potential return on investment. She suggested adopting the framework. Changes to the recommendation could be properly noticed and considered at a future Regents meeting. She expressed her commitment to keeping students involved, since this effort was precipitated by students.

Regent Reiss added that Mr. Bachher should get input from students as he develops future recommendations.

Upon motion duly made and seconded, the Committee approved the CIO’s recommendation and voted to present it to the Board.

The meeting adjourned at 3:35 p.m.

Attest:

Secretary and Chief of Staff