The Regents of the University of California

COMMITTEE ON INVESTMENTS
INVESTMENT ADVISORY GROUP
September 9, 2015

The Committee on Investments met on the above date by teleconference at the following locations: Plaza Room, De Neve Plaza, Los Angeles campus; 1111 Broadway, 21st Floor, Oakland; and Student Center, Aliso Beach A, Irvine campus.

Members present: Representing the Committee on Investments: Regents De La Peña, Makarechian, Oved, Sherman, Wachter, and Zettel; Advisory Member Ramirez; Staff Advisors Acker and Richmond

Representing the Investment Advisory Group: Members Crane, Martin, Rogers, and Samuels, and Consultant Klosterman

In attendance: Faculty Representative Chalfant, Secretary and Chief of Staff Shaw, General Counsel Robinson, Chief Investment Officer Bachher, Executive Vice President and Chief Financial Officer Brostrom, and Recording Secretary McCarthy

The meeting convened at 1:30 p.m. with Committee Chair Wachter presiding.

1. **PUBLIC COMMENT**

The following person addressed the Committee concerning the items noted.

Mr. Alden Phinney, UC Santa Cruz student and former Carbon Neutrality Initiative Student Fellow, said he would represent the University at the 21st Conference of Parties of the United Nations Framework Convention on Climate Change in Paris, France later that year. He noted that the State Legislature had voted the prior week to compel the California Public Employees' Retirement System and the California State Teachers' Retirement System, the nation's two largest public pension funds, to sell their holdings in coal, bringing California again into the forefront as a climate leader. Mr. Phinney said the tide was also beginning to shift regarding oil and natural gas. The MSCI All-Country World Index excluding these companies had continuously outperformed that index with these companies for the past five years. He urged the Committee to divest from holdings in fossil fuels.

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

Upon motion duly made and seconded, the minutes of the meeting of May 27, 2015 were approved, Regents De La Peña, Makarechian, Oved, Sherman, Wachter, and Zettel voting "aye."[1]

3. **UPDATE ON INVESTMENT PERFORMANCE FOR FISCAL YEAR 2014-15**

[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.]

(For discussion see item 4, below.)

4. **UPDATE ON SUSTAINABLE INVESTING**

[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 commented that he would review investment results for the fiscal year ending June 30, 2015, but first provided a context of the investment process used by the Office of the CIO. The Regents approved the asset allocation for the various products, such as the working capital, pension, retirement, or endowment, managed by the Office of the CIO, which implemented these investment decisions and was afforded a good deal of flexibility in the asset allocation within specified ranges. Recent market conditions had been dynamic and this flexibility allowed the Office of the CIO to respond nimbly. Mr. Bachher anticipated generally slower economic growth. However, the atmosphere of slower growth had been disconnected from asset prices, which could lead to a possible correction in prices. The Office of the CIO was managing risks accordingly.

The Office of the CIO had simplified its portfolios during the past fiscal year, by selling assets whose values had been realized and by reducing the number of its external managers. The net impact of these changes was to generate $10 billion in capital, of which $6 billion had been redeployed; $4 billion of cash remained until good investment opportunities arise. The Office of the CIO focused on the products it manages, each differently according to its purpose, and individual risk and return profile.

As of June 30, 2015, the Office of the CIO managed $98 billion with a team of 68 professionals in Oakland. The General Endowment Pool (GEP) had grown to $9 billion; the UC Retirement Plan (UCRP) and the Retirement Savings Plan combined totaled $75 billion; the working capital portfolios totaled $14 billion. Market gains during the fiscal year were $3.2 billion, including $600 million in the GEP, $2.3 billion in the UCRP, and $300 million in working capital. The Office of the CIO managed $31 billion

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

of fixed income holdings in-house with a team of eight professionals, just under $50 billion in public equities with external third-party managers, and $16 billion externally with partners in private equity, real estate, real assets, and absolute return strategies.

Mr. Bachher displayed a slide showing interest rates since 1990. During the past year, an increase in interest rates had been expected and the Office of the CIO positioned its fixed-income portfolios for shorter duration in that anticipation, took increased credit risk in specific holdings, and underweighted certain sectors such as energy to offset the effects of the shorter duration. The Office of the CIO was examining unconstrained fixed income assets as alternatives to core fixed income and was reviewing its allocation to Treasury Inflation-Protected Securities. Mr. Bachher expressed his expectation that inflation would remain low as a result of low energy prices. Generally, he anticipated fixed income to be a low-returning asset class.

Senior Managing Director Scott Chan commented that two major sources of growth had been growth in China and extraordinary amounts of stimulus, both of which were currently decelerating, increasing global risk and pushing markets closer to the end of the business cycle. Quantitative easing, low interest rates, and currency devaluations have had the effect of reflating asset prices, but little had supported true economic growth. Mr. Chan expressed his view that the effects of these stimuli were beginning to wane. The United States was closer to tightening interest rates and structural issues existed in emerging markets. Early in the business cycle, the devaluation of the U.S. dollar forced many emerging markets to hold their currencies down. Currently this trend had reversed, as the value of the dollar was increasing as China's currency value was decreasing. Given high asset prices, quantitative easing by Europe and Japan has had the effect of currency devaluation, pushing asset and equity prices higher in their local currencies. China had been the one area of economic growth and now that economy was sharply decelerating, as expected, with major effects around the world. Myriad internal changes needed to occur in China, such as opening equity and credit markets, and promoting a stable currency. Over the long term, China would move from an emerging market to a developed economy, but with volatility and mistakes along the way. Mr. Chan expressed his view that with careful stock selection, China offered opportunities. In summary, around the world growth was decelerating, equity values remained above average, and risks were increasing, leading to a more volatile environment in equities and possibly a lower-return environment.

Senior Portfolio Manager Satish Swamy commented that the volatility created by central banks and the low-return environment in fixed income still held. Actions over the prior few months had increased global risk and volatility. Markets had anticipated an increase in interest rates in the current year by the Board of Governors of the Federal Reserve, but that had become uncertain. The Federal Reserve System still holds $4.5 trillion in fixed income securities, which it was reinvesting at maturity, holding mortgage rates artificially low by investing $22 billion in mortgage securities every month. When the Federal Reserve did begin to increase rates, it would be an extremely slow rate of increase, to avoid appreciation of the U.S. dollar. Mr. Swamy anticipated a low-return fixed income environment for an extended period. The Office of the CIO would seek investment opportunities different from the index to generate portfolio returns, such as in parts of the world where currencies had depreciated, for example developed country fixed income securities such as in Australia and Canada. Investment Advisory Group member Rogers expressed his agreement with Mr. Swamy's comments about the Federal Reserve Board.

Senior Advisor Amy Jaffe observed that concerns about possible inflation related to whether current low energy prices were short-lived or structural. She expressed her view that a return to high energy prices was unlikely, except in a case of extreme geopolitical turmoil. The three lynchpins creating oil price exuberance had all dissipated. Peak oil theory had been disproved by the oil and gas renaissance in the United States resulting from new technologies. Second, the thesis that China's steady and rapid growth would drive oil demand to new highs had become questionable. Finally, the standard argument that the complexity of drilling for oil and gas would hold prices high was disproved by the fact that service costs to the industry had fallen 25 to 50 percent since the price collapse began at the end of 2014. She expressed her belief that oil prices had a megacycle tied to the seminal business cycle and currently were in a structural shift downward. A supply bubble was the result of drilling innovations. Elasticity of demand had been triggered by two factors: first, government interventions in markets around the world through monetary stimulus and other policies in the United States, Europe, and China; and, second, the substitution and promotion of renewable energy happening much faster than anticipated, creating an implied shadow price for carbon. These factors would cause the energy mix to evolve over time, resulting in concrete business drivers to long-term energy investments. Effects of geopolitical conflicts and declining oil prices had resulted in a reduction of market liquidity from Middle East oil revenue.

Managing Director of Risk Management Richard Bookstaber expressed his view that there were many vulnerabilities in the world at the current time, including China, central banks, the Middle East, and Russia, that could affect markets. There was a low degree of liquidity to face a crisis from any of these areas, and institutions with low liquidity could be forced to liquidate positions. He anticipated that some former suppliers of liquidity such as in the Middle East and China might be more marginalized than in the past. Banks currently had less incentive and less leverage to supply liquidity. Mr. Bookstaber observed that his biggest risk concern was that shock from a world event could propagate through other markets because of a lack of liquidity. Understanding this propagation of risk through the market and its possible secondary effects was a current risk management challenge. Mr. Bachher added that market risks would be accompanied by market opportunities. Managing underlying risk factors would be increasingly important in asset allocation. In the past fiscal year's market environment, paramount concerns were being nimble within possible allocation ranges, and managing risk and return appropriate to the goals of the various portfolios.

Discussing the GEP, Mr. Bachher thanked UC Santa Barbara for choosing the Office of the CIO to manage its $140-million foundation in the GEP, effective July 1, 2015. He also thanked UC San Diego and UC Irvine for electing to move $240 million to the GEP from their working capital pool. For the first time in the past five years, the GEP had inflows of almost $450 million. The GEP earned 7.2 percent net and 8.6 percent gross returns for the 2014-15 fiscal year, 11.3 percent over the past five years, and nine percent over the past 20 years. In the last fiscal year, the GEP earned $600 million from market gains and its 4.75 percent payout, or $270 million, funded 5,400 unique endowments within the University and its affiliates. Mr. Rogers observed that these endowments received a four percent payout and asked about the 0.75 percent remaining payout. Executive Vice President and Chief Financial Officer Brostrom commented that 55 basis points were netted from the 4.75 percent payout to support endowment activities such as campus fundraising. Mr. Rogers asked if the payout would remain the same for the upcoming year. Mr. Bachher anticipated that the payout rate would be reviewed along with realistic return expectations. He expressed his view that it would be likely that the payout rate would increase rather than decrease. Over the past five years, the GEP returns were in the top quartile of U.S. college and university endowments and Mr. Bachher hoped to further improve that ranking. Of the GEP investment performance for the fiscal year, 77 percent came from security selection and 23 percent from asset allocation. About 60 percent of the GEP's portfolio risk was equity risk.

Regarding the GEP's asset allocation, Mr. Bachher reported that the GEP's $770 million private equity portfolio, consisting of 43 percent buyouts, 37 percent co-investments, and 20 percent venture capital, returned 22.6 percent for the fiscal year. The co-investment program, started about five years prior, was the key driver of returns in the private equity portfolio, with a one-year return of 51 percent and a five-year return of 38 percent. Mr. Bachher anticipated that the co-investment program would increase over the next three to five years. The $9 billion GEP benefits from having UC's $55 billion pension plan to invest alongside in co-investment opportunities, taking advantage of the University's size and scale. The Office of the CIO was reducing the number of its investments in the private equity portfolio, currently about $4 billion, with one-quarter of that amount in the GEP. During the past fiscal year, the Office of the CIO sold about $1 billion, or about 100 individual private equity funds, as part of rationalizing the private equity portfolio, reducing the number of managers to 40. Having too many private equity managers can result in over-diversification, resulting in only market returns at a very high cost. Working in partnership with a smaller group of high-quality managers on co-investments would save fees. Over the past five years, co-investing saved the Office of the CIO $105 million in fees when compared with investing in private equity funds.

Regent Makarechian asked if fees were saved by investing with fewer external managers. Mr. Bachher answered in the affirmative.

Investment Advisory Group member Martin asked if the Office of the CIO was able to choose its co-investments. Mr. Bachher responded that each co-investment was selected individually by his office as a valuative partner and his office always had the option of refusing a co-investment opportunity. Mr. Bachher commented that he was not opposed to paying private equity fees and considered private equity an important part of the portfolio, but he sought an alignment of interests between private equity managers and the University, as long-term investors with a desire to invest in good companies. Regent Makarechian asked if the Office of the CIO performed due diligence on each co-investment. Mr. Bachher observed that his office benefited from the due diligence of the manager and does some due diligence on its own for large investments. Mr. Martin commented that the University would have a co-investing advantage by sometimes being able to hold a position for a longer time than a private equity firm might. Mr. Bachher agreed.

Investment Advisory Group consultant Klosterman asked if any private equity funds had been sold before they had matured. Mr. Bachher said they were sold before they matured, but when the value of the underlying reason to invest had been realized, or because of partnership restructuring risk, or risk of holding the companies longer. Mr. Klosterman asked if, in aggregate, the funds were sold at a gain. Mr. Bachher said in aggregate they were sold at par.

Regent Sherman asked if there were any external private equity managers used exclusively in the GEP but not in the UCRP. Mr. Bachher responded that there were none currently, but he was beginning a second phase of rationalization that would include consideration of whether certain external managers were a better fit for either the UCRP or the GEP, not only in the private equity asset class, but across all asset classes.

Mr. Bachher discussed real assets, the allocation to which was slightly underweight in the GEP. This asset class contained commodities, including some oil and gas holdings, which deserved attention during the past fiscal year for economic reasons as discussed earlier by Ms. Jaffe. The Office of the CIO also applied the lens of sustainable investing to its holdings. Mr. Bachher announced the publication of a document, “Sustainability Impacts Investing,” a culmination of a year’s discussion and feedback on the importance of environmental sustainability, social issues, and prudent governance practices as they relate to managing investments. During the course of the past fiscal year, the Office of the CIO sold its direct holdings in coal mining and oil sands companies on the basis of economics, including decreasing global demand, increasingly unfavorable regulatory environment, and the high threat of substitution of other energy sources. The Office of the CIO would continue to be selective in its energy holdings. Mr. Bachher anticipated that sustainability issues such as the availability of water and the condition of topsoil would affect consideration of California agricultural land and related businesses. The Office of the CIO would include consideration of long-term carbon prices in its analysis of future financial forecasts of electric utilities. Mr. Bachher reported that he had asked Ms. Jaffe, UC Berkeley Professor Daniel Kammen, and others to work with his staff on the implications of carbon pricing on utility investments.

Investment Advisory Group member Samuels asked if the sale of direct holdings in coal and oil sands companies had been announced publicly. Mr. Bachher said this meeting was the first announcement. Mr. Martin expressed his hope that the sale was done for economic reasons. Mr. Bachher affirmed that the decision was based on due diligence from an economic standpoint.

Regent Makarechian asked for examples of human rights issues that might affect sustainable investing. Mr. Bachher responded that not all environmental, social, and governance issues would be applicable in every instance, but were rather a set of guiding principles. For example, questions of human rights or labor practices would be considered in many possible investment opportunities. Ms. Jaffe added that issues of public safety were considered when UC decided not to invest in handgun companies. The Office of the CIO website contained links to research in various areas regarding sustainable investing. Current social media could cause sustainability issues to spread quickly around the globe and affect economic consideration of investments. Regent Makarechian added that extremely low wages paid to some foreign workers could be such an issue. Mr. Bachher added that his office had the advantage of having the University's researchers inform its investment framework. Within the Office of the CIO, an institute for sustainable investment would be created that would include UC researchers.

Regent Sherman asked for an update on the $1 billion the Office of the CIO committed to sustainable investments. Mr. Bachher commented that the announcement a year prior that his office would invest $1 billion in sustainable solutions over the next five years had catalyzed other institutional investors and in June 2015 peer institutions committed an additional $1 billion. The White House brought these institutional investors and other investors together, resulting in commitment of $4 billion, and had acknowledged the efforts of UC in sustainable solutions. UC and three peers would create an aligned intermediary, a non-profit entity, to review and filter investment proposals. A number of non-profit foundations and family offices have set up the operating budget for that entity. The original UC commitment had spread globally. Mr. Bachher anticipated that UC's initial investments would focus on wind, solar, and other renewable energy assets. There would also be a plethora of early- and middle-stage companies hungry for working and growth capital to propel them into the next generation of energy, food, or agriculture companies. The four institutional investors would work with the non-profit collaboratively as limited partners to organize the deal flow, but would make individual investment decisions.

Mr. Bachher next discussed UC's retirement portfolios. The UC Regents won *Institutional Investor's* 2015 award for the UCRP as the best large U.S. public pension plan. *CIO* magazine nominated UC's GEP for its current-year award in the endowment category. The UCRP defined benefit plan had 220,000 participants and was a mature plan with two retirees for every active participant. Over the upcoming five years, 35 percent of UC's 140,000-member workforce would retire. Each month, UC retirees received an average of $3,400 from the UCRP, totaling $2 billion in annual benefit payouts. Annual employer contributions to UCRP were $1.2 billion. The prior year, the University added $700 million to the UCRP from its working capital to reduce UCRP's unfunded liability. As a result of recent budget negotiations, the State would contribute an additional amount to reduce the unfunded liability. At the beginning of the 2014-15 fiscal year, the UCRP funding status was 79 percent; by the fiscal year's end, its funding status had increased to 89 percent, assuming a 7.5 percent discount rate for the liabilities. A proposal to decrease the discount rate to 7.25 percent would be considered at a future Regents meeting. UCRP's liabilities currently stand at $60 billion. If the discount rate were decreased to 7.25 percent, UCRP's liabilities would increase by about $2 billion. To make up that difference, a $50 billion pension plan would have to earn four percent more in annual returns. UCRP assets were $55 billion as of June 30, 2015. During the fiscal year, UCRP gained 2.2 percent from market gains and 4.5 percent overall net of fees for the year. UCRP has gained 11 percent over the past five years and 8.4 percent over the past 20 years. Mr. Bachher said UCRP returns for the past fiscal year were in the top decile of its peers and returns for the past five years were in the top quartile. Over the past ten years, UCRP gained $27 billion from the markets, benefiting from the upswing in equity markets since the 2008 global economic crisis.

Mr. Bachher discussed UCRP's asset allocation. At the end of the fiscal year, just over half of the UCRP was invested in public equities; 22 percent in fixed income; and 19 percent in private equity, absolute return, real estate, and real assets; five percent was held in cash. Almost 80 percent of risk in UCRP was attributable to equity risk. During the fiscal year, the public equity index rose 0.7 percent, while UC's public equity portfolio rose four percent during that time, benefiting from security selection. The UCRP public equity portfolio was managed 63 percent actively, with the balance invested passively. During the fiscal year, ten percent of the passively managed portfolio was moved to active management, which contributed 20 percent of the public equity portfolio's performance. In the GEP, 15 percent of the public equity portfolio was moved from passive to active management. When Mr. Bachher became CIO, the public equity portfolio contained about 12,000 stocks; that number had been reduced to 5,700 by the end of the fiscal year. The number of external managers was reduced from 60 to 40. Mr. Bachher anticipated possible further reductions. Public equity holdings in the UCRP and GEP had been identical, but Mr. Bachher anticipated changing the holdings to fit the purposes of the pension, endowment, and working capital pools. Tactical under- and overweight moves within allowable ranges contributed 40 percent of return. The portfolio was moved from an underweight position to market-weight in Europe, was slightly overweight in China, underweight in energy holdings, overweight in health care, and underweight in Japan.

Regent Sherman asked how many of the 40 external managers outperformed the market index. Mr. Bachher said he could provide Regent Sherman with that information, but in general about ten of those managers had consistently produced most of the returns over the past five years. Regent Sherman asked if the underperforming mangers were being removed. Mr. Bachher agreed that they were, adding that some managers with good performance, but with duplicative strategies and exorbitant fees were also being eliminated.

Mr. Chan commented that excessive diversification was also being eliminated from the public equity portfolio, allowing active management to shine. In the past seven months, that strategy generated $120 million in additional returns for the GEP and UCRP combined. This strategy also allowed increased scale with high-conviction managers. Mr. Bachher added that this increased scale allowed the University to create its own investment management agreement. Manager rationalization was also occurring in other asset classes, such as private equity.

Committee Chair Wachter asked where the assets formerly held in the opportunistic equity asset class, which had been eliminated, were currently held. Mr. Bachher responded that those holdings were held in their appropriate categories in the public equity asset class. Mr. Chan confirmed that the public equity asset class included some long-short funds.

Committee Chair Wachter asked for an explanation of the difference between UCRP's 5.1 percent and GEP's 8.6 percent gross returns. Mr. Bachher said the difference was attributable to GEP's twice larger allocation to alternative investments and less than half allocation to fixed income compared with UCRP.

Regent Sherman pointed out the large outperformance in the GEP and asked if expectations of performance would be lower going forward. Mr. Bachher confirmed that expectations for private equity returns were generally lower, which led to his office's selling some private equity holdings. He anticipated investment opportunities in distressed assets over the upcoming three to five years.

Mr. Klosterman asked how manager risk was evaluated. Mr. Bachher confirmed that the most important criterion in manager rationalization was consideration of risk. Mr. Chan commented that the public equity portfolio was evaluated based on risk related to various factors, such as country risk, sector risk, and large- or small-cap risk. The portfolio's under- or overweight to each component's particular risk factor was calculated.

Mr. Bachher discussed UCRP's $3.2 billion real estate portfolio. In 2014, $50 billion of foreign capital, primarily from the Middle East, had been invested in real estate. In the last fiscal year, the Office of the CIO both sold and bought real estate, with overall gains of 18 percent for the year and 16 percent over the past five years. About 40 percent of the real estate portfolio was core real estate; another 40 percent was value-added real estate; the remaining 30 percent was opportunistic real estate. The UCRP was more suited for core real estate; the GEP was more suited for opportunistic real estate, based on its risk and return profile. Being a long-term investor, the Office of the CIO could afford to hold real estate investments long-term when appropriate. During the fiscal year, the Office of the CIO received close to $750 million in distributions from commingled funds, being proceeds from sales. At the same time, the Office of the CIO invested $900 million in core and value-added real estate during the year, with 50 percent of the current real estate portfolio being in separately managed accounts, giving the Office of the CIO more control over these investments than its commingled holdings. The bulk of the $900 million invested in the fiscal year was in separate accounts. The Office of the CIO also made its first direct real estate investment, buying the building at 1111 Broadway, Oakland where its offices are located. Real estate was also an excellent opportunity for the Office of the CIO to cooperate with UC campuses in investment opportunities. He emphasized that the team at the Office of the CIO was always available to advise UC campuses on transactions. Mr. Bachher stated that he would like to use the Office of the CIO's pool of permanent capital to work with entrepreneurial real estate management teams to build out their portfolios in an aligned way over the upcoming three years.

During the upcoming year, he would also like to explore the possibility of establishing a real estate operating company.

Mr. Bachher turned his attention to the UC Retirement Savings Program, with close to 300,000 UC employees who have saved $20 billion in its participant-directed plans. Since 2013, investment choices were streamlined from 192 to 16 funds. Committee Chair Wachter asked if those 16 funds were managed externally. Mr. Bachher responded that underlying funds were primarily passive, but his office made asset allocation decisions. For example, of the $20 billion, approximately $6 billion was invested in target-date retirement funds. The asset allocation decision of the blend between stocks and bonds was made by the Office of the CIO, but the underlying funds were managed externally. In the upcoming year, the Office of the CIO would continue to evaluate the fund choices and would increase its communication with plan participants. Mr. Bachher expressed his hope that the University would move to auto-enrollment to increase employees' rates of savings and retirement preparedness. The default investment was changed from a cash-type account with very low return to a target-date fund. Regent Makarechian asked if auto-enrollment would be part of UCPath. Mr. Bachher responded that he did not know, but could provide Regent Makarechian with that information. Mr. Bachher commented that in general the defined contribution plan would become a larger part of retirement savings over time.

Regent Sherman asked about the performance of the target-date funds compared with that of the GEP. Mr. Bachher responded that the Target 2040 fund returned 1.18 percent for one year and 7.9 percent for three years. Regent Sherman asked if defined contribution plan participants have the option of investing in the GEP or UCRP. Mr. Bachher responded that a UC balanced growth-equity product, similar to the UCRP, was an investment option.

Mr. Bachher discussed the $14 billion working capital portfolios, which provided UC campuses with $800 million in distributions and earned $300 million during the fiscal year. As of June 30, 2015, 52 percent of the working capital was in the Total Return Investment Pool (TRIP) with a longer investment horizon of three to five years, and the balance in the Short Term Investment Pool (STIP), which functioned like a money market fund. The goal was to optimize the mix between TRIP and STIP, since TRIP earned higher returns and provided more operating income for the campuses. As of September 1, 2015, 64 percent of the working capital was in TRIP and 36 percent in STIP. Mr. Bachher anticipated a possible mix of 70 percent in TRIP and 30 percent, or $5 billion, in STIP, still meeting requirements of ratings agencies. Mr. Bachher was working with Mr. Brostrom's office to verify that $5 billion would meet the University's liquidity needs.

Mr. Samuels asked if interest was charged on funds loaned from TRIP to UCRP and how that interest would appear in accountings. Mr. Bachher confirmed that interest was charged and said he could provide Mr. Samuels with information about the accounting.

Mr. Bachher said the risk profile of TRIP had been decreased by reducing its equity allocation from 50 to 35 percent. TRIP's $800 million global REITs holdings and cross asset class holdings were sold.

Mr. Bachher summarized that during the past year the Office of the CIO had built a leadership team and had learned about its portfolios with the goal of optimizing them for the future, recognizing the current risk environment. His office's approach would be aligned around its various products and their risk and return objectives. He stressed the importance of creating a culture in the Office of the CIO with the following values: (1) invest for the long term; (2) invest in people; (3) build a high-performance culture with accountability and responsibility; (4) be risk managers; (5) allocate wisely; (6) costs matter; (7) diversify with care and act with clarity; (8) sustainability impacts investments; (9) collaborate widely; and (10) innovation counts. Investment results would stem from implementing these values. In response to a question from Regent Makarechian, Mr. Bachher stated that these values were elaborated in a document available on his office's website.

Mr. Klosterman asked about challenges facing UCRP, such as anticipated lower returns and a lower discount rate, given its unfunded liability and the large number of employees who would be retiring. Mr. Bachher responded that communication with all stakeholders to set realistic expectations would be important. The discount rate must be realistic, particularly as to inflation expectations. In the current environment, a deep understanding of risk was critical. Consideration of UCRP's asset allocation must also focus on UCRP's liability. Mr. Klosterman said it would appear that UCRP's expected return based on its current asset allocation would be about six percent at best. Mr. Bachher agreed that 7.5 percent returns would be difficult to achieve in the current environment and commented that pension plan administrators across the nation were having the same discussion about their discount rates and anticipated returns.

The meeting adjourned at 3:35 p.m.

Attest:

Secretary and Chief of Staff