The Regents of the University of California

GOVERNANCE AND COMPENSATION COMMITTEE
November 16, 2016

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

Members present: Regents Elliott, Gould, Lansing, Ortiz Oakley, Pattiz, Pérez, Reiss, and Schroeder; Ex officio members Lozano and Napolitano

In attendance: Regents Brody and Sherman, Regent-designate Lemus, Faculty Representatives Chalfant and White, Secretary and Chief of Staff Shaw, General Counsel Robinson, Executive Vice President and Chief Operating Officer Nava, Vice President Duckett, Chancellors Hawgood and Wilcox, and Recording Secretary Johns

The meeting convened at 3:50 p.m. with Committee Chair Reiss presiding.

1. **APPROVAL OF MINUTES OF PREVIOUS MEETING**

Upon motion duly made and seconded, the minutes of the meeting of September 14, 2016 were approved.

2. **AMENDMENT OF REGENTS POLICY 1100: STATEMENT OF EXPECTATIONS OF THE MEMBERS OF THE BOARD OF REGENTS AND REGENTS POLICY 1101: POLICY ON BOARD EDUCATION AND ASSESSMENT**

The Chair of the Board recommended that:

A. Regents Policy 1100: Statement of Expectations of the Members of the Board of Regents be amended as shown in Attachment 1, to provide that a Regent's actions, even in his or her private capacity, may be considered a failure to fulfill a Regent's duties as a member of the Board and may be a basis for sanction where such actions are inconsistent with the University's Policy on Statement of Ethical Values and Standards of Ethical Conduct (Regents Policy 1111), or the University's Sexual Violence and Sexual Harassment Policy.

B. Regents Policy 1101: Policy on Board Education and Assessment be amended as shown in Attachment 2, to require that all Regents take the University's sexual harassment prevention training program for supervisors upon being appointed to the Board and thereafter on a bi-annual basis.

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

Chair Lozano recalled the recent changes to the operations of the Board of Regents. This included revisions of existing policies as needed. One policy gap that was identified was the question of how the Board should respond to behavior of Regents that may have an impact on members of the UC community and on the University's reputation, even in cases when Regents are not engaged in official University business. The amendments being proposed would clarify that a Regent's actions, whether in a private or public capacity, can be considered a failure to fulfill his or her duties as a member of the Board of Regents. The University has taken a strong, unequivocal stance on sexual violence and sexual harassment and does not tolerate such conduct anywhere in its campus communities. The Regents remain committed to upholding the University's Policy on Statement of Ethical Values and Standards of Ethical Conduct. The amendments would also require that Regents receive the sexual harassment prevention training that is required for UC supervisors. The Governance and Compensation Committee was being asked to return to the Board with recommendations on specific procedures for addressing such allegations involving Board members in the future. In the meantime, the Regents would continue a careful review of Board policies and procedures as well as of the Statement of Ethical Values and Standards of Ethical Conduct.

General Counsel Robinson discussed the legal parameters for action by the Board against a member of the Board. He recalled that most Board members are appointed by the Governor and confirmed by the State Senate. For that reason, the actions the Board can take unilaterally are relatively limited. The Board can censure a Board member verbally or in writing. The Board can ask a member to resign voluntarily. The Board can remove a Regent from a Board leadership position or disqualify him or her for future service in a Board leadership position. The Board can refer a member to other authorities who have the ability to act. In the case of a criminal matter, a Board member could be formally referred to criminal authorities. Mr. Robinson noted that neither the Board nor the Governor has the ability to remove a Regent once that Regent has been appointed and confirmed. An action by the Attorney General would be necessary, a quo warranto action, and removal of a Regent would require that commission of a felony, corruption, or other serious misconduct had occurred.

Regent Lansing asked if the Attorney General can act unilaterally on this. Mr. Robinson responded in the negative. There would be a court proceeding, and the Attorney General would have to make a case for removing the individual.

Committee Chair Reiss stated that in the context of UC's strong policies on sexual harassment and violence, extending these guidelines to the Regents and having Regents receive sexual harassment prevention training would make an important statement to the UC community.

Regent Pérez stated that he was in favor of sexual harassment prevention training and education for Regents. This would demonstrate the culture that the Regents expect on UC campuses. He expressed concern about and requested clarification of what authority the Board would have to take action if the Board were displeased with the actions of an individual member.

Chair Lozano responded that the question of Board actions in case of violations of these policies would be examined by the Governance and Compensation Committee at future meetings. Mr. Robinson explained that under the Bylaws adopted in July 2016, the Governance and Compensation Committee would develop procedures to be recommended to the full Board to address allegations of misconduct by a Board member. He anticipated that these procedures would be developed by early 2017. In the meantime, the Committee had authority to make recommendations to the full Board to take action that it found appropriate. One of the objectives of the amendments being proposed was to set forth expectations on how conduct in one's private life can affect the University.

Regent Pérez emphasized the seriousness of sexual harassment and sexual violence, and of other hateful activities that affect the University. He expressed concern about the fact that any member of the public could take issue with a private activity of a Board member and make it a matter of Board concern. This might occur, for example, in connection with a Regent's business activities. There was a need to define clearly which matters would appropriately come before the Board, and which not. The Regents needed to engage in thoughtful deliberation of this issue, as they had in the case of the Report of the Regents Working Group on Principles Against Intolerance. He agreed that Regents should maintain standards of appropriate conduct in public and private life regarding sexual violence and sexual harassment.

Committee Chair Reiss suggested that the Committee discuss the broader questions adumbrated by Regent Pérez at a future meeting. In response to remarks by Chair Lozano, Mr. Robinson explained that under the proposed amendments, Regents' conduct, whether in their official or private capacity, must be consistent with Regents Policy 1111, Policy on Statement of Ethical Values and Standards of Ethical Conduct and the University's Sexual Violence and Sexual Harassment Policy. These two existing policies were already applicable to the Regents with respect to their official duties.

Chair Lozano stated her understanding that matters would be taken up on a case-by-case basis. Procedures would be discussed at a subsequent meeting of the Committee. Regent Pérez voiced his view that the sexual harassment prevention training for Regents could begin immediately, but that more extensive discussions should take place before policies were amended.

Regent Gould urged the Regents to consider carefully what kinds of activities or matters in Regents' lives outside their service on the Board and at UC would rise to the level of review by the Board. The Regents should establish a threshold for determining what kinds of issues rise to the level of Board review.

Committee Chair Reiss stressed the serious nature of sexual harassment and sexual violence. It was important that the Regents not delay action, vote on this item, and make a statement that UC takes this issue seriously. Chair Lozano stated that further recommendations would be made to the full Board on training scheduling and completion, so that all Regents would have completed training by a certain end date. Regent Pérez observed that this would present an opportunity to examine training methods and determine which are most effective for the UC community. Training should be a way of changing the culture of the organization, having to do with how people interact and how people are valued, not merely checking off boxes. Many existing training programs were not substantive. Chair Lozano concurred and stated that there would be an effort to make this training meaningful, concerned with culture rather than just compliance.

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

3. **AMENDMENT OF THE ANNUAL INCENTIVE PLAN FOR PARTICIPANTS IN THE OFFICE OF THE CHIEF INVESTMENT OFFICER, OFFICE OF THE PRESIDENT**

The President of the University recommended approval of the proposed amendments to the Office of the Chief Investment Officer Annual Incentive Plan, as shown in Attachment 3, using investment proceeds and no State funds. The proposed changes will be effective July 1, 2017.

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

Executive Director Dennis Larsen recalled that the Office of the Chief Investment Officer (CIO) manages the University's retirement endowment and cash assets totaling nearly $100 billion. In addition to the amendment now being proposed, the benchmarks and performance standards of the Office of the CIO's Annual Incentive Plan (AIP) were under review. Regent Sherman had requested the review of benchmarks. Performance standards would be separated by product line and would help focus participants on different investment strategies specific to each product. The Office had made changes to its organizational review process, structure, and composition. Emphasis has been placed on managing UC investments as a total entity rather than as a conglomeration of investment asset classes.

One of the Office's key managerial tools, the AIP, needed to be amended to reflect this new strategic direction. A number of critical changes were being proposed which would align compensation strategy with the CIO's organizational and investment strategies, and strengthen teamwork and collaboration. Mr. Larsen described the Administrative Oversight Committee and its approval authority over the AIP. The proposed changes were material and substantive and thus required Regents' approval.

The competitive market composite would be changed. Currently the AIP used three segments to construct the market composite against which compensation is compared: large public pension fund managers, large public endowments and public and private foundations, and private sector fund managers. The third group, private sector fund managers, and private foundations, would be eliminated. There would be equal weighting between endowments of public and private higher education institutions, and public pension funds.

There would be procedural changes to the award approval for the CIO, including performance weighting. Some weighting would be shifted from the individual component toward the team-based component. Changes were proposed for transitional weightings for new hires, allowing them to gain entry into the AIP, more consistent with other team members, pushing the weighting toward the entity or asset quantitative performance, and away from individual performance. Other changes would provide clarification to termination provisions, to award reporting, and changes for managing directors. Total cash opportunity for managing directors was found to be slightly below market. Minor changes were being proposed to their target incentives. Changes were also being proposed to the awards in cases of negative performance over a three-year period. Currently, the AIP allowed for payouts in cases when UC loses less than the benchmark. Under the proposed changes, if there are losses over a three-year rolling average, there would be no payout for that portion. This would not affect individual qualitative performance or past deferred awards.

Regent Sherman stated that this amendment would modify the AIP to be consistent with the overall restructuring of UC's portfolio. External managers would not earn incentive compensation unless they achieve hurdle rates. AIP benchmarks would be "stretch goals," not so difficult that they would encourage excessive risk-taking, but that would reward performance when it is above the benchmark. The AIP would recognize three-year periods, so that when there is a loss in a particular year due to market volatility, this amount would have to be made up. Regent Sherman described this as a fair approach, given the magnitude of the dollar amounts being managed. There would have to be significant earnings by the portfolio before any awards were received.

Regent Reiss emphasized that the AIP recognizes performance in the management of the General Endowment Pool, the UC Retirement Plan, the Short Term Investment Pool, and the Total Return Investment Pool. It is essential to ensure that these monies are well managed and invested wisely for the well-being of the University and its faculty, staff, and retirees.

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

4. **APPROVAL OF INCENTIVE COMPENSATION USING NON-STATE FUNDS FOR FISCAL YEAR 2015-16 FOR JAGDEEP SINGH BACHHER AS CHIEF INVESTMENT OFFICER AND VICE PRESIDENT – INVESTMENTS AND ARTHUR GUIMARAES AS ASSOCIATE CHIEF INVESTMENT OFFICER, OFFICE OF THE PRESIDENT AS DISCUSSED IN CLOSED SESSION**

Recommendation

The Committee recommended approval of the incentive awards for fiscal year 2015-16 under the Office of the Chief Investment Officer Annual Incentive Plan (AIP) for Jagdeep Singh Bachher as Chief Investment Officer and Vice President – Investments in the amount of $841,096 and for Arthur Guimaraes as Associate Chief Investment Officer in the amount of $210,892.

Jagdeep Singh Bachher
Recommended Compensation
Effective Date: upon Regents' approval
Base Salary: $632,380
AIP Award: $841,096 (133 percent of base salary)
Base Salary Plus Recommended AIP Award: $1,473,476
Funding: non-State-funded

Prior Year Data (2014-15 Plan Year)
Base Salary: $615,000
AIP Award: $874,838 (142 percent of base salary)
Base Salary Plus Recommended AIP Award: $1,489,838
Funding: non-State-funded

Arthur Guimaraes
Recommended Compensation
Effective Date: upon Regents' approval
Base Salary: $334,750
AIP Award: $210,892 (63 percent of annual base salary)
Annual Base Salary Plus Recommended AIP Award: $545,642
Funding: non-State-funded

Prior Year Data (2014-15 Plan Year)
Base Salary: $325,000
AIP Award: $170,625 (52.5 percent of base salary)
Annual Base Salary Plus Recommended AIP Award: $495,625
Funding: non-State-funded

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

Background to Recommendation

The President of the University requested approval of the 2015-16 Plan Year incentive awards for Jagdeep Singh Bachher, Chief Investment Officer (CIO) and Vice President – Investments totaling $841,096 and for Arthur Guimaraes, Associate Chief Investment Officer (ACIO) in the amount of $210,892. These awards are administered under and consistent with the provisions of the Office of the Chief Investment Officer Annual Incentive Plan (AIP), as approved by the Regents, and will be payable in three annual installments funded entirely through investment returns, using no State funds.

Assets under management by the Office of the Chief Investment Officer total $97.6 billion for the Plan Year ending June 30, 2016. The proposed awards of $841,096 and $210,892 have been reviewed and approved by the Administrative Oversight Committee (AOC) established by the Regents and consisting of the Executive Vice President and Chief Financial Officer, the Executive Vice President and Chief Operating Officer, the Vice President of Human Resources and the Executive Director of Compensation Programs and Strategy. Per policy, these awards also require Regental approval. The calculations have been reviewed by the Office of Ethics, Compliance and Audit Services.

The AIP is a performance-based incentive plan that places a certain amount of pay at risk for each participant, and pays out only if certain investment and other performance standards are met or exceeded. Performance-based, at-risk incentives are a typical component of total cash compensation for investment professionals, including those at the California State Teachers' Retirement System (CalSTRS), the California Public Employees' Retirement System (CalPERS), and other large public pension and endowment funds. Awards are based on a rolling three-year assessment against performance benchmarks and a portion is deferred for payout in subsequent years to help retain staff (as described below, plan calculations differ for employees who have been employed for less than three years). Plan participants are assigned award opportunity levels that serve to motivate individual, group, and total entity performance as part of a competitive total cash compensation package.

The University's investment results for the one-year period ending June 30, 2016 were lackluster, trailing its benchmark by 81 basis points, which resulted in a net loss of $791 million. For the two- and three-year periods ending June 2016, the results were ahead of the benchmarks by 50 basis points for both periods (returns for periods greater than one year are annualized). This resulted in a net gain to the portfolios of approximately $1 billion for the two-year period and $1.5 billion for the three-year period (over and above that which would have resulted in the absence of active management).

The three-year net performance of the UC Pension ($54 billion in assets under management (AUM)) was 6.3 percent, compared to 7.8 percent for CalSTRS

($189 billion AUM) and 6.9 percent for CalPERS ($295 billion AUM) for the period ending June 30, 2016. Other large public pension funds, such as Massachusetts ($61 billion AUM) and Oregon ($68 billion AUM) had three-year returns of 7.7 percent (gross) and 6.8 percent (net), respectively. Endowments at other institutions had similar one-year performance challenges, reporting fiscal year returns ranging from a gain of 3.4 percent at Yale to a loss of 4.3 percent at Vanderbilt. Stanford, Harvard, and Princeton had fiscal year returns of a loss of 0.4 percent, a loss of two percent, and a gain of 0.7 percent, respectively.

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

Committee Chair Reiss briefly introduced the item, noting that this incentive compensation was based on a legal contract.

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

5. **APPROVAL OF APPOINTMENT OF AND COMPENSATION FOR JOHN LOHSE AS INTERIM SENIOR VICE PRESIDENT AND CHIEF COMPLIANCE AND AUDIT OFFICER, OFFICE OF THE PRESIDENT AS DISCUSSED IN CLOSED SESSION**

Recommendation

The Committee recommended approval of the following items in connection with the appointment of and compensation for John Lohse as Interim Senior Vice President and Chief Compliance and Audit Officer, Office of the President:

A. John Lohse be appointed as Interim Senior Vice President and Chief Compliance and Audit Officer at 100 percent time, effective on or about November 18, 2016 and continuing for up to 18 months or until the appointment of a new Senior Vice President and Chief Compliance and Audit Officer, whichever occurs first, and including a transition period of up to two months.

B. Per policy, an annual base salary of $290,000.

C. Per policy, standard pension and health and welfare benefits.

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

Background to Recommendation

The Chair of the Board and the President of the University requested approval of the appointment of and compensation for John Lohse as Interim Senior Vice President and Chief Compliance and Audit Officer, temporarily replacing Sheryl Vacca, who has led the compliance and audit function for nearly ten years. Mr. Lohse will fill this role for up to 18 months or until the appointment of a new Senior Vice President and Chief Compliance and Audit Officer, whichever occurs first, including a transition period of up to two months. This appointment is consistent with Regents' Policy 7706, Reemployment of UC Retired Employees Into Senior Management Group and Staff Positions, since Mr. Lohse will suspend his monthly retirement payments during this interim assignment. Given the critical nature and importance of the responsibilities, and the need to have a dedicated full-time incumbent to fulfill the obligations of this role, Mr. Lohse has agreed to this interim appointment at 100 percent time. The University will initiate a competitive recruitment in the near future.

Reporting directly to the Regents and to the President of the University, the Senior Vice President and Chief Compliance and Audit Officer is responsible for developing and overseeing the university's corporate compliance and audit program. Functioning as an independent and objective office, this position reviews and evaluates ethics, compliance and audit matters within the University, and monitors and reports to the Board and the administration regarding compliance with rules and regulations of regulatory agencies and University policies and procedures.

Mr. Lohse possesses an impressive background and depth of experience. During his career with the Federal Bureau of Investigation (FBI) from 1975 to 2004, he served as Special Agent, Legal Advisor, Associate Division Counsel, and Chief Division Counsel for the San Francisco Division. As Chief Division Counsel, he provided advice and counsel to over 400 managers, supervisors, special agents, and other Bureau employees while directing the work of 12 attorneys and paralegal specialists. This work included responding to legal issues and to situations in the areas of criminal and civil law, national security, and the interpretation of FBI and Department of Justice policy.

Mr. Lohse was also appointed Special Assistant United States Attorney and defended the depositions of FBI employees. He appeared in federal and State courts in response to subpoenas directed at the FBI and its employees. He supervised the FBI Asset Forfeiture Unit, administered programs for government ethics and standards of conduct, and supervised the Freedom of Information/Privacy Act program.

Prior to his service with the FBI, Mr. Lohse served as a criminal prosecutor from 1973 to 1975 with the Maricopa County Attorney's Office in Phoenix, Arizona. He is admitted to practice law in the States of California and Arizona and the U.S. District Court for the Northern District of California and the Ninth Circuit Court of Appeals. He also holds a private investigator's license from the California Bureau of Security and Investigative Services. Mr. Lohse has previously served as judge pro tem for the Alameda County

Superior Court and was a former board member of the Women Lawyers of Alameda County and the Association of Workplace Investigators.

Mr. Lohse also has extensive UC-related experience, serving as the Director of Investigations in the Office of the University Auditor from January 2004 to October 2007. When Sheryl Vacca was hired and created the Office of Ethics, Compliance and Audit Services, Mr. Lohse continued to serve as the Director of Investigations until his retirement on July 1, 2015. In this role, he was responsible for coordinating, tracking, managing, and conducting investigations for the Office of the President and for the University systemwide. He managed a comprehensive program to investigate complaints received under the University Whistleblower Program to ensure the University's compliance with applicable federal and State laws and with University policy, managing communications with the Regents, the President, and senior management. Mr. Lohse has had primary responsibility for all audit investigations if there is a perceived or actual conflict of interest involving a campus Internal Audit office.

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

Committee Chair Reiss briefly introduced the item, noting that the University was fortunate to have an individual of this quality to assume the Senior Vice President and Chief Compliance and Audit Officer role on an interim basis. The compensation proposed was around the 25th percentile of the Market Reference Zone.

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

6. **DATES OF REGENTS MEETINGS FOR 2018**

The Chair of the Board and the President of the University recommended that the following dates of Regents meetings for 2018 be approved.

<u>2018</u>

January 24-25
March 14-15
May 23-24
July 18-19
September 26-27
November 14-15

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

Secretary and Chief of Staff Shaw briefly introduced the item.

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

The meeting adjourned at 4:35 p.m.

Attest:

Secretary and Chief of Staff

Regents Policy 1100: Statement of Expectations of the Members of the Board of Regents

Additions shown by underscoring; deletions shown by strikethrough

Guidelines for Discharge of Regental Duties

The responsibility of individual Regents is to serve as trustees for the people of the State of California and as stewards for the University of California, acting to govern the University in fulfillment of its educational, research, and public service missions in the best interests of the people of California.

Recognizing the broad authority and responsibility vested in the Board of Regents for the governance and operation of the University of California, there is a specific expectation that members of the Board become knowledgeable regarding the educational, research, and public service programs of the University of California as well as the duties, responsibilities, and obligations of Regents.

Preparation

Members of the Board are expected to prepare themselves for the issues coming before the Board and to base votes on the information available and their best judgment. An orientation is mandatory for all new Regents.

Attendance and Participation

Members of the Board are expected to attend and participate in meetings of Board and committees to which they are assigned. Board members are also welcome to attend meetings of other committees to which they are not assigned, but they are not required or expected to do so. Board members are also encouraged to attend and participate in other events at which Board member participation is appropriate.

Cooperation

It is expected that Board members will abide by Board decisions and policies in a manner consistent with the member's fiduciary duties. This is not intended to preclude either forthright expression of opposition or efforts to change such policies or decisions. Expression of opinion or position at variance with such policies or decisions should clearly indicate that it is not to be construed as a position of the Board and that the opinion expressed is that of an individual Regent. Board members should respect the opinions of other Board members, University officials, faculty, students, and staff. Consistent with the Regents Policy on the President as Spokesperson for the University (effective January 18, 1962), the President <u>of the University</u> shall be the spokesperson for the University with the Chair~~man~~ of the Board being the spokesperson for the Board.

Confidentiality

Board members are expected to maintain the confidential nature of Board deliberations held in closed session, including written and verbal communication.

Ethics

Regents are expected to serve the public trust and to fulfill their responsibilities ethically in a manner consistent with that obligation. This means that decisions are to be made solely to promote the best interests of the University as a public trust, rather than the interests of a particular constituency, and that Board members will disclose personal, familial, business relationships, or other potential conflicts of interest as appropriate. <u>Regents' conduct, whether in their official or private capacity, must be consistent with the University's Statement of Ethical Values and Standards of Ethical Conduct and the University's Sexual Violence and Sexual Harassment Policy. Failure to comply with these standards shall be a basis for appropriate action.</u>

Fiduciary Responsibilities

Regents are expected to accept responsibility for the integrity of the financial, physical, and intellectual resources of the University.

Policy Responsibilities

It is the responsibility of the Board to set policy and the responsibility of the University administration to implement and carry out policy, which includes responsibility for the day-to-day operations of the University.

Support for the University

Regents are expected to be active supporters and advocates for the University and to take opportunities to help with fundraising, legislative advocacy, and other efforts on behalf of the University.

Board Responsibilities

The Board is expected to:

A. Appoint, support, assess the performance of, and, if necessary, dismiss the President <u>of the University</u>.
B. Appoint the Executive Vice Presidents, Senior Vice Presidents, other Vice Presidents, Chancellors and Laboratory Directors upon recommendation of the President pursuant to Standing Order 100.2 (b).
C. Approve and periodically review the appropriateness and consequences of all major institutional policies and programs, including addition or discontinuation of major programs and services consistent with the institution's mission and financial capacity.

D. Ensure that good planning is done periodically, participate in the process as appropriate, assess the quality of the outcomes, and monitor progress against goals.
E. Fulfill fiduciary responsibilities by approving and monitoring the annual budget, protecting the institution's financial and capital assets, ensuring responsible and prudent investment of funds, and ensuring a comprehensive compliance program and annual audit process.
F. Ensure adequate resources and their effective management. This includes serving as advocates for institutional needs with external constituencies.
G. Interpret the institution to the public and defend the institution, when necessary, from inappropriate intrusion.
H. Ensure that the Board's reputation is exemplary in the course of meeting its responsibilities.
I. Ensure that the institution serves as a good citizen in its relationships with other social, educational, and business enterprises through appropriate collaborations and partnerships.
J. Assess the Board's performance periodically through an appropriate process.

Regents Policy 1101: Policy on Board Education and Assessment

Additions shown by underscoring; deletions shown by strikethrough

1. A formal orientation program be established for newly appointed Regents to assist them to perform their duties. The program shall provide information regarding the University's history and structure, the individual campuses, the broad range of policy issues expected to come before the Board as well as the recent history of issues before the Board, and the laws and policies that govern a Regent's fiduciary duties. Orientation sessions also shall be open to continuing Regents as appropriate.

2. The Chair of the ~~Committee on~~ Governance <u>and Compensation Committee</u>, in consultation with the Chair~~man~~ of the Board, <u>shall</u> assign continuing Regents to act as mentors on an ongoing basis for newly appointed Regents. In addition, Committee chairs shall consult with Regents newly appointed to their Committees to determine if a committee mentor is appropriate.

3. The Board <u>shall</u> conduct periodic Board retreats to discuss governance and planning issues as needed. The Chair~~man~~ of the Board, after consulting with the President <u>of the University</u> and Board members, shall determine the timing, location, and agenda of the retreat. ~~It is anticipated that the first retreat shall be conducted by the end of the third quarter of 2008~~.

4. The Board evaluate Board performance through an appropriate process, determined by the ~~Committee on~~ Governance <u>and Compensation Committee</u>. The evaluation may be conducted in conjunction with a Board retreat or separately.

5. <u>Regents shall take the University's sexual harassment and sexual violence prevention training for supervisory employees upon their initial appointment and thereafter on the same periodic basis as required for supervisory employees.</u>

Additions shown by underscoring: deletions shown by strikethrough

The University of California
Office of the Chief Investment Officer
Annual Incentive Plan (AIP)
For Plan Year July 1, ~~2015~~<u>2017</u> through June 30, ~~2016~~<u>2018</u>

I. Plan Purpose

Under the authority granted by The Board of Regents, the purpose of the University of California Office of the Chief Investment Officer Annual Incentive Plan ("Plan") is to provide the opportunity for at risk variable financial incentives to those employees responsible for attaining or exceeding key objectives in the Office of the Chief Investment Officer (CIO) which are consistent with University investment objectives.

The Plan provides participants with an opportunity to receive an annual non-base building cash incentive based on the performance of the University's <u>total</u> investment portfolio, the assets and sectors/functional groups managed by the individual participant, and the individual participant's <u>qualitative</u> performance. The incentive award is earned based on the achievement of specific financial, non-financial, and strategic objectives relative to the mission and goals of the Office of the CIO and the performance of the investment portfolio. The Plan focuses participants on maximizing returns in excess of stated performance benchmarks for all funds managed while assuming appropriate levels of risk. It is intended to support teamwork so that members of the Office of the CIO operate as a cohesive group.

II. Plan Year

The Plan year will correspond to the University's fiscal year, beginning July 1 of each year and ending the following June 30.

III. Plan Oversight

Development, governance and interpretation of the Plan will be overseen by an independent Administrative Oversight Committee (AOC) comprised as follows:

- Executive Vice President – ~~Business Operations~~<u>Chief Operating Officer</u>
- Executive Vice President ~~and~~ <u>–</u> Chief Financial Officer
- The Vice President – <u>Systemwide</u> Human Resources
- The Executive Director – <u>Systemwide</u> Compensation Programs and Strategy

The AOC, in its deliberations pertaining to the development or revision of the Plan, ~~will~~<u>may</u> consult with the CIO or other key members of the CIO's staff. The AOC will abide by the Political Reform Act, which would prohibit Plan participants, such as the CIO and other members of the CIO's staff, from making, participating in making, or influencing decisions that would affect whether they participate in the Plan, the objectives that will govern whether they earn awards under the Plan, and the amount of awards paid to them under the Plan. The Office of General Counsel will be consulted if there are any questions about the application of the Political Reform Act in this context. The Chief ~~Audit and~~ Compliance <u>and Audit</u> Officer will assure that periodic auditing and monitoring will occur, as appropriate.

IV. Plan Approval

The Plan will be subject to an annual review conducted by the AOC to address design issues and market alignment. ~~Once approved by the Regents, the~~The Plan will be implemented each year upon the approval of the AOC if no changes to the Plan are being recommended. If the AOC recommends any substantive or material changes to the Plan, including, but not limited to, changing the award opportunity levels, the AOC will obtain the approval of the President and the Regents' ~~Committees~~Committee on Governance and Compensation and consult with the Chair of the Regents' Investments Subcommittee before implementing such changes. Reasonable efforts, given all circumstances, will be made to delay implementing substantive or material Plan changes until after the current Plan year has ended. However, if changes are implemented during the Plan year that would affect the award calculations, changes will only be applied prospectively to the remaining portion of the Plan year. Moreover, no changes will affect awards earned by Plan participants for performance in prior Plan years. Plan changes recommended by the AOC that are not material or substantive, or are deemed to be technical corrections, may be approved by the AOC after consultation with the President and ~~the Chairs of the Regents' Committees on Compensation and Investments and~~ will then be implemented by the AOC at an appropriate time. The Regents will receive reports of all substantive or material changes to the Plan.

V. Plan ~~Eligibility~~ Administration

The Plan will be administered by the Executive Director – Compensation Programs and Strategy, consistent with the provisions of this Plan approved by the President and the Regents. The Plan features and provisions outlined in this document shall supersede any other Plan summary. Except as set forth below, all award amounts will be reviewed by and require the approval of the AOC. In the unlikely event that the AOC proposes an award that is not consistent with the terms of this Plan document, approval by the President and Regents will be required. The AOC will consult the Chief Compliance and Audit Officer in an independent advisory capacity during its review of proposed awards. Any incentive award for the CIO or any other participant who is a direct report to the Regents and/or the President will require the approval of the Regents in addition to the AOC.

VI. Eligibility to Participate

Eligible participants for the Plan include senior management, professional investment and trading staff and other key positions in the Office of the CIO, as recommended by the CIO and subject to approval by the AOC. Eligibility is reviewed annually by the CIO and is subject to approval by the AOC, prior to the beginning of the Plan year. ~~A participant who has been found to have violated state or federal law or to have committed a serious violation of University policy will not be eligible for an award under the Plan.~~

A participant who has been found to have committed a serious violation of state or federal law or a serious violation of University policy at any time prior to distribution of an award will not be eligible for such awards under the Plan for that Plan year and/or performance period. If such allegations against a participant are pending investigation at the time of the award distribution, the participant's award(s) may be withheld pending the outcome of the investigation. If the participant's violation is discovered later, the participant may be required to repay awards for the Plan years and/or performance periods in which the violation occurred.

Participants in the Plan ~~are~~may not ~~eligible to receive an award under~~participate in any other ~~University of California~~ incentive ~~program~~or recognition plan during the plan year, except in the event of a mid-year transfer within the University. Specifically, if a Plan participant is eligible for only a partial year award under this Plan because a mid-year transfer of position renders him or her eligible for Plan participation for only a portion of the Plan year, he or she may participate in a different University plan for the other portion of the Plan year. Concurrent participation in this Plan and another University plan is not permitted.

Prior to the beginning of the Plan year, the AOC will provide the President and the ~~Chairs~~Chair of the Regents' ~~Committees~~Committee on Governance and Compensation ~~and Investments~~ with a list of Plan participants for that Plan year, including appropriate detail regarding each Plan participant.

Plan participation in any one year does not provide any right or guarantee of eligibility or participation in any subsequent year of the Plan.

~~Continuing participants~~Participants must be active full-time employees of the University ~~of California~~ in the Office of the CIO at the ~~end~~conclusion of the Plan year (i.e., as of midnight on June ~~30~~30th) to be eligible to receive an award for that Plan year~~.~~ , unless the circumstances of their separation from the University entitle them to a full or partial award as set forth in the Separation from the University provision below in Section ~~VIII~~XIII.

Eligible employees who are appointed after the start of the Plan year must have an employment start date no later than January 15, to be eligible to receive an award for that Plan year. Newly hired participants will be eligible to receive a prorated award in ~~the~~their first partial year ~~based on the actual salary received during the Plan year.~~ .

Participants who were not working for a significant portion of the Plan year may receive a ~~prorated~~partial award~~.~~, if they are active full-time employees in the OCIO at the end of the Plan year. For the purpose of this Plan, leave of absence status will be determined by applicable University policies governing such leaves.

~~Termination Provisions~~

~~Participants must remain actively employed by the University of California at the end of each Plan year in order to receive previously deferred payments of a determined award. Participants who voluntarily separate or who are involuntarily terminated for cause from employment with the University of California will forfeit any previously deferred award amount and any associated interest that has not yet been paid as of the date of separation from University employment.~~

~~Participants who retire, become totally disabled, or involuntarily separate (due to reorganization or restructuring) are eligible to receive a prorated incentive award for the current Plan year and a lump sum payment for the deferred portion(s) of approved awards from prior years that have not yet been paid (as explained in the Payout Determination provision below) and associated interest, based on the date of separation of employment from the University. For the purpose of this Plan retirement and total disability status will be determined by applicable University policies. Lump sum payments as described above will be issued as soon as practicable following the date of separation. In order to determine the most accurate award for the current Plan year, prorated payments will be calculated at the end of the Plan year and issued in accordance with the normal processing schedule.~~

~~Involuntary separation for any other reason will be handled on a case by case basis.~~

~~Participants whose employment terminates as a result of death are similarly eligible to receive a prorated incentive award for the current Plan year and a lump sum payment for the deferred portion(s) of approved awards from prior years that have not yet been paid (as explained in the Payout Determination provision below) and associated interest, based on the date of death. In this situation, lump sum award payments will be made to the estate of the deceased participant as soon as practicable following the date of death. In order to determine the most accurate award for the current Plan year, prorated payments will be calculated at the end of the Plan year and issued to the estate of the deceased participant in accordance with the normal processing schedule.~~

VII. Performance Standards

Each performance objective will include standards of performance defined as follows:

- Threshold Performance: This level represents satisfactory results, but less than full achievement of performance objectives.
- Target Performance: This level represents full achievement of all performance expectations.
- Maximum Performance: This level represents results that clearly exceed expectations.

VIII. Incentive Award Opportunity Levels

Plan participants are assigned award levels that serve to motivate individual, group and total entity performance as part of a competitive total cash compensation package. Participants are eligible to receive an incentive award, expressed as a percentage of their base salary~~, which~~ that corresponds to predetermined target levels of performance. Actual incentive award levels may be greater or less than the target opportunity level, depending on performance relative to policy portfolio benchmarks and individual contribution. Award opportunity levels by position are as follows:

Position	Threshold Opportunity (as % of Salary)	Target Opportunity (as % of Salary)	Maximum Opportunity (as % of -Salary)
Chief Investment Officer (CIO)	50%	100%	165%
Senior Managing ~~Director & Associate CIO~~Directors & Chief Operating Officer	30%	60%	120%
Managing Directors	~~22.5~~25%	~~45~~50%	~~90~~100%
~~Managing Director, Director, & Sr. Portfolio Manager~~Investment and Risk Directors	22.5%	45%	90%
Investment ~~Officer~~Officers	17.5%	35%	70%
Sr. Investment Analysts ~~& Jr. Portfolio Manager~~	10%	20%	40%
Other Participants, including Operations Managers/Directors	10%	20%	~~25~~~~40~~25%

IX. Performance Objectives

~~Below are the four~~The three Performance Objective categories ~~for~~of the Plan are:

1. Quantitative Entity Performance (e.g., total investment portfolio performance)

2. Quantitative Asset Class ~~Performance (e.g., US equity, international equity, private equity, bonds & STIP)~~or
~~3.~~ Sector/Functional Group Performance ~~(e.g., government, credit, etc.)~~, if applicable
3.~~4.~~ Individual/Qualitative ~~Performance~~performance

The quantitative investment performance objectives will be reviewed and approved by the AOC in consultation with the CIO, the President, and Chairs of the Regents' Committee~~s~~ on Governance and Compensation, and ~~Investment~~Investments Subcommittee, and an independent investment consultant prior to the beginning of the Plan year.

Performance objectives for each Plan participant must include ~~both~~ the Entity Performance, the Asset Class/Sector Performance (where applicable), and the Individual/Qualitative Performance ~~categories listed below. Asset Class Performance and Sector/Functional Group~~

Individual/Qualitative Performance objectives ~~are incorporated for participants as appropriate.~~ may be established in, but are not limited to, the following areas:

- Leadership
- Implementation of operational goals
- Management of key strategic projects
- Effective utilization of human and financial resources

Individual/Qualitative performance objectives for each Plan participant other than the CIO will be defined by his/her supervisor. These objectives will be subject to endorsement by the CIO and approval by the AOC prior to the beginning of the Plan year. The individual performance objectives of the CIO will be defined annually by the President, who may consult with the Chair of the Regents' Investments Subcommittee, prior to the beginning of the Plan year or as soon as possible thereafter. The AOC will consult the Chief Audit and Compliance Officer in an independent advisory capacity during its review of Plan participants' objectives.

Prior to the beginning of the Plan year or as soon as possible thereafter, the~~The~~ supervisor of each Plan participant will provide him/her with ~~an annual Terms and Conditions document~~written documentation that (a) identifies the participant's individual performance objectives applicable to the Plan, (b) defines the performance standards and metrics that will be used to measure threshold, target, and maximum performance for each investment objective, and (c) assigns performance weightings to the participant's objectives.

~~Performance Standards~~

~~Each investment performance objective will include standards of performance defined as follows:~~

- ~~Threshold Performance: This level represents satisfactory results, but less than full achievement of performance objectives.~~
- ~~Target Performance: This level represents full achievement of all performance expectations.~~
- ~~Maximum Performance: This level represents results which clearly exceed expectations.~~

~~Individual/Qualitative performance objectives for each Plan participant other than the CIO will be defined by his/her supervisor. These objectives will be subject to endorsement by the CIO and approval by the AOC in consultation with the President and Chairs of the Regents' Committees on Compensation and Investments prior to the beginning of the Plan year. The individual performance objectives of the CIO will be approved annually by the President and~~

~~Chairs of the Regents' Committees on Compensation and Investments, in consultation with the AOC, prior to the beginning of the Plan year. The AOC will consult the Chief Audit and Compliance Officer in an independent advisory capacity during its review of Plan participants' objectives.~~

~~Individual/Qualitative Performance objectives may be established in, but not limited to, the following areas:~~

- ~~Leadership~~
- ~~Implementation of operational goals~~
- ~~Management of key strategic projects~~
- ~~Effective utilization of human and financial resources~~

X. Performance Measures and Weightings

~~A~~For Plan participants other than the CIO, the participant's performance against assigned ~~qualitative~~ Individual/Qualitative goals will be assessed by the ~~CIO in consultation with the~~ participant's supervisor~~, if the immediate supervisor is not the CIO.~~ and require the approval of the CIO. The CIO's performance against assigned Individual/Qualitative objectives will be assessed by the President, who ~~may~~ will consult with the Chair of the Regents' Investments Subcommittee.

~~Investment~~Quantitative investment performance of both the University portfolios and the market indexes for performance objectives is measured using a three-year rolling average. This method provides for longer term focus on and accountability for sustainable performance results. Investment returns in a given year, whether positive or negative, affect the average, and thus the payout, over three separate Plan years. The lowest value of any award in a given year will be zero.

~~Individual awards~~If the Entity, Asset Class or Sector/Functional Group experience negative three-year rolling average returns (or other, applicable performance measurement periods, as described in Section XI, below) in any year, regardless of relative performance against benchmarks, that year's award for that component (Entity, Asset Class or Sector/Functional Group) will be zero. In those years where a component has negative three-year rolling average returns and nil awards, a participant may nevertheless earn awards tied to the other components where performance is positive, as well as for Individual/Qualitative performance. Negative performance in the current year will have no adverse impact on the deferred portions of prior-year awards.

Awards are determined based on achievement of performance objectives relative to policy portfolio benchmarks and individual contribution, and in accordance with the payout curve established for each performance objective. Performance measures for participants in their ~~third~~first full Plan year or later are weighted as displayed in the table below.

Position	Weighting for Entity Performance Objectives	~~Weighting for~~ Asset Class ~~and~~/ Sector/~~Functional Group~~ Performance Objectives, if applicable	Weighting for Individual/ Qualitative Performance Objectives
Chief Investment Officer	~~80~~75%	0%	~~20~~25%
~~Associate CIO~~	~~65%~~	~~15%~~	~~20%~~
Senior Managing ~~Director~~Directors (Risk Mgmt	~~80~~75%		~~20~~25%

and Chief Operating Officer)		0%	
Senior Managing ~~Director~~Directors (Asset Class)	~~40~~50%	~~50~~25%	~~10~~25%
Managing ~~Director~~Directors (Asset Class)	~~40~~50%	~~50~~25%	~~10~~25%
~~Director~~Directors (Asset Class)	~~30~~50%	~~60~~25%	~~10~~25%
~~Senior Portfolio Manager~~	~~30%~~	~~60%~~	~~10%~~
Investment ~~Officer,~~Officers Asset Class	~~20~~50%	~~70~~25%	~~10~~25%
Investment ~~Officer~~Officers, Risk Management	~~70~~75%	0%	~~30~~25%
Managing Directors and Directors, Risk ~~Management Analyst~~	~~70~~75%	0%	~~30~~25%
~~Jr. Portfolio Manager; Jr. / Sr. Analyst~~Sr. Investment Analysts	~~10~~75%	~~70~~0%	~~20~~25%
Other Participants, including Operations Managers	~~20~~75%	0%	~~80~~25%

XI. Transitional Weightings for New Hires

In recognition of a participant's limited ability to affect attainment of ~~goals in the Plan~~objectives during the first two years of service, the following adjustments are made in the Weighting table for participants in their first three Plan years, as reflected in the following table.

Time Period	Weighting for Quantitative Performance Objectives (Entity, Asset Class, Sector/Functional Group)	Weighting for Individual/Qualitative Performance Objectives
First *partial* year	~~20~~50% / 1 year performance	~~80~~50%
Year 1 (first full year)	~~30~~75% / 1 year performance*	~~70~~25%
Year 2 (second full year)	~~50~~75% / 2 ~~years~~years' performance*	~~50~~25%
Year 3 (third full year)	Standard participation as provide by level under the Plan	

* or including weighting for asset class/sector performance, as provided in the chart in Section X.

~~For the new employee, the relevant investment returns achieved during the transition period (up to 18 months) may be excluded from the three year rolling average.~~

In special cases, such as for a new participant charged with the restructuring of an entire asset class or strategy, the above weights may be modified at the recommendation of the CIO, subject to approval by the AOC. In such a case, the participant will be required to meet specific objectives ~~which~~that contribute to long-term performance.

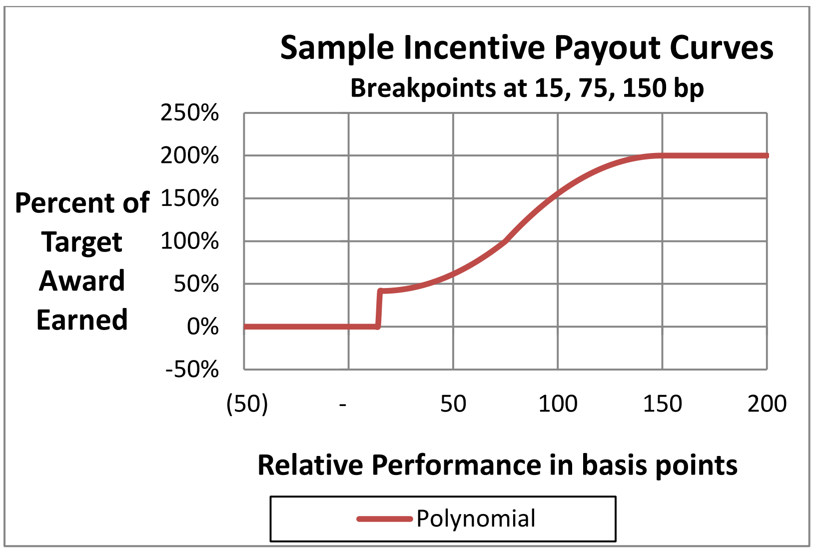
The phase-in of new asset classes will be handled in a similar way, that is, performance for the first year of a new asset class will be based on a single year's return; performance for the second year of the class will be based on the first two years' returns. See the Administrative Guidelines for more details of specific circumstances.

XII. Award~~Payout~~ Determination and Processing

Annual incentive awards will be payable in cash, subject to appropriate taxes and pursuant to normal University payroll procedures. The participant's total salary (~~including~~which includes base salary~~,~~ and any stipends, ~~vacation pay, and sick pay,~~ but ~~excluding~~does not include any prior year incentive award payouts ~~and~~or disability pay) paid as of the end of the Plan year (i.e., as of midnight on June 30) will be used in the calculation of the award ~~payout~~amount. The current position held by the participant at the end of the Plan year or the applicable performance period will determine the award opportunity level in the calculation. For ~~participants at or~~Investment Officers and above, the ~~Investment Officer level (as reflected in the charts above), awards are~~award will be payable in three annual payments comprised of 50 percent paid ~~in~~after the conclusion of the current Plan year, 25 percent paid ~~in~~when awards are paid for the next Plan year and 25 percent paid ~~in~~when awards are paid for the Plan year ~~thereafter. Award payments will be made as soon as practicable following the end of the Plan year.~~ after that. For participants below the Investment Officer level (as reflected in the charts above), awards are payable in one lump sum; there is no deferral of any portion of their awards.

The deferred portion of ~~the award earns~~awards earn interest based on the Short-Term Investment Pool (STIP) rate of return~~.~~ during the period of deferral. Payments of the deferred portions of awards for prior Plan years are generally issued during the fall of each year when the non-deferred portion of awards are paid for the recently concluded Plan year. Accrued awards for participants on approved leave of absence will be paid according to the normal schedule. ~~Awards for participants below the Investment Officer level (as reflected in the charts above) are payable in one lump sum; there is no deferral of any portion of their awards.~~

A polynomial payout curve is used to determine actual ~~award payouts~~awards for performance levels between threshold and maximum and relative to Entity, Asset Class, and Sector/Functional Group quantitative performance objectives. The chart below shows an example of the polynomial payout curve~~ for the US Equity asset class~~. In this example, the Threshold is 15 bp, the Target is 75 bp, and the Maximum is 150 bp.



The primary advantage of the polynomial curve is that it supports ~~the achievement of consistent and sustained~~higher proportional awards for better performance ~~over the longer term by~~thereby encouraging participants to achieve target level or higher performance.

XIII. Separation from the University

The table below indicates whether a participant who separates from the University will be eligible to receive partial awards and/or payout of deferred portions of the awards for prior Plan years and also specifies when forfeiture of such awards will occur. Payment of deferred portions of prior Plan year awards will be paid with interest, as described in Section XII. Retirement will be determined based upon applicable University policies. In order to determine the most accurate award for the current Plan year, partial payments will be calculated at the end of the Plan year and issued in accordance with the normal process and schedule. The table, below, provides an example of how separations will be handled.

Reason for Separation	Separation During Plan Year (i.e., on or before June 30, 2017)	Separation on or after July 1, 2017
Voluntary Separation for any reason other than retirement	• Forfeiture of award for 2016-2017 Plan year. • Forfeiture of deferred portions of awards from 2015-2016 and 2014-2015 Plan years.	• Payout of 50% of award for 2016-2017 Plan year; forfeiture of remainder. • Payout of half of deferred portion of award for 2015-2016 Plan year; forfeiture of remainder. • Payout of remaining portion of deferred award for 2014-2015 Plan year.
• Retirement • Medical separation due to disability • Death* • Involuntary Separation due to reorganization or restructuring	• Partial award for 2016-2017 Plan year. • Payout of all deferred portions of awards from 2015-2016 and 2014-2015 Plan years.	• Award for 2016-2017. • Payout of all deferred portions of awards from 2015-2016 and 2014-2015 Plan years.
Involuntary termination due to misconduct or inadequate performance	• Forfeiture of award for 2016-2017 Plan year. • Forfeiture of deferred portions of awards from 2015-2016 and 2014-2015 Plan years.	• Forfeiture of award for 2016-2017 Plan year. • Forfeiture of deferred portions of awards from 2015-2016 and 2014-2015 Plan years.

* In such cases, payments will be made to the estate of the participant.

XIV. Extraordinary Market Environments

In periods of unusual market and economic stress, when the entity experiences negative investment returns, regardless of the entity's relative performance against benchmarks, the portion of the current Plan year awards that would normally be paid at the end of the current Plan year may be deferred. If this deferral mechanism is invoked, awards will be reviewed and approved in the usual manner. But, in conjunction with that review and approval process, deferral will be recommended by the AOC and then approved by the President and the Chairs of the Regents' Committee~~s~~ on Governance and Compensation and Investments Subcommittee. In such a case, the portion of the current Plan year awards that have been deferred will earn interest ~~at~~based on the STIP rate of return ~~actual quantitative performance of the entity~~ during the period of deferral, as defined in Section XII, above. The portion of the current Plan year awards that have been deferred will be processed and distributed as soon as possible. However, in no event will they be deferred longer than one year.

~~Plan Administration~~

~~The Plan will be administered by the Executive Director – Compensation Programs and Strategy consistent with the specific design parameters approved by the President and the Regents. The Plan features and provisions outlined in this document shall supersede any other Plan summary. Except as set forth below, all award amounts will be reviewed by and require the approval of the AOC in consultation with the President and Chairs of the Regents' Committees on Compensation and Investments. The AOC will consult the Chief Audit and Compliance Officer in an independent advisory capacity during its review of proposed awards. Evaluation of the CIO will be conducted by the Chair of the Regents' Committee on Compensation with input from the President and the Chair of the Regents' Committee on Investments. Any incentive award for the CIO, the Assistant Treasurer, or any other Plan participant who holds one of the executive offices identified in section 92032(b)(7)(B)(i) of the California Education Code will require the approval of the Board in addition to the AOC.~~

XV. Award Approval Process

The AOC must convene to review all recommended awards within ~~60 days~~a reasonable time after the close of the ~~fiscal~~Plan year~~-end. ~~. The AOC will provide the President and the Chair of the Regents' Committee on Governance and Compensation with a listing of award recommendations before awards are scheduled to be paid. Payouts to individuals of approved awards ~~must be made within 90 days of the fiscal year-end~~will be processed as soon as possible unless the provision in Section XIV above regarding Extraordinary Market Environments applies.

~~Award amounts for Plan participants in the Senior Management Group will be reported annually to the Regents by~~On behalf of the AOC, the Executive Director – Compensation Programs and Strategy~~.~~ will provide the President and the Regents with the award details in the Annual report on Executive Compensation. The ~~reports~~AREC will ~~contain appropriate levels of detail, such as the range of~~also report awards ~~and the percentage and amount of the award granted for each Plan participant.~~ paid to non-SMGs whose compensation falls within the AREC's reporting criteria.

This Plan may be terminated or replaced at any time for any reason upon the recommendation of the President, in consultation with the Chairs of the Regents' ~~Committees~~Committee on Governance and Compensation and the Investments Subcommittee, and with the approval of the Regents. Reasonable efforts, given all circumstances, will be made to delay Plan termination until after the current Plan year has concluded. However, if the Plan is terminated during the Plan year, prorated awards for the current year will still be processed based on participants' performance during the portion of the Plan year prior to termination. Moreover, such termination will not affect awards earned by Plan participants for performance in prior Plan years.

The University may require repayment of an award that that was made as a result of inappropriate circumstances. For example, if there is an inadvertent overpayment, the participant will be required to repay the overage. If the participant has not made the repayment before the award or the employee for a subsequent year is approved, the outstanding amount may be deducted from the employee's subsequent award.

~~Private Equity~~

~~This asset class is not marked to market and its performance is meaningfully measured only over a long period using Internal Rates of Return (IRRs), not the time-weighted returns of marketable assets. Thus, special procedures have been implemented to fairly measure its performance and award those responsible for managing the assets. See the Administrative Guidelines for these detailed procedures.~~