The Regents of the University of California

INVESTMENTS SUBCOMMITTEE
October 26, 2016

The Investments Subcommittee met on the above date by teleconference at the following locations: Luskin Conference Center, Los Angeles campus; 1111 Broadway, 21st Floor, Oakland; 1130 K Street, Suite 340, Sacramento.

Members present: Representing the Investments Subcommittee: Regents Elliott, Gould, and Sherman; Ex officio member Makarechian; Chancellor Block; Regent-designate Lemus

Representing the Investment Advisory Group: Members Crane and Samuels, Consultants Klosterman and Lehmann

In attendance: Secretary and Chief of Staff Shaw, Chief Investment Officer Bachher, Senior Counsel Shanle, and Recording Secretary McCarthy

The meeting convened at 1:00 p.m. with Subcommittee Chair Sherman presiding.

1. PUBLIC COMMENT

Subcommittee Chair Sherman explained that the public comment period permitted members of the public an opportunity to address University-related matters. The following persons addressed the Subcommittee concerning the items noted.

A. Ms. Jackie Horton, UCLA alumna, school teacher, and parent of a high school senior, urged the Regents to reinstate the personal and religious belief exemptions from UC’s vaccination policy set to take effect in 2017. She expressed her concerns that a medical exemption was very difficult to obtain, and that teachers and school administrators could subsequently also be required to be vaccinated. Ms. Horton said she represented 230,000 Californians who signed petitions in opposition to Senate Bill (SB) 277, which required vaccinations of California K-12 public school students, and which allowed no religious or personal belief exemptions. She asserted that students must retain the right to make their own health decisions in consultation with their doctors, since vaccinations are not safe for everyone.

B. Ms. Colleen Knorring, UCLA student, said that students are opposed to UC’s vaccination policy set to take effect in 2017. She stated that she has a disability as a result of a vaccine. Treatment of her condition is not covered by insurance and is very expensive. She expressed her view that staff at the UCLA Arthur Ashe Student Health and Wellness Center were not well-informed about the risks of vaccinations. Students should not have to choose between their health and an education.
C. Ms. Deborah Fairchild, Los Angeles resident and parent of a high school student, encouraged the Regents to repeal the immunization policy set to take effect in 2017, which does not allow for personal or religious exemptions. Students should be able to make their own medical decisions. She urged the Regents to allow personal and religious exemptions to the vaccination policy.

2. APPROVAL OF MINUTES OF PREVIOUS MEETING

Upon motion duly made and seconded, the minutes of the meeting of the Committee on Investments of September 9, 2016 were approved, Regents Elliott, Gould, Makarechian, and Sherman voting “aye.”¹

3. AMENDMENT OF REGENTS POLICY 6101: INVESTMENT POLICY STATEMENT FOR UNIVERSITY OF CALIFORNIA RETIREMENT PLAN; REGENTS POLICY 6102: INVESTMENT POLICY STATEMENT FOR GENERAL ENDOWMENT POOL; AND REGENTS POLICY 6109: SHORT TERM INVESTMENT POOL INVESTMENT GUIDELINES

The Chief Investment Officer, in consultation with Mercer Investment Consulting, Inc., recommended that the Investments Subcommittee recommend that Regents Policy 6101: Investment Policy Statement for University of California Retirement Plan (UCRP) be amended as shown in Attachment 1; Regents Policy 6102: Investment Policy Statement for General Endowment Pool be amended as shown in Attachment 2; and Regents Policy 6109: Short Term Investment Pool Investment Guidelines be amended as shown in Attachment 3.

[Background material was provided to the Subcommittee 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 introduced Investment Officer Susie Ardeshir to explain the proposed changes to the Short Term Investment Pool (STIP) Investment Guidelines. Ms. Ardeshir noted that three investment policies would be amended. The STIP Investment Guidelines would be amended to become a stand-alone policy, and would be removed from the appendices of the Investment Policy Statements for the UCRP and the General Endowment Pool (GEP). The primary proposed changes to the STIP Investment Guidelines would update the risk objective from a tracking error target to capital preservation and the avoidance of negative returns, more appropriate for a money market-type vehicle. A duration target of less than three years would be added to the diversification and concentration section to help measure the portfolio’s interest rate sensitivity. Internal notes receivable, such as borrowing from STIP to fund UCRP, would be excluded. The restriction on investing in mutual funds would be removed from the Restrictions section.

¹ Roll call vote required by the Bagley-Keene Open Meeting Act [Government Code §11123(b)(1)(D)] for all meetings held by teleconference.
Subcommittee Chair Sherman asked if STIP investment was limited to government funds. Ms. Ardeshir said that limitation was not explicit, but in practice STIP was invested primarily in Treasury and government bonds.

Regent Makarechian asked if there were any ratings restrictions on STIP’s investing in foreign corporate bonds, notes, and debentures. Ms. Ardeshir responded that, while foreign corporate bonds, notes, and debentures were permitted investments, STIP did not currently hold any foreign investments and had not historically; all STIP investments were dollar-denominated. Regent Makarechian suggested that a ratings restriction should be added to this type of investment.

Subcommittee Chair Sherman noted that the STIP Investment Policy Statement required that no more than five percent of the Program’s investments be below investment grade.

Regent Gould noted that the STIP benchmark was floating, and thus would be in alignment with the view of the Office of the CIO as to the direction of the market. Ms. Ardeshir said the benchmark was a weighted average, reflecting the structure of the portfolio. Roughly 35 percent of the STIP portfolio was a short-term liquidity component, used to fund day-to-day University operations. The balance of the STIP portfolio was invested in longer-term holdings with some credit risk. Hence, the benchmark was a similarly weighted average of the income return on two-year U.S. Treasury notes and the return on U.S. 30-day Treasury Bills. As interest rates have declined, the two-year Treasury income return had become minimal. Ms. Ardeshir stated that the Office of the CIO was evaluating the benchmarks for all of its products.

Mr. Bachher commented that his office manages the STIP portfolio in accord with the interests of the campuses and the University. Regent Gould suggested that, for assessing the relative performance, the STIP benchmark should not be floating. Mr. Bachher stated that his office could reconsider the benchmark and bring this item to the Subcommittee for action at a future meeting.

Investment Advisory Group consultant Klosterman expressed his view that it would be possible for STIP to have a negative return for a one-year period. If the portfolio duration is three years, then the risk objective should be to avoid negative returns over a three-year period. If interest rates were to rise sharply, the STIP portfolio could have a loss.

Investment Advisory Group consultant Lehmann asked how the STIP portfolio would evolve over the upcoming few years. Mr. Bachher observed that the current $5 billion liquidity requirements of UC’s ratings agencies play a key role in the design of the STIP portfolio.

Subcommittee Chair Sherman stated that there would be no vote on this item so that the suggestions of the Subcommittee could be considered by the Office of the CIO.
4. UPDATE ON INVESTMENT PRODUCTS

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

Chief Investment Officer (CIO) Bachher stated that his office was in the process of receiving investment results as of September 30. Generally, for the three months from June 30 to September 30, 2016, the General Endowment Pool (GEP) returned close to 4.5 percent and the UC Retirement Plan (UCRP) returned about four percent. He recalled that, for the fiscal year ending June 30, 2016, the GEP lost 3.4 percent. In the past three months, there had been a robust market rebound, driven primarily by rising public equity markets. The Total Return Investment Pool (TRIP) returned roughly 2.4 percent for the three months ending September 30, compared with 0.3 percent for the fiscal year ending June 30, 2016. The Short Term Investment Pool (STIP) returned 0.28 percent for the past three months. All products outperformed their benchmarks: the GEP by 70 basis points (bps), the UCRP by 25 bps, TRIP by 0.02 percent, and STIP by 17 bps.

Public equity holdings in TRIP have been transitioned to 100 percent passive management. Since he assumed his position as CIO two-and-a-half years prior, Mr. Bachher and his team have rebalanced all products to align with the objectives of their clients. The portfolio construction of each product is individualized. The majority of the rebalancings occurred on April 1, 2016. As a result, future performance of the individual products would be more differentiated. Mr. Bachher emphasized that he would focus on long-term returns; short-term results were affected by a range of geopolitical and market risks.

Subcommittee Chair Sherman asked about the net inflow to all products in the quarter ending September 30. Mr. Bachher stated that total assets have grown to slightly less than $102 billion. Net cash inflow to the GEP was $150 million from a new Fund Functioning as an Endowment, and the GEP held $9.4 billion as of September 30, up from $9.1 billion as of June 30, 2016. Investment Officer Susie Ardeshir added that UCRP paid out $100 million in July for lump sum pension payments; ongoing payments total roughly $60 million per month. The State contributed $463 million to UCRP for 2016-17, at a rate of about $50 million per month. UCRP had additional funding of roughly $171 million from the State in September. Regent Makarechian asked that these net inflow and outflow amounts be provided to the Subcommittee. Mr. Bachher summarized that overall the net inflows were $1.2 billion over the past fiscal year.

Investment Advisory Group member Samuels asked about the timing of reporting investment results to the public and how to respond to stakeholders’ questions about investment underperformance in the last fiscal year. Mr. Bachher responded that questions about underperformance were legitimate. He noted that his office reported GEP investment returns earlier than Ivy League endowments. The University is obligated to report investment results in its financial statements to the State. Investment Advisory Group consultant Lehmann pointed out that the asset allocations of private university endowments generally contain more private assets than UC’s. Mr. Samuels asked if the
investment results could be more effectively communicated to the media and to UC stakeholders. Mr. Bachher stated that timing of reporting does not alter the investment returns. On a one-year basis, UC underperformed. Investment Advisory Group consultant Klosterman added that performance should be evaluated in relationship to the amount of risk in the portfolio. Subcommittee Chair Sherman agreed that it might be beneficial for the Office of the CIO to issue press releases highlighting investment returns and some analysis. Mr. Bachher commented that such releases could also include risk statistics and historical returns.

The meeting adjourned at 1:45 p.m.

Attest:

Secretary and Chief of Staff
UNIVERSITY OF CALIFORNIA
RETIREMENT PLAN

INVESTMENT POLICY STATEMENT

Approved May 12, 2016
Replaces version approved March 14, 2013
May 12, 2016
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SHORT TERM INVESTMENT POOL (STIP)
INVESTMENT GUIDELINES

The purpose for these performance objectives ("Objectives") and management guidelines
(Guidelines") is to clearly state the investment approach, define performance objectives and to
control risk in the management of the University's Short Term Investment Pool, or STIP
("Program"). These Objectives and Guidelines shall be subject to ongoing review by the
Committee. Capital market conditions, changes in the investment industry, new financial
instruments, or a change in the Committee's risk tolerance, are among factors to be considered in
determining whether the Guidelines shall be revised.

1. Investment Policy

a. Background

The STIP is a cash investment pool established by The Regents and is available to all
University groups, including retirement and endowment funds. The STIP allows fund
participants to maximize income on their short-term cash balances by taking advantage of the
economies of scale of investing in a larger pool and investing in a broader range of maturities.

b. Investment Objective

The Objective of the Program is to maximize returns consistent with safety of principal,
liquidity, and cash flow requirements. The primary investment objective is to generate income
from investments in short duration U.S. dollar-denominated bonds and cash equivalents.
Because the liquidity needs of the University are subject to large and uncertain changes, the fund
may materially increase its investments in highly liquid, cash equivalent securities from time to
time.

Accordingly, the Benchmark will be a weighted average of the income return on a
constant maturity two (2) year Treasury note and the return on U.S. 30 day Treasury Bills. The
weights for the two constituents will be the actual average weights of the bond and cash
equivalent components of the pool. The Benchmark will be re-balanced monthly.

c. Investment Strategy

The Program shall be implemented by the Chief Investment Officer internal fixed income
staff ("Manager"). The Chief Investment Officer will monitor the Program's adherence to these
Guidelines.
d. Performance Objectives

The performance objective of the Program is to meet or exceed the return of the Benchmark, on a consistent basis over time, net of all costs and fees.

e. Risk Objective

The Program shall be managed so that its annualized tracking error budget shall be 75 basis points.

f. Other Constraints and Considerations

- Managers shall comply with applicable State and Federal laws and regulations and the prudence requirement described in section 3(a) of the Policy.
- Manager shall act solely in the interest of the Fund’s owners.
- Implementation of this Program shall comply with the Fund’s Policy.

2. Investment Guidelines

a. Asset Allocation

The portfolio will be invested primarily in marketable, publicly traded, investment-grade short-term fixed income instruments, notes and debentures denominated in U.S. dollars.

b. Types of Securities

The Program will be invested in a diversified portfolio of fixed income securities, subject to restrictions noted below in section 2c. and 2d.

The following list is indicative of the investment classes which are appropriate for the Program, given its Benchmark and risk budget. It should not be construed to be an exhaustive list of “allowable” asset types. Security types and/or strategies not specifically enumerated, but which the Chief Investment Officer and Regents’ Investment Consultant believe are appropriate and consistent with the Investment Policy may also be held, subject to the restrictions in 2c. and 2d. below.

(1) Fixed income instruments

i. Obligations issued or guaranteed by the U.S. Federal Government, U.S. Federal Agencies or U.S. government-sponsored corporations and agencies

ii. Obligations of U.S. and foreign corporations such as corporate bonds, notes and debentures, and bank loans

iii. Mortgage-backed and asset-backed securities

iv. Obligations of international agencies, supranational entities, and foreign governments (or their subdivisions or agencies)

v. Obligations issued or guaranteed by U.S. local, city and state governments
UNIVERSITY OF CALIFORNIA RETIREMENT PLAN  
INVESTMENT POLICY STATEMENT  

vi. Private Placements or Rule 144A securities, issued with or without registration rights  

(2) Short term fixed income instruments (having maturity of less than 13 months)  
i. U.S. Treasury and Agency bills and notes  
ii. Certificates of deposit  
iii. Bankers acceptances  
iv. Commercial paper  
v. Repurchase and reverse repurchase agreements (must be fully collateralized with approved collateral, using approved counterparties only)  
vi. Eurodollar CDs, TDs, and commercial paper  
vii. U.S. and Eurodollar floating rate notes  
viii. Money market funds managed by the custodian  

c. Restrictions  

The following security types are not permitted:  
• Interest rate derivative contracts, including options and futures  
• Equity-like securities, including but not limited to convertible bonds, preferred stocks, warrants, equity linked notes, and commodities  
• Bonds issued in currencies other than U.S. Dollar  
• Foreign currency-linked notes  

The Manager may not:  
• Purchase securities of tobacco related companies, as per the Policy, Appendix 7b.  
• Invest in mutual funds or group trusts unless specifically allowed in its guidelines  
• Buy securities on margin  
• Sell securities short  
• Buy party in interest securities  
• Buy securities restricted as to sale or transfer, except for 144A securities, which are permitted  
• Employ economic leverage in the portfolio through borrowing or derivatives, or engage in derivative strategies that conflict with the Derivatives Policy  
• Purchase or sell foreign exchange contracts  

d. Diversification and Concentration  

The Program’s investments will be appropriately diversified to control overall risk. The following limitations apply in order to manage risk within acceptable ranges:  
• Interest rate risk  
  • No security may have a maturity of more than 5½ years.  
• Credit risk
No more than 5% of the Program’s investments, measured by market value, should be below “investment grade”, i.e. rated lower than the following standards or their equivalent by all major NRSROs.

- Standard & Poor’s and Fitch (BBB−)
- Moody’s (Baa3)

Commercial Paper must have a rating of at least A−1, P−1, D−1, or F−1.

The Program’s investments should exhibit an average credit quality of A (or equivalent) or better. Split-rated credits are considered to have the higher credit rating as long as the higher rating is given by one of the NRSROs.

No more than 5% of the Program’s allocation to commercial paper may be invested in any single issuer. This guideline may be exceeded on a temporary basis due to unusual cash flows, up to a limit of 10%, for a period not to exceed one month.

Except for securities issued by the U.S. Treasury or Agencies of the U.S. Government, no more than 3% of the Program’s market value (exclusive of commercial paper) may be invested in any single issuer.

- Liquidity risk

No more than 10% of the Program’s market value may be invested in Private Placements or Rule 144A securities.

The Program’s investments in aggregate of any security may not exceed 20% of that security’s outstanding par value, without a written exception approved by the Chief Investment Officer.

Subject to the limitations above, the investment manager has complete discretion with regard to choosing sector weights, issuers, and maturities.

e. Managers shall employ best execution.

Transactions shall be directed to brokers/dealers designated by the Chief Investment Officer at the Manager's discretion when best execution is available.

3. Evaluation and Review

a. Policy and Guideline Review

The Chief Investment Officer shall review the Objectives and Guidelines at least annually, and report to the Committee on the impact of the Guidelines on the Program’s performance.

b. Program performance and risk exposures shall be evaluated at multiple levels in accordance with the Objectives of the Program and individual Managers.

4. Reporting
On a quarterly basis, the Chief Investment Officer shall provide the following reports to the Committee:

a. A summary of Program investments and risks.
b. A summary of Program performance, on an absolute and benchmark relative basis.

Manager will be required to provide the Chief Investment Officer monthly and quarterly reports, including but not limited to:

a. Monthly accounting statements showing portfolio income, holdings and transactions.
b. Quarterly review of portfolio and strategy performance including a market outlook.
c. Annual statement of compliance with investment guidelines.

5. Definitions: See Appendix 8

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UNIVERSITY OF CALIFORNIA
GENERAL ENDOWMENT POOL

INVESTMENT POLICY
STATEMENT

Approved May 12, 2016
Replaces version dated November 15, 2012
October 26, 2016
May 12, 2016
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APPENDIX 7K
This version: November 15, 2012
Last approved: September 10, 2009

SHORT TERM INVESTMENT POOL (STIP)
INVESTMENT GUIDELINES

The purpose for these performance objectives (“Objectives”) and management guidelines (Guidelines”) is to clearly state the investment approach, define performance objectives and to control risk in the management of the University’s Short Term Investment Pool, or STIP (“Program”). These Objectives and Guidelines shall be subject to ongoing review by the Committee. Capital market conditions, changes in the investment industry, new financial instruments, or a change in the Committee’s risk tolerance, are among factors to be considered in determining whether the Guidelines shall be revised.

I. Investment Policy

a. Background

The STIP is a cash investment pool established by The Regents and is available to all University groups, including retirement and endowment funds. The STIP allows fund participants to maximize income on their short-term cash balances by taking advantage of the economies of scale of investing in a larger pool and investing in a broader range of maturities.

b. Investment Objective

The Objective of the Program is to maximize returns consistent with safety of principal, liquidity, and cash flow requirements. The primary investment objective is to generate income from investments in short duration U.S. dollar denominated bonds and cash equivalents. Because the liquidity needs of the University are subject to large and uncertain changes, the fund may materially increase its investments in highly liquid, cash equivalent securities from time to time.

Accordingly, the Benchmark will be a weighted average of the income return on a constant maturity two (2) year Treasury note and the return on U.S. 30-day Treasury Bills. The weights for the two constituents will be the actual average weights of the bond and cash equivalent components of the pool. The Benchmark will be re-balanced monthly.

c. Investment Strategy

The Program shall be implemented by the Chief Investment Officer internal fixed income staff (“Manager”). The Chief Investment Officer will monitor the Program’s adherence to these Guidelines.
d. Performance Objectives

The performance objective of the Program is to meet or exceed the return of the Benchmark, on a consistent basis over time, net of all costs and fees.

e. Risk Objective

The Program shall be managed so that its annualized tracking error budget shall be 75 basis points.

f. Other Constraints and Considerations

- Managers shall comply with applicable State and Federal laws and regulations and the prudence requirement described in section 3(a) of the Policy.
- Manager shall act solely in the interest of the Fund’s owners.
- Implementation of this Program shall comply with the Fund’s Policy.

2. Investment Guidelines

a. Asset Allocation

The portfolio will be invested primarily in marketable, publicly traded, investment-grade short-term fixed income instruments, notes and debentures denominated in U.S. dollars.

b. Types of Securities

The Program will be invested in a diversified portfolio of fixed-income securities, subject to restrictions noted below in section 2c and 2d.

The following list is indicative of the investment classes which are appropriate for the Program, given its Benchmark and risk budget. It should not be construed to be an exhaustive list of “allowable” asset types. Security types and/or strategies not specifically enumerated, but which the Chief Investment Officer and Regents’ Investment Consultant believe are appropriate and consistent with the Investment Policy may also be held, subject to the restrictions in 2c. and 2d. below.

(1) Fixed income instruments

i. Obligations issued or guaranteed by the U.S. Federal Government, U.S. Federal Agencies or U.S. government-sponsored corporations and agencies

ii. Obligations of U.S. and foreign corporations such as corporate bonds, notes and debentures, and bank loans

iii. Mortgage-backed and asset-backed securities

iv. Obligations of international agencies, supranational entities, and foreign governments (or their subdivisions or agencies)

v. Obligations issued or guaranteed by U.S. local, city and state governments
and agencies

vi. Private Placements or Rule 144A securities, issued with or without registration rights

(2) Short term fixed income instruments (having maturity of less than 13 months)
i. U.S. Treasury and Agency bills and notes
ii. Certificates of deposit
iii. Bankers acceptances
iv. Commercial paper
v. Repurchase and reverse repurchase agreements (must be fully collateralized with approved collateral, using approved counterparties only)
vi. Eurodollar CD’s, TD’s, and commercial paper
vii. U.S. and Eurodollar floating rate notes
viii. Money market funds managed by the custodian

c. Restrictions

The following security types are not permitted:

- Interest rate derivative contracts, including options and futures
- Equity like securities, including but not limited to convertible bonds, preferred stocks, warrants, equity linked notes, and commodities
- Bonds issued in currencies other than U.S. Dollar
- Foreign currency linked notes

The Manager may not:

- Purchase securities of tobacco related companies, as per the Policy, Appendix 7.
- Invest in mutual funds or group trusts unless specifically allowed in its guidelines
- Buy securities on margin
- Sell securities short
- Buy party-in-interest securities
- Buy securities restricted as to sale or transfer, except for 144A securities, which are permitted
- Employ economic leverage in the portfolio through borrowing or derivatives, or engage in derivative strategies that conflict with the Derivatives Policy
- Purchase or sell foreign exchange contracts

d. Diversification and Concentration

The Program’s investments will be appropriately diversified to control overall risk. The following limitations apply in order to manage risk within acceptable ranges:

- Interest rate risk
  - No security may have a maturity of more than 5½ years.
Credit risk

- No more than 5% of the Program’s investments, measured by market value, should be below “investment grade”, i.e. rated lower than the following standards or their equivalent by all major NRSROs.
  - Standard & Poor’s and Fitch (BBB-)
  - Moody’s (Baa3)
- Commercial Paper must have a rating of at least A-1, P-1, D-1, or F-1.
- The Program’s investments should exhibit an average credit quality of A (or equivalent) or better. Split-rated credits are considered to have the higher credit rating as long as the higher rating is given by one of the NRSROs.
- No more than 5% of the Program’s allocation to commercial paper may be invested in any single issuer. This guideline may be exceeded on a temporary basis due to unusual cash flows, up to a limit of 10%, for a period not to exceed one month.
- Except for securities issued by the U.S. Treasury or Agencies of the U.S. Government, no more than 3% of the Program’s market value (exclusive of commercial paper) may be invested in any single issuer.

Liquidity risk

- No more than 10% of the Program’s market value may be invested in Private Placements or Rule 144A securities.
- The Program’s investments in aggregate of any security may not exceed 20% of that security’s outstanding par value, without a written exception approved by the Chief Investment Officer.

Subject to the limitations above, the investment manager has complete discretion with regard to choosing sector weights, issuers, and maturities.

e. Managers shall employ best execution.

Transactions shall be directed to brokers/dealers designated by the Chief Investment Officer at the Manager’s discretion when best execution is available.

3. Evaluation and Review

a. Policy and Guideline Review

The Chief Investment Officer shall review the Objectives and Guidelines at least annually, and report to the Committee on the impact of the Guidelines on the Program’s performance.

b. Program performance and risk exposures shall be evaluated at multiple levels in accordance with the Objectives of the Program and individual Managers.
4. Reporting

On a quarterly basis, the Chief Investment Officer shall provide the following reports to the Committee:

a. A summary of Program investments and risks.
b. A summary of Program performance, on an absolute and benchmark relative basis.

Manager will be required to provide the Chief Investment Officer monthly and quarterly reports, including but not limited to:

a. Monthly accounting statements showing portfolio income, holdings and transactions.
b. Quarterly review of portfolio and strategy performance including a market outlook.
c. Annual statement of compliance with investment guidelines.

5. Definitions: See Appendix 8

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Introduction and Purpose

This Investment Policy Statement (“Policy” or “IPS”) provides a framework for the management of the investments of the University of California Short Term Investment Pool (“STIP” or “Program”). The IPS also provides performance objectives (“Objectives”) and management guidelines (“Guidelines”).

The purpose for these performance objectives (“Objectives”) and management guidelines (“Guidelines”) is to clearly state the investment approach, define performance objectives, and to control risk in the management of the University’s Short Term Investment Pool, or STIP (“Program”). These Objectives and Guidelines shall be subject to ongoing review by the Committee. Capital market conditions, changes in the investment industry, new financial instruments, or a change in the Committee’s risk tolerance, are among factors to be considered in determining whether the Guidelines shall be revised.

1. Investment Policy

a. Background

The STIP is a cash investment pool established by The Regents and is available to all University groups, including retirement and endowment funds. The STIP allows fund participants to maximize income on their short-term cash balances by taking advantage of the economies of scale of investing in a larger pool and investing in a broader range of maturities.

b. Investment Objective

The Objective of the Program is to maximize returns consistent with safety of principal, liquidity, and cash flow requirements. The primary investment objective is to generate income from investments in short duration U.S. dollar denominated bonds and cash equivalents. Because the liquidity needs of the University are subject to large and uncertain changes, the fund may materially increase its investments in highly liquid, cash equivalent securities from time to time.
Accordingly, the Benchmark will be a weighted average of the income return on a constant maturity two (2) year U.S. Treasury note and the return on U.S. 30-day Treasury Bills. The weights for the two constituents will be the actual average weights of the bond and cash equivalent components of the pool. The Benchmark will be re-balanced monthly.

c. Investment Strategy

The Program shall be implemented by the Chief Investment Officer’s internal fixed income staff (“Manager”). The Chief Investment Officer will monitor the Program’s adherence to these Guidelines.

d. Performance Objectives

The performance objective of the Program is to meet or exceed the return of the Benchmark, on a consistent basis over time, net of all costs and fees.

e. Risk Objective

The Program shall be managed so that its annualized tracking error budget shall be 75 basis points. The Program shall be managed to preserve capital and avoid negative returns over any one year time horizon. The volatility of the plan should be consistent with this objective and the yield level of the fund.

f. Other Constraints and Considerations

- Managers shall comply with applicable State and Federal laws and regulations and the prudence requirement described in section 3(a) of the Policy.
- Managers shall act solely in the interest of the Fund’s owners.
- Implementation of this Program shall comply with the Fund’s Policy.

2. Investment Guidelines

a. Asset Allocation

The portfolio will be invested primarily in marketable, publicly traded, investment grade short term fixed income instruments, notes and debentures denominated in U.S. dollars.

b. Types of Securities

The Program will be invested in a diversified portfolio of fixed income securities, subject to restrictions noted below in section 2c and 2d.

The following list is indicative of the investment classes which are appropriate for the Program, given its Benchmark and risk objective budget. It should not be construed to be
an exhaustive list of “allowable” asset types. Security types and/or strategies not specifically enumerated, but which the Chief Investment Officer and Regents’ Investment Consultant believe are appropriate and consistent with the Investment Policy may also be held, subject to the restrictions in 2c. and 2d. below.

(1) Fixed income instruments
i. Obligations issued or guaranteed by the U.S. Federal Government, U.S. Federal Agencies or U.S. government-sponsored corporations and agencies
ii. Obligations of U.S. and foreign corporations such as corporate bonds, notes and debentures, and bank loans
iii. Mortgage-backed and asset-backed securities
iv. Obligations of international agencies, supranational entities, and foreign governments (or their subdivisions or agencies)
v. Obligations issued or guaranteed by U.S. local, city and state governments and agencies
vi. Private Placements or Rule 144A securities, issued with or without registration rights

(2) Short term fixed income instruments (having maturity of less than 13 months)
i. U.S. Treasury and Agency bills and notes
ii. Certificates of deposit
iii. Bankers acceptances
iv. Commercial paper
v. Repurchase and reverse repurchase agreements (must be fully collateralized with approved collateral, using approved counterparties only)
vi. Eurodollar CDs, TDs, and commercial paper
vii. U.S. and Eurodollar floating rate notes
viii. Money market funds managed by the custodian

c. Restrictions

The following security types are not permitted:
- Interest rate derivative contracts, including options and futures
- Equity like securities, including but not limited to convertible bonds, preferred stocks, warrants, equity linked notes, and commodities
- Bonds Securities issued in currencies other than U.S. Dollar
- Foreign currency linked notes

The Manager may not:
- Purchase securities of tobacco related companies, as per the Policy, Appendix 7b.
- Invest in mutual funds or group trusts unless specifically allowed in its guidelines
- Buy securities on margin
- Sell securities short
- Buy party-in-interest securities
• Buy securities restricted as to sale or transfer, except for 144A securities, which are permitted
• Employ economic leverage in the portfolio through borrowing or derivatives, or engage in derivative strategies that conflict with the Derivatives Policy
• Purchase or sell foreign exchange contracts

d. Diversification and Concentration

The Program’s investments will be appropriately diversified to control overall risk. The following limitations apply in order to manage risk within acceptable ranges:

• Interest rate risk
  o No security may have a maturity of more than 5½ years, excluding internal notes receivable.
  o The effective duration of the investment program, excluding internal notes receivable, should be less than 3 years

• Credit risk
  o No more than 5% of the Program’s investments, measured by market value, should be below “investment grade”, i.e. rated lower than the following standards or their equivalent by all major NRSROs
    ▪ Standard & Poor’s and Fitch (BBB-)
    ▪ Moody’s (Baa3)
  o Commercial Paper must have a rating of at least A-1, P-1, D-1, or F-1
  o The Program’s investments should exhibit an average credit quality of A (or equivalent) or better. Split-rated credits are considered to have the higher credit rating as long as the higher rating is given by one of the NRSROs.
  o No more than 5% of the Program’s allocation to commercial paper may be invested in any single issuer. This guideline may be exceeded on a temporary basis due to unusual cash flows, up to a limit of 10%, for a period not to exceed one month.
  o Except for securities issued by the U.S. Treasury or Agencies of the U.S. Government, no more than 3% of the Program’s market value (exclusive of commercial paper) may be invested in any single issuer.

• Liquidity risk
  o No more than 10% of the Program’s market value may be invested in Private Placements or Rule 144A securities.
  o The Programs’ investments in aggregate of any security may not exceed 20% of that security’s outstanding par value, without a written exception approved by the Chief Investment Officer.

Subject to the limitations above, the investment manager has complete discretion with regard to choosing sector weights, issuers, and maturities.
e. **Managers shall employ best execution**

Transactions shall be directed to brokers/dealers designated by the Chief Investment Officer at the Manager’s discretion when best execution is available.

3. **Evaluation and Review**
   
   a. **Policy and Guideline Review**

   The Chief Investment Officer shall review the STIP Investment Policy Statement Objectives and Guidelines at least annually, and report to the Committee on the impact of the Guidelines on the Program’s performance.

   b. Program performance and risk exposures shall be evaluated at multiple levels in accordance with the Objectives of the Program and individual Managers.

4. **Reporting**

   On a quarterly basis, the Chief Investment Officer shall provide the following reports to the Committee:

   a. A summary of Program investments and risks.
   b. A summary of Program performance, on an absolute and benchmark relative basis.

   Manager will be required to provide the Chief Investment Officer monthly and quarterly reports, including but not limited to:

   a. Monthly accounting statements showing portfolio income, holdings and transactions
   b. Quarterly review of portfolio and strategy performance including a market outlook
   c. Annual statement of compliance with investment guidelines

5. **Definitions: See Appendix 8**