The Regents of the University of California

INVESTMENTS SUBCOMMITTEE
May 22, 2018

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

Members present:	Regents Anguiano, Lemus, Sherman, and Zettel; Ex officio member Makarechian; Advisory members Anderson and May; Chancellor Hawgood
In attendance:	Regent-designate Morimoto, Secretary and Chief of Staff Shaw, Chief Investment Officer Bachher, Deputy Counsel Woodall, and Recording Secretary McCarthy

The meeting convened at 2:00 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. Shaghig Tchaparian, UC Berkeley alumna, expressed concern about UC's investment strategies. She said that UC invested more than $75 million in what she characterized as an autocratic, economically unstable, and genocide-denying government.

B. Ms. Vana Andonian, UC Santa Barbara alumna, expressed her view that investing in Turkey was a degradation of the University's values. She urged the University to cease investing in Turkey.

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

Upon motion duly made and seconded, the minutes of the meeting of March 13, 2018 were approved.

3. **UPDATE ON INVESTMENT PRODUCTS**

[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.]

Chief Investment Officer (CIO) Bachher introduced this discussion of investment results for the quarter and year ending March 31, 2018. Results for the fiscal year to date would cover the nine-month period from June 30, 2017 through March 31, 2018. In the past four years since Mr. Bachher became CIO, Regents' assets under the management of the Office of the CIO had grown from $88 billion to $118.3 billion. Over that four-year period, the General Endowment Pool (GEP) had grown from $8 billion to $12 billion; the UC Retirement Plan (UCRP) had increased from $50 billion to $67 billion; the UC Retirement Savings Plan (UCRSP) grew from $15 billion to $24 billion; the working capital portfolios were steady at $15 billion. Also the Office of the CIO took on management of Fiat Lux with assets of $1 billion. At the beginning of the fiscal year, total assets under management were $109.8 billion.

About three-quarters of these assets were invested in the U.S., with the balance invested globally. Given the current geopolitical situation, the Office of the CIO did not currently invest in Africa and did not consider Russia or Latin America attractive. Australia and New Zealand had a good deal of capital from their own sovereign wealth funds and were well-covered, and therefore would not be advantageous for investment. Mr. Bachher considered developed Europe interesting, with pockets of opportunity despite the British vote to leave the European Union known as Brexit and other uncertainties. Mr. Bachher anticipated continued stimulus from monetary authorities in developed Europe. Emerging Europe offered less opportunity. China was clearly a place to watch. Although it was challenging to find investment opportunities, the Office of the CIO continued to be active in public securities. The Office of the CIO had increased activity in India’s private markets, and Mr. Bachher expected the Indian gross domestic product to grow from $2.5 trillion over the upcoming five to seven years to about $5 trillion.

Subcommittee Chair Sherman asked Mr. Bachher what he expected to be the biggest changes in the geographic allocation of the Office of the CIO’s assets in the upcoming five years. Mr. Bachher said his investment in developed Europe could increase by 50 percent; the proportion of investments in India and China could double.

Regent Makarechian expressed his view that areas in South America held potential investment opportunities. Mr. Bachher commented that during the past four years, South America had not been a high area of focus of his office, although he was open to potential future opportunities.

Mr. Bachher displayed a graph showing the increase in value of U.S. and global equities since 1992, reiterating his caution at prior meetings of the risk inherent in highly valued equities. Senior Managing Director Eduard van Gelderen added that the run in global equity markets following the global financial crisis had been extremely impressive, particularly in U.S. equities. The larger allocation to technology in the U.S. index contributed to its better performance; the European index had a larger exposure to traditional sectors. The question of whether equity markets were overpriced must be balanced against positive factors in the equity markets such as higher corporate profits, low unemployment, and global growth. Potential negative factors included possible increases in interest rates and inflation. Mr. van Gelderen said that, in spite of some investor nervousness, the equity market was showing resiliency. All in all, he had a slightly cautious stance toward equities.

Mr. Bachher commented that most of the growth in UC assets over the past four years was attributable to market gains, which totaled roughly $18 billion. Value added by active management over those four years was $2.4 billion.

Subcommittee Chair Sherman asked about the increased divergence between the U.S. and global equity indices since 2010 and whether that divergence would decrease in the future. Mr. van Gelderen did expect those two indices to get closer together because current valuations in Europe were more attractive than U.S. valuations. Since 2010, the European markets had to deal with many uncertainties, such as Brexit, political tensions, and concern about economic growth. Those concerns had abated somewhat. Also, current U.S. valuations, especially of technology, were very high. A correction would leave the two valuations closer together.

Mr. Bachher reported that for the nine months of the fiscal year to date, both the GEP and UCRP returned 7.3 percent. For the year ending March 31, 2018, the GEP returned 11 percent and UCRP returned 11.3 percent. For five years the GEP returned 8.6 percent and UCRP returned eight percent; the Total Return Investment Pool (TRIP) returned 5.5 percent and the Short Term Investment Pool (STIP) returned 1.4 percent. The UC Entity began the fiscal year with $109.8 billion in assets. As of March 31, 2018, the UC Entity had grown to $118.3 billion, including $6.7 billion in market gains, $0.5 billion in value added, and $1.3 billion in net cash flow.

Almost 49 percent of the UC Entity was invested in public equities, which had been the primary driver of returns. Combined fixed income and cash holdings comprised 38 percent. Other investments, including absolute return, private equity, real estate, and real assets totaled 13 percent of holdings. Mr. Bachher explained that the large nine percent cash holding served as a defensive hedge. Some of the cash position was the result of realizing earnings in public equities.

Senior Managing Director Edmond Fong discussed the GEP, which gained 7.3 percent for the fiscal year to date, including 0.1 percent value added above the benchmark. He anticipated more compressed returns in the near future. The GEP began the fiscal year with $10.8 billion in assets under management, and experienced $0.7 billion in market gains, $0.1 billion of value added, and $0.3 billion of net cash flow, to end the first nine months of the fiscal year at $11.9 billion. As of March 31, the GEP had an unusually large cash position of 13 percent. Mr. Fong expressed his comfort with that position, as he had a robust pipeline of opportunities for private market investments in the upcoming few months; he anticipated the cash position would be reduced to less than ten percent. The GEP held 42 percent in public equities and its overall portfolio had 6.8 percent volatility, up from 5.9 percent as of the prior meeting, reflecting increased market volatility. To provide context, Mr. Fong would expect volatility to be ten to 12 percent over the long term. The GEP was overweight in public equities, even though some overweight had been trimmed while equity markets were up.

Mr. Fong displayed a graph showing the changes in the GEP's asset allocation over time since 1992. Investing in alternative assets began around 2000, and alternatives had increased to 41 percent of the GEP at the current time, with liquidity at 18 percent, and public equity at 41 percent. The GEP's long-term asset allocation targets were for just 30 percent public equity, 60 percent alternatives, and ten percent liquidity.

Mr. van Gelderen discussed UCRP, which had returns of 7.3 percent for the fiscal year to date, similar to the GEP, driven mainly by market gains, and slightly above UCRP's 7.25 percent discount rate. The prior year UCRP's funded status was 85 percent, which would be improved upon by returns above the discount rate. Added value of 0.3 percent was driven by fixed income and private equity gains. UCRP was allocated 51 percent to public equities and 20 percent to fixed income. UCRP volatility was 6.6 percent, slightly lower than the GEP's. He anticipated volatility would increase to ten percent in the near future. An initial four to five percent overweight to public equities was removed by the Office of the CIO during the first quarter; at the end of March public equities had a slight underweight. The UCRP portfolio had a significant underweight in other investments and a very significant position in cash. UCRP had achieved 7.3 percent returns for the nine months, despite this very large cash position. The Office of the CIO had a strong pipeline of alternative investments, which would reduce the cash position by the end of the fiscal year. The current underweight in real estate and real assets would decrease by about 0.5 percent; the 2.3 percent underweight in absolute return would be reduced to roughly one percent. By the end of the fiscal year, Mr. van Gelderen anticipated that UCRP's asset allocation would be much closer to the policy allocation. His office would analyze the policy asset allocation closely in the upcoming year.

Regent Makarechian commented that the cash could have earned higher returns if it had been invested in public or private equity, and asked about the strategy of holding such a large cash position. Mr. van Gelderen agreed that this cash position was very large, but investment in private markets depended on availability of attractively priced assets. The cash was ready to invest when opportunities arose. The Office of the CIO was developing a pipeline of investments in private markets. He would be cautious about private equity. Mr. Bachher pointed out that UCRP's cash position had increased from about nine percent to 13.6 percent during the first quarter of the calendar year. During those three months, the global equity index lost 0.85 percent and the bond market lost 1.5 percent. The cash earned 50 basis points (bps) in STIP. There was currently a great deal of cash seeking private market investments. He anticipated investment opportunities in real assets.

Subcommittee Chair Sherman agreed that the key was to remain disciplined in deploying cash into other investments, as there was a great deal of cash chasing a finite supply of assets. This would take time.

Regent Makarechian said there were areas within the University where that cash could be put to use and earn good long-term returns, such as public-private partnerships to develop student housing. He suggested that the Office of the CIO look into such opportunities that could both benefit the University and provide returns. Mr. Bachher agreed that being active investors in UC's energy assets and student housing could be worthwhile. Regent Makarechian asked if policy changes would be required. Subcommittee Chair Sherman stated that Executive Vice President and Chief Financial Officer Brostrom had expressed interest in structuring such opportunities.

Mr. Bachher announced that Director Marco Merz would be in charge of the UCRSP. Chief Operating Officer Arthur Guimaraes reported that UCRSP's number of participants and assets under management were unchanged since his report at the prior meeting. Participants' savings added about $1 billion per year to the plan and the plan's outflow was almost exactly the same. Some participants approaching retirement roll their assets over to another custodian to simplify their finances in retirement. Mr. Merz would discuss options the Office of the CIO was considering to offer UC retirees income in retirement and was also researching offering participants an investment option with an Environmental, Social, and Governance (ESG) focus. Mr. Guimaraes expressed pride that UCRSP management fees were just 0.07 percent, which Mercer Consulting judged to be 40 percent more cost-effective than peer organizations.

Mr. Merz reported that Mercer Consulting had reviewed UCRSP's investment options and judged them to be sound. UCRSP offers three tiers of investment options: the default target date funds, 12 core funds for participants who choose to construct their own portfolios, and a brokerage window through which participants could invest in more than 10,000 mutual funds. The brokerage window options had recently been expanded to include exchange-traded funds.

UCRSP target date funds held $9 billion in assets, up from $5 billion five years prior. Mr. Merz said these funds were the most important UCRSP investment vehicle, a one-stop shop allowing participants to buy one fund consisting of ten underlying asset classes, offering a diversified portfolio that rolls down risk over time as the participant approached retirement. Mr. Merz displayed a chart showing target date funds' five-year performance relative to policy benchmarks, showing value-added for all target dates. He credited much of the value added performance to the active fixed income management of Managing Director Steven Sterman.

Mr. Merz stated that UCRSP was industry-leading and best in class, offering a perfect foundation from which to embrace innovation and change in the future. Mr. Merz anticipated developing a function to help participants roll down assets in retirement, offering an ESG investment option, and offering a way for participants to invest in alternative assets.

Mr. Sterman discussed the working capital portfolios, which held $15 billion, 60 percent in TRIP and 40 percent in STIP. Mr. Brostrom and his team had been working diligently to encourage UC campuses to optimize their financial assets by shifting funds from working capital into the GEP as funds functioning as endowments (FFEs). Displaying a graph of working capital investment performance, Mr. Sterman commented that since its inception almost ten years prior, TRIP had achieved its intended function of earning more return for campus assets, having earned almost seven percent a year over that time. For the nine months of the fiscal year to date, TRIP earned 4.1 percent and STIP earned 1.2 percent, both with a small excess return. Mr. Sterman attributed TRIP's higher returns than STIP's to TRIP's asset allocation. He anticipated that the gap in returns between TRIP and STIP would be smaller over the upcoming years, as the Federal Reserve Board continued to increase interest rates, causing STIP's yield to increase. The TRIP portfolio had been within two percent of its long-term asset allocation throughout the fiscal year. TRIP was currently underweight in absolute return, as the Office of the CIO was in the process of redeeming funds from one of its absolute return managers. Those funds would be invested across assets in growth, income, and cash. Over time, TRIP's asset allocation had shifted since its 2008 inception from 25 percent stocks and 75 percent bonds to its current allocation of 35 percent stocks, 50 percent bonds, and 15 percent absolute return. The purpose of this change was to reduce the portfolio's potential volatility and to support TRIP's long-term payout.

Mr. Sterman commented that STIP had achieved three main goals over a long period of time. STIP had always provided the liquidity needed across the system on any day. For more than three decades, STIP had added excess return above the short-term benchmark. STIP had never taken a credit loss. Mr. Sterman introduced STIP's portfolio manager Aaron Staines, who had worked with the Office of the CIO for 17 years. STIP is a very conservative, high-quality, short-maturity portfolio that provides liquidity for the UC system. Fixed income assets comprised about 70 percent of the working capital assets.

Mr. Sterman introduced the Office of the CIO's fixed income team of eight people, with an average eight or nine-year tenure at the Office of the CIO and a great deal of experience in the industry. The Office of the CIO's fixed income team has the advantage of active management, but at low cost. Ninety-five percent of the Office of the CIO's fixed income assets were actively managed, and 73 percent internally managed. Fixed income management costs, including both internal and external, were six bps, making it a very low-cost implementation.

The fixed income team's largest investment strategy was core fixed income, currently with assets of about $16 billion, benchmarked to the Bloomberg Barclays Aggregate Index. As the Federal Reserve increases interest rates, cash has become an alternative to risk assets. The Federal Funds rate was currently at 1.7 percent; the Office of the CIO could buy overnight commercial paper at about 2.2 percent. Senior Portfolio Manager David Schroeder stated that he did not think conditions existed for a period of rapidly increasing interest rates; rather, he anticipated that interest rates would remain stable at current levels and yields in the global government bond markets would remain low. Mr. Schroder displayed a graph showing the Federal Funds Rate and the Ten-year Treasury Bond Rate since 1990. After a long period of holding the Federal Funds Target Rate at the zero-bound since the 2008 financial crisis, the Federal Reserve had begun to normalize interest rates in late 2016, having increased the policy rate about 150 bps to 1.5 to 1.75 percent. He anticipated this to be about half way in the current rate cycle. Based on Federal Reserve projections and market-implied forecasts, the policy rate was expected to peak at three percent at the end of 2020, which he characterized as a much more benign rate-hiking cycle than in past cycles. The current Ten-year Treasury Bond Rate was 3.06 percent. Forward-yield curves indicated longer-term interest rates drifting higher over the upcoming six to 12 months and short-end yields at the two-year point increasing by about 40 bps to around three percent; the Ten-year Note was forecast to rise to about 3.2 percent. Global government bond yields were low, which would have a restraining influence on U.S. interest rates.

Mr. Sterman discussed risk. During past periods of interest rate increases, there had been a larger cushion of yield in fixed-income portfolios, so losses in the current cycle would not be made back so quickly. With such low rates, the duration of fixed income was extended, making returns more sensitive to interest rate increases. His team attempts to balance these risks in its investment process of developing a macro view of inflation and interest rates, and developing probable scenarios and test portfolios to evaluate expected outcomes and upside and downside risks. This macro view determines allocation to the three sector portfolio managers: Treasury Bonds, corporate credit, and mortgage-backed securities. The managers of each sector build up the portfolio through a bond-by-bond process.

Subcommittee Chair Sherman asked how the relative flatness of the yield curve, not seen for many years, influenced his fixed income investing. Mr. Sterman said the yield curve indicated value on the front end of the curve, offering yield without a great deal of duration risk. His office was more aggressive in its corporate investment-grade credit portfolio, investing more heavily in two- and three-year durations, obtaining a high percentage of the total yield of the index, and investing less farther out on the yield curve. His team would think more holistically and balance duration exposures with Treasury Bonds.

Regent Makarechian asked about moving TRIP's asset allocation closer to that of UCRP to increase returns, given the large amount of liquidity in TRIP and STIP. Mr. Bachher stated that, given balances in TRIP and the large cash position in the GEP, his office was considering creating a new product in between TRIP and the GEP. Subcommittee Chair Sherman added that such a product would offer the campuses more return than TRIP. Mr. Sterman added that in the current year $1.1 billion would be moved from working capital to the GEP.

Mr. Sterman expressed his intention to move the core fixed income portfolio closer to its benchmark. As rates had increased, his office had lengthened its duration and reduced the differences it had from its benchmark. His office had been reducing its overweight in credit and underweight in Treasury Bonds.

Subcommittee Chair Sherman asked about the duration of the core fixed income portfolio. Mr. Sterman said that portfolio's duration was very close to the Bloomberg Barclays Aggregate Index's duration of six years. One and a half years ago, his office invested $1 billion in an unconstrained fund with a 1.5-year duration, which had gained more than two percent for the fiscal year to date compared with the index, which had slightly negative returns.

Mr. Sterman discussed the fixed income portfolio's $2.5 billion of dedicated high-yield assets, 91 percent public assets and nine percent private, 56 percent externally managed and 44 percent internally managed. The private high-yield assets were relatively new holdings for the Office of the CIO, in the past year or two. The internal team had leveraged its credit skills to find private assets that would provide better relative value compared with high-yield bonds. These assets tend to be floating rate and secured. Mr. Sterman anticipated that the externally managed portion of the high-yield portfolio would grow as the internally managed portion decreased, because of the capabilities of external management and the limited resources of the Office of the CIO's internal team. Deploying the internal management team more in the private assets might yield better value.

Subcommittee Chair Sherman asked if having $250 million invested in direct lending increased investment returns, considering the personnel and effort required. Mr. Sterman said it would increase returns, particularly in a downturn, and he planned to increase that investment. Mr. Bachher added that opportunities in private credit across the products of the Office of the CIO represented $3 billion in commitments and $1.5 billion already invested. Mr. Sterman said the abilities of his team in this area were being leveraged to help other Office of the CIO product teams.

Mr. Sterman commented that the fixed income portfolio also contained $2.1 billion of emerging market assets. About two years prior, these holdings were moved to a passive implementation because the fixed income team at the Office of the CIO did not have the skill set to manage this area effectively and over a long period of time the index outperformed more than half of external managers. It would be difficult to find an external manager who could consistently deliver excess return over the benchmark, considering the management fees. The emerging market index is the JP Morgan Emerging Market Bond Index Global Diversified Index, a major U.S. dollar-denominated emerging market benchmark used by many large institutions. He displayed a bar graph showing the ten largest country exposures of the index and the portfolio.

Regent Makarechian asked why India was not represented among these top ten countries, since it was a huge emerging market. Mr. Sterman explained that India's bond market was mostly local currency and was gated for foreign investors, so it did not fit with the relevant index, which was U.S. dollar-based issues rather than local currency. Mr. Bachher added that the Office of the CIO had about $200 million of corporate debt locally denominated in Indian rupees in a short-duration portfolio through an external manager in India.

Regent Makarechian asked how the Office of the CIO assessed its risks in emerging market investments in times of political turmoil in a country. Mr. Sterman said this was a separately managed account and the Office of the CIO had the ability to direct the manager to exclude countries. His team considers prospects for an area both politically and economically. Subcommittee Chair Sherman asked for clarification that the fixed income emerging market debt portfolio was a replication of the passive benchmark index but was managed externally. Mr. Sterman clarified that the portfolio was managed externally by a large indexing manager. The emerging market fixed income portfolio's risk equaled the benchmark's risk.

Investment Director Susie Ardeshir discussed the Fiat Lux portfolio, which had increased 1.8 percent relative to its benchmark for the fiscal year to date, including 70 bps of value-added above the benchmark. The Office of the CIO had been investing the Fiat Lux portfolio since July 2016. Since that time, the portfolio has grown 1.9 percent. Prior to that time, the Fiat Lux funds were invested in STIP. For one year, Fiat Lux earned 2.3 percent, 70 bps above the benchmark, and just shy of Fiat Lux's annual discount rate of three percent. The Fiat Lux asset allocation was roughly aligned with its interim policy allocation, with 14 percent in equities, passively replicating the MSCI ACWI Investable Market Index; 65 percent in fixed income spanning a multitude of strategies, mainly externally managed, but with a portion recently moved to the Office of the CIO's fixed-income team and some reinvested in STIP. Cash represented 21 percent of the portfolio and would be invested in liquid alternatives as opportunities arose.

Mr. Bachher updated investment returns since March 31. GEP fiscal year-to-date returns increased from 7.3 percent as of March 31 to 7.8 percent as of April 30; UCRP returns increased from 7.3 percent to 7.9 percent; TRIP returns increased from 4.1 percent to 4.5 percent; STIP returns increased from 1.2 percent to 1.3 percent. He anticipated that returns for the fiscal year would slightly exceed the discount rate for UCRP and the liability target for GEP. Although these portfolios would end the fiscal year conservatively positioned with large cash positions, Mr. Bachher said his office had a pipeline of investment opportunities for the coming fiscal year. All assets under management had grown from $118.3 billion as of March 31 to $119.5 billion as of April 30.

4. **INVESTMENTS AND ENGAGEMENT WITH STAKEHOLDERS AROUND SUSTAINABILITY**

[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.]

Chief Investment Officer (CIO) Bachher welcomed UC student presenters from Fossil Free UC and the Armenian Youth Federation. Ms. Laurel Levin, UC Santa Cruz student, said that the student-run Fossil Free UC demanded divestment from the fossil fuel industry as a way to make a moral and political statement against that industry.

Ms. Isabella Muscettola, UC Berkeley student, stated that fossil fuel commodities are cyclical or high-risk, and fossil fuel equities tend to follow commodity prices. Fossil-free portfolios had performed as well as those with fossil fuels. Fossil-free investing is not only feasible, but also financially prudent.

Ms. Levin said that climate change is ultimately a social justice issue, with disproportionate effects along lines of race, class, and gender. Climate change is a health crisis that demands immediate action. Ms. Sierra Varano, UC Berkeley student, stated that fossil fuels exacerbate climate change and extreme weather events. It was imperative upon UC to acknowledge the intersection among burning fossil fuels, investing in the fossil fuel industry, and public health. A UC commitment to divesting would have an impact toward creating a more sustainable future. She cited some of the universities that had committed to full divestment from fossil fuels: Chico State University, Oregon State University, Syracuse University, Stanford University, the University of Massachusetts, Swarthmore College, and more.

Ms. Levin stated that Fossil Free UC demanded a public statement by September 2018 of the UC's commitment to full divestment from fossil fuels, including a timeline expressing divestment plans, and voicing the moral reasons for fossil fuel divestment. She recalled that Mr. Bachher had met recently with representatives of Fossil Free UC and confirmed UC's commitment to sustainable investing. She reminded Mr. Bachher of the important and time-sensitive responsibility he held to be a leader in the climate justice movement. Mr. Bachher welcomed Fossil Free UC representatives to visit the Office of the CIO again and to keep him apprised of their campaign.

Ms. Arev Hovsepian, UCLA alumna, sought to raise awareness of the implications of investing in the Turkish government. Over the past three years the Armenian Youth Federation campaign had sought feedback from UC students systemwide and had gained support from dozens of UC student organizations from all campuses. She noted UC's prior divestment from the apartheid regime in South Africa.

Mr. Aram Manoukian, UCLA student, stated that the student governments of every UC undergraduate campus and the UC Student Association voted to call on the Regents to cease investment of University funds in the Turkish government because of Turkey's abhorrent human rights record, its decline from democracy, and its staunch and active denial of the Armenian genocide. AB 1597, which would prohibit the California Public Employees' Retirement System from investing in the Turkish government, had passed unanimously in the State Assembly the prior June. He clarified that this movement is targeting only the Turkish government, not Turkish businesses.

Mr. Manoukian stated that $76 million of UC funds were invested in Turkish government bonds and expressed his view that the instability of the current Turkish government and uncertain economic prospects made it an opportune time for the Office of the CIO to re-examine this investment. The University's investments should reflect its values.

Subcommittee Chair Sherman asked Mr. Bachher why UC would be invested in Turkish government bonds, given the size of the investment in UC's passive portfolio and economic events in Turkey. Mr. Bachher said he had asked the same question of UC's external emerging market debt portfolio managers at Blackrock, who expressed their view of a negative outlook for Turkey. The investment professionals at Blackrock said they were likely to reduce this position in their own portfolio because of the negative outlook going forward.

Regent Zettel expressed her concern that the University receives many legitimate and heartfelt calls for divestment, but the primary concern of this Subcommittee must be to protect UC's pension fund. Also, a number of emerging market countries had horrific human rights records. She expressed her view that the University should move cautiously in this area and allow its investment managers to work through these issues. Investment decisions should not be made based on politics.

Subcommittee Chair Sherman commented that all these factors should be taken into consideration in making a fundamentally economic decision.

Regent Anguiano asked about the status of UC's investments in the fossil fuel industry. Mr. Bachher said his office had sold $200 million of investments in coal-fired power plants and oil sands-producing companies. Those decisions were catalyzed by the efforts of UC students, but were financial decisions. The Office of the CIO also sold about $150 million of investments in fossil fuel companies, to reduce risk in the portfolio. Looking forward, given that the price of oil in the past four years had gone from $160 a barrel, to $30 per barrel, and was currently around $80 per barrel, an economically attractive price of fossil fuel investments would require an even higher price of oil than the current price. The Office of the CIO was actively looking for opportunities to reduce risk in its energy, natural resources, oil, and gas portfolio. This process was rooted in UC's sustainable investing framework.

Faculty Representative May added that these decisions were based on UC's values.

Mr. Bachher stated that his office sees investment opportunities in renewable energies as a substitution for fossil fuel companies.

The meeting adjourned at 4:00 p.m.

Attest:

Secretary and Chief of Staff