The Regents of the University of California

INVESTMENTS COMMITTEE
September 17, 2019

The Investments Committee met on the above date at the Luskin Conference Center, Los Angeles campus.

Members present:	Regents Anguiano, Makarechian, Park, Sherman, Simmons and Um; Ex officio member Pérez; Advisory member Bhavnani; Chancellors Khosla and Wilcox; Advisor Zager; and Staff Advisor Klimow
In attendance:	Regent-designate Stegura, Secretary and Chief of Staff Shaw, Chief of Staff and Special Counsel Drumm, Chief Investment Officer Bachher, Interim Executive Vice President and Chief Financial Officer Jenny, and Recording Secretary Li

The meeting convened at 2:05 p.m. with Committee Chair Sherman presiding.

1. PUBLIC COMMENT

Committee Chair Sherman explained that the public comment period permitted members of the public an opportunity to address University-related matters. The following individual addressed the Board concerning the item noted.

David Neelin, UCLA professor, thanked Committee Chair Sherman and Chief Investment Officer (CIO) Bachher for their joint *Los Angeles Times* opinion piece on UC's divestment from fossil fuel companies. He asked what divestment entailed here, what the transparency practices would be, and whether UC would divest from indirect and direct investments. Mr. Neelin believed that the opinion piece would inspire financial professionals at other institutions but not students, postdoctoral researchers, or faculty members. He asked Mr. Bachher to work with the Regents and President Napolitano to write a statement that included the morality of divestment and gravity of climate change.

2. APPROVAL OF MINUTES OF PREVIOUS MEETING

Upon motion duly made and seconded, the minutes of the meeting of May 14, 2019 were approved.

3. CHIEF INVESTMENT OFFICER UPDATE ON FINAL FY2018–2019 PERFORMANCE

[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 began his remarks by acknowledging his team and providing an overview of the ten aspects of culture at the Office of the CIO known as the "UC Investments Way." He provided UC's 2018–19 net returns, which took into account the fees paid to external managers and operating costs, noting that the Blue and Gold Pool delivered returns of 3.6 percent in its first three months. He compared 25-year, 20-year, ten-year, five-year, and three-year net returns, concluding that UC should grow accustomed to lower returns due to current interest rates and equity markets. The Office of the CIO grew UC investments assets by 33 percent in five years, investing 68 percent of assets in the U.S., 14 percent in Europe, 13 percent in Asia, and five percent in the rest of the world. He expected UC's investments in Asia to grow over the next five years. Two-thirds of assets were invested in public equity and public fixed income. The Office of the CIO also invested $22.4 billion in private investments, not including unfunded commitments, which translated to $31.5 billion including unfunded commitments, and it invested $4.1 billion in cash. The Office of the CIO invested 36 percent in active public equity and 64 percent passive public equity, with 92 percent invested in active public fixed income. Mr. Bachher anticipated zero percent returns in 2019 after the dip in December 2018, but U.S. markets recovered better than the global markets. Interest rates began to drop at the beginning of 2019. Contrasting sharply with U.S. markets, $16 trillion of debt issued globally was trading below zero.

The Endowment grew 61 percent in the last five years and was invested mostly in public equity and private investments. Also in the last five years, the Endowment received $3.3 billion in new inflows through funds functioning as endowments and as a result of deeper campus relationships. For example, the proceeds of Xtandi, a drug whose royalty rights were sold by UCLA, made gains of more than $100 million in the Endowment, money that would go back to the campuses. One percent value added over policy benchmarks was already very good, but 2.5 percent value added was abnormal because it was difficult to outperform the markets. The General Endowment Pool (GEP), once ranked at the bottom, now led campus foundations in net returns. The Office of the CIO prioritized performance over setting up a management company because the latter would not solve performance issues. In the last five years, the Endowment had $710 billion in value added over the benchmark and saved $260 million in fees by having few partnerships and using fewer financial managers. As of 2019, UC Santa Barbara, UC San Diego, and UC Riverside have sent their endowment assets to the GEP.

Mr. Bachher explained how the Office of the CIO came to the decision to divest from fossil fuel companies. At the behest of students, the Office of the CIO set up a task force and committed to adopting a sustainable investment framework, which included climate change, diversity, equity, and inclusion, and to considering the risks posed from a financial perspective. The Office of the CIO also committed $1 billion toward finding new energy solutions. Adopting both the United Nations Principles for Responsible Investment and Environmental, Social, and Governance criteria, the Office of the CIO sold its coal and oil sand holdings four years ago and gradually reduced its fossil fuel investments. The Pension would be the next to be divested from fossil fuel companies, and the Office of the CIO would continue to sell assets that would be a financial risk to UC.

The Blue and Gold Pool’s investment policy of 70 percent stocks and 30 percent bonds reflected a goal of higher returns while maintaining flexibility and liquidity. It launched in April 2019 and had a market value of $1.6 billion by its third month. Ten years ago, the Total Return Investment Pool (TRIP) launched with a similar strategy and performed well.

The Pension grew 34 percent in the last five years to $70 billion. About half of the Pension was invested in public equities. Taking up a more conservative strategy of exceeding the policy benchmarks and not the markets, about 75 percent of the Pension was invested in passive stocks and 25 percent was actively managed. Over the last five years, it saw $1.2 billion value added over the benchmark, and the Office of the CIO saved $620 million in fees. Each investment professional at the Office of the CIO managed about $4.2 billion as opposed to $1.1 billion in the industry.

The UC Retirement Savings Program had a $25 billion pool of capital from about 320,000 individuals. It was the second largest public defined contribution plan in the United States, with the largest belonging to the federal government. Over the last five years, the Office of the CIO generated $220 million in value added over benchmarks and saved $40 million in fees. Mr. Bachher believed that this was the only riskless return available. Since 2014, the default fund changed from the UC Savings Fund to the UC Pathway target date funds, and investment choices were reduced from 75 to 14.

There was $14.8 billion in assets in Working Capital, with $9 billion in TRIP and the balance in the Short Term Investment Pool (STIP). There was $290 million in value added and $100 million in fees saved. Mr. Baccher indicated that ten-year net returns grew 5.6 percent in TRIP as opposed to STIP and that the benefit had gone directly to the campuses. The negative value added number in STIP could be attributed to duration and the portfolio not moving as quickly as the markets in light of a quick rise in interest rates.

The Office of the CIO managed $1.1 billion for Fiat Lux, UC’s captive insurance company. Mr. Bachher noted the growing cash allocation within Fiat Lux. Performance was slightly below the benchmark this year but was relatively even over the last three years.

Mr. Bachher described the makeup of the Office of the CIO, which had 62 people. The operation costs were one-tenth that of the industry average. Reducing 280 key partnerships to 70 in five years contributed to $1 billion in fees saved, which was double the Office of the CIO’s initial goal of $500 million. Mr. Bachher reported $2.4 billion of value added over the last five years but did not expect similar results in the coming years due to low interest rates and low returns. He concluded his remarks by stating that, as of the end of fiscal year 2018–2019, the Office of the CIO held $126.1 billion in assets.

Committee Chair Sherman asked whether assets shifted since the end of the fiscal year given market volatility during the summer. Mr. Bachher replied that the Office of the CIO was investing less aggressively in the equity markets due to perceived weaknesses in the economy. For example, the Office of the CIO moved 3.5 percent of the pension originally in public equities to cash.

Chancellor Wilcox asked how much of the Pension was employee contributions and how much was earnings. Mr. Bachher responded that net contributions were close to zero. Most of the increase in the Pension could be attributed to a rise in the markets.

Committee Chair Sherman asked Senior Managing Director of Fixed Income Investments Steven Sterman how the Office of the CIO was positioning the fixed income portfolio in light of low interest rates. Mr. Sterman replied that UC's duration position in core fixed income fell behind the benchmark last year but was in line with the duration benchmark, approximately 5.5 years.

Regent Makarechian congratulated the Office of the CIO on its achievements. He noted that there was $16 billion earning negative interest and asked why people were holding cash and whether current asset allocations should be reconsidered. Mr. Bachher responded that de-risking UC investments in the short term was difficult due to the rapid changes in the market. The University was also a long-term investor, which meant remaining invested. UC needed to consider its cash position and defensive actions. He did not prefer paying for hedging strategies, and he did not prefer paying a forward fee to a third party to move money from public equities to private markets. Being more conservative was the Office of the CIO's baseline approach. Mr. Bachher asked the Regents what percentage cash they envisioned in the UC portfolio. Regent Makarechian noted that he had advocated for moving money from STIP to TRIP. He recalled a time when the UC Retirement Plan (UCRP) drew from STIP to accrue more interest, which he regarded as arbitrage at the expense of the campuses. Regent Makarechian questioned whether UC should reassess its asset allocations in public equities sooner, and he also asked about the source from which UC would draw its $9 billion in forward commitments. Mr. Bachher replied that UC was able to pay for those commitments using cash and that UC had not been constrained in terms of liquidity. Regent Makarechian asked about the duration of the fund commitments. Mr. Bachher stated that the duration was five years or more. He could envision the UC portfolio with ten to 12 percent cash and 45 percent public equities.

Committee Chair Sherman asked whether harvesting would occur during the duration of those commitments. Mr. Bachher responded in the affirmative, adding that income distributions would occur as well. Not all fund commitments would be called fully. He was presenting an extreme scenario but explained that these things would happen over a long period of time.

Committee Chair Sherman asked about the performance of private equity returns given the environment in the last six months. He also asked how UC valued private equity and about UC's confidence in the fairness of the valuation. Arthur Guimaraes, Chief Operating Officer of Investment Services, explained that the Office of the CIO created a policy on private assets in 2014. Private and public equity were marked to market, but the time-consuming nature of marking private equity meant consulting with Deloitte in advance and using capital statements from December or March. In order to reflect the value of private equity in June, the Office of the CIO would ask managers for an interim value for June 30. Mr. Bachher clarified that Committee Chair Sherman was asking whether private equity was being overinflated and explained that there was no way to know how private equity would fare once it went public. John Beil, Managing Director of Private Equity Investments, responded that the team, who watched the portfolio closely and and maintained close relationships with coinvestment partners, was confident in its marks. He acknowledged several notable underperforming initial public offerings this year and explained that UC did not have much exposure to those companies but followed them closely. Mr. Bachher added that he had confidence in the independence of the team and external auditors. The Office of the CIO also had a valuations committee comprised of representatives from the President's Executive Office, Systemwide Controller, Office of the Chief Financial Officer, and others.

4. **THE STATE OF THE WORLD ECONOMY AND THE STATE OF PRIVATE MARKETS**

[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 Bachher introduced Jose Manuel Barroso, former Prime Minister of Portugal and former President of the European Commission.

Mr. Barroso began his remarks by sharing his observations about Europe. He recalled that, during the 2008 financial crisis, U.S. President Obama suggested that the European Union (EU) try implementing a version of the Troubled Asset Relief Program as the United States had done. Mr. Barroso explained that this was not possible because the EU was comprised of sovereign states with different financial cultures and priorities. He stated his belief that the EU was the most advanced example of regional integration and international cooperation in the world. Europe was making slow, incremental progress, and the financial crises helped the EU focus its efforts. While Europe would not see the same growth rates as emerging economies, its more mature economy and adherence to the rule of law provided stability.

Mr. Barroso was concerned not only about trade, but also the global competition for technology and supremacy. He regarded U.S. President Trump as a political disruptor who has influenced more people to behave like him. The United States was now less committed to the global order it had created after the Second World War, opting more for unilateral action instead of cooperative, multilateral action. Mr. Barroso marveled at the rise of China in the last 30 to 40 years from a developing country to a middle-income country that was one of the two biggest economies in the world. China was now projecting economic, technological, political, and cultural power, and it wished to challenge the U.S. dollar as the global currency of reference. Trump's Chinese tariffs were an aspect of an overall competition for technology such as fifth generation cellular network technology (5G) and artificial intelligence (AI), the latter of which was regarded more as military technology. According to figures from Goldman Sachs, 48 percent of global investments in AI has been from China. Mr. Barroso stated his belief that ending the Trans-Pacific Partnership (TPP) was a mistake. President Trump did so only because President Obama had devised it, but it was in the process of being revived. He believed that China's power and influence should be contained but that the United States' current approach would not be successful.

President Xi Jinping would not risk humiliation of China by the United States, so any approach to China should be strong, committed, focused, clearly communicated, and multilateral. To illustrate this, he recalled an instance in which China changed its stance on climate change at the urging of smaller countries. He added that Europe agreed with many of President Trump's ideas but not his methods.

In Mr. Barroso's opinion, Russia was a declining world power with an economy that was less diversified than when it was part of the Soviet Union. Russia's primary export was fossil fuels and weapons, and it lacked the economic capacity of China. Despite its decline, Russia still had military influence. As with China, Mr. Barroso advised against humiliating Russia. He suggested being firm with Russia in order to prevent actions similar to what had happened in Ukraine and to prevent a coalition between Russia and China, which he believed would be detrimental to western interests. He noted continued global uncertainty stemming from the effects of globalization, as well as the rise of populism, nationalism, nativism, and xenophobia. From a historical perspective, however, he stated that the world was more peaceful than it was in the 20th century given socioeconomic indicators such as improved child mortality rates and life expectancy. Mr. Barroso cautioned against the "intellectual glimmer of pessimism" and underscored that hope required great vigilance.

Committee Chair Sherman asked Mr. Barroso for his views regarding India. Mr. Barroso responded that it was a mystery as to why India was not growing as China had grown and attributed it to governance, corruption, and the caste system. He did not regard India as a true democracy but acknowledged the country's growth in education and technology. It would only be a matter of time before India surpassed the economies of the United Kingdom or France. For ten years, the European Commission attempted to enter into a free trade agreement with India without success. On the other hand, China has been eager to enter into a free trade agreement with the European Commission. While China has been aggressively pursuing foreign trade, India has not. Still, Mr. Barroso was confident that India would overcome these challenges.

Regent Makarechian asked Mr. Barroso for his thoughts on Brazil. Mr. Barroso stated that Brazil had the potential of being one of the richest countries in the world but struggled with corruption and inequality. He explained how former President Luiz Inácio Lula da Silva's struggles eventually led to the rise of current President Jair Bolsonaro. Mr. Barroso compared President Bolsonaro with President Trump in that he was elected despite being an antiestablishment candidate. Unlike Trump, President Bolsonaro was supported by the Brazilian elite. While his politics have been reactionary, President Bolsonaro has appointed a cabinet with members who are trying to enact some social reforms, modernize the country, and strengthen ties with the United States. Brazil was also trying to become a member of the Organisation for Economic Co-operation and Development (OECD). Regent Makarechian asked whether Mr. Barroso viewed Brazil positively. Mr. Barroso responded that Brazil has some of the best art and creativity but also some of the worst poverty and violence. While a country of Brazil's geographical and population size was extremely difficult to rule, Mr. Barroso believed in the future of Brazil. He added that agriculture was very successful in Brazil and that the country had been trying to stop China from buying a large amount of Brazilian farmland.

Regent Park asked whether China's investment in AI was cause for concern. Mr. Barroso replied that China and the U.S. have led in AI investment while Europe lagged behind. Investments in AI have become important for all modes of production, and militaries and departments of defense have also made investments. Mr. Barroso believed that the U.S. and European countries should be more attentive to this technology in order to gain a competitive advantage both economically and geopolitically. Regent Park asked about the internal changes he anticipated in China. Mr. Barroso had great respect for China's success in lifting so many people out of poverty, but he also expressed dislike for China's political system, which he regarded as monopolized by one political party and lacking freedoms. Mr. Barroso stated that, despite the control by the Chinese Communist Party, there was some competition and meritocracy in China. He observed that the Chinese Communist Party was exerting its control through nationalism in education.

Faculty Representative Bhavnani asked for Mr. Barroso's opinion on the U.S., Brazil, India, and China, emphasizing the latter two countries' treatment of Muslims. Mr. Barroso cautioned against grouping distinct countries together and explained that China believed it had a rightful place as a leading country in the world. Brazil, Russia, India, and China were trying to build relationships separate from Western influences. Mr. Barroso stated his opinion that countries like China and India, which have been excluded from the Group of Seven (G7), harbored a resentment toward Western powers. He differentiated Brazil, a Catholic nation with Western influences, from China and India. Russia has regarded itself as a European country. Mr. Barroso stated that these issues had not been resolved.

Regent Leib asked Mr. Barroso for his opinion on the Argentinian economy and whether recent events in Iran would lead to market destabilization. Mr. Barroso predicted that the more moderate Alberto Fernández would win the presidential election over the incumbent, Mauricio Macri. Mr. Barroso added that he did not know how President Trump would react to events in Iran. He observed that President Trump tended to push the limits in his foreign policy but did not cross the line. President Trump was in talks with North Korea, but North Korea has continued its nuclear program. Cancelling the Iran nuclear deal has not improved international relations. Mr. Barroso did not know whether the U.S. would take punitive action against Iran.

Advisory Member Zager asked whether Christine Lagarde, incoming President of the European Central Bank (ECB) would continue the policies of outgoing President Mario Draghi. Mr. Barroso stated that Mr. Draghi was a career banker while Ms. Lagarde was originally a lawyer. He regarded Ms. Lagarde as politically savvy and predicted that she would be accommodating but would be checked by the ECB Governing Council. Mr. Barroso predicted more fiscal expansion by European countries with surpluses.

Mr. Bachher introduced Jonathan Gray, President and Chief Operating Officer of Blackstone, who spoke about private market investments.

Mr. Gray thanked the University for being a great partner to Blackstone, which recently invested $100 million in a new life sciences building at UC San Diego and would be launching a partnership between Blackstone Charitable Foundation and UC to accelerate entrepreneurship. Blackstone currently managed \$545 billion of investor capital in real estate, private equity, credit, hedge funds, infrastructure, life sciences, and other endeavors. In order to protect returns and the franchise built, the company has focused on maintaining its brand despite a challenging political environment; ensuring that its investment process is integrated, mindful of risk, and responding to changes in technology; and building a well-trained, diverse team of staff members who shared company values and could build long-term careers. Data science was particularly useful for investment in the private market, especially for a company of Blackstone's scale.

The investment landscape was marked by the U.S. trade war with China, Brexit, and the deceleration of industrial economies such as China, Germany, and the U.S. Interest rates and fixed income were very low, resulting in a rise in infrastructure and real estate values. On the other hand, the U.S. economy has been 70 percent consumer-driven, wages were growing, unemployment was low, and home prices were rising. The core of the U.S. economy was good even if its industrial side was slowing. Unemployment in Europe was at a 20-year low, and the consumer side of the Chinese economy remained strong. Mr. Gray foresaw that the returns achieved after the last recession would be harder to replicate in the future. In response to this environment, asset value could be increased by increasing cash flows. One way to increase cash flow would be buying a business and improving it, and another way would be seeking out sectors on the path of growth. Blackstone has observed megatrends and invested accordingly. For instance, Blackstone became the biggest buyer of warehouses in the world and also bought online payment systems in response to the rise in online retail. Blackstone has also invested in live entertainment, buying an audio/visual company and theme park company Merlin Attractions, as well as real estate related to content creation. Blackstone was raising its first, dedicated life sciences fund that would bring drugs through Phase 3 clinical trials. Blackstone was the largest owner of real estate and one of the largest private equity investors in India. He praised the Modi government for bankruptcy and tariff reforms. Mr. Gray also noted that there was investment potential in the United Kingdom despite Brexit and that Blackstone purchased a large amount of real estate there. He closed his remarks by stating that Blackstone remained cautious while acting on megatrends from which the company believed it could generate outsized returns.

Committee Chair Sherman asked whether Blackstone's real estate data indicated economic distress and where that might be. Mr. Gray stated that growth was slower in some parts of the U.S. Trends in the U.S. were reflected worldwide. There were faster rates of growth where creative and technology industries were located, such as the West Coast; Austin, Texas; parts of Manhattan; and Cambridge, Massachusetts. There were slower rates of growth in the Northeast, outside of urban centers, and the Midwest. Some regions were experiencing population decline, which had a detrimental effect on home prices and asset values. Some states with slower growth have raised taxes to maintain revenue. In the rest of the world, urban areas and areas with technology industries have experienced growth as well, such as Scandinavia, Toronto, Vancouver, parts of London, parts of Barcelona, Amsterdam, Shenzhen, Tokyo, and Sydney.

Regent Makarechian noted that ridesharing companies had overtaken the taxi industry and asked about Blackstone's acquisition of Hilton Worldwide Holdings Inc. (Hilton) in the face of Airbnb's success. He also asked whether there were other industries facing a similar situation. Mr. Gray stated that Blackstone bought Hilton in 2007 and that the management team grew Hilton during the financial crisis. Hilton was now ranked the best company to work for in America by *Fortune* magazine. Unlike ridesharing companies, which provided a better experience at a lower price and overtook the taxicab companies, Airbnb provided a better customer experience for leisure travelers in higher-cost markets. For business travelers and in lower-cost markets, hotels provided a better customer experience. One reason why inflation was lower was because technology has added capacity in many industries. Mr. Gray predicted that incumbent companies in other industries would face new technological challengers as well. Companies that relied on a certain method of distribution of their product would be vulnerable. Software was increasingly less bespoke as it has migrated to the cloud. More driverless vehicles would have an impact on trucking and shipping. Mr. Gray assessed businesses based on whether they aligned with trends.

Regent Makarechian asked for Mr. Gray's thoughts on mortgages given the decrease in underwriting and mortgages being sold to banks. Mr. Gray disagreed with this assessment and stated that the U.S. housing market, driven by simple supply and demand, had been doing well. He acknowledged that more homes needed to be built to meet demand. Fannie Mae and Freddie Mac held a much larger share of the market, and the sub-prime portion of the market was much smaller. U.S. housing was a good asset class and a source of strength as opposed to sovereign fixed income. He foresaw home prices rising above inflationary levels until homebuilding rates returned to an equilibrium with demand and obsolescence.

Regent Park asked Mr. Gray for his thoughts on the passage of State Assembly Bill (AB) 5, which changed requirements for independent contractors, regarding it as a reaction to technology companies. Mr. Gray replied that the country faced a real challenge in balancing people's desire for flexible work with ensuring a satisfactory standard of living and a social safety net. It was unclear whether AB 5 struck that balance or whether companies would leave California.

Regent Park asked whether Mr. Gray foresaw changes in disposable income affecting discretionary spending. Mr. Gray replied that technology has helped lower the cost of and expand access to products that consumers want. In the short term, the balance of power has shifted from capital to labor, with wages growing above inflation and a low level of unemployment. This should generally be beneficial to consumers. Regent Park asked whether Blackstone considered human capital development. Mr. Gray responded in the affirmative, adding that Blackstone's most successful companies tended to have the best work cultures. How workers are trained was at the heart of businesses in a knowledge-based economy. Education has provided a competitive advantage in California. The more successful countries generally had a large pool of well-educated talent and immigration policies that help the pool grow. Regent Park asked whether he considered higher education a point of congestion. Mr. Gray replied that he was a proponent both of higher education and vocational training. He noted shortages of skilled workers in many sectors and suggested providing more skills-based training as a way to reduce income inequality.

Regent Um asked what purely new technology was available. Mr. Gray stated that he observed a trend of using data science and AI to improve businesses and people's lives. Life sciences companies were now very technology-driven, and AI had a large impact, but those businesses tended to be earlier-stage start-up companies and Blackstone invested in more mature companies. Blackstone had a dedicated data sciences team. Recently, Blackstone purchased Thomson Reuters' data business, renamed it Refinitiv, and sold it to the London Stock Exchange. Mr. Gray noted that UC was located where many technological innovations were happening.

Regent Simmons asked about Blackstone's diversity practices and how it was leveraging diverse fund and business opportunities. Mr. Gray stated that Blackstone has dedicated a lot of time to diversity but acknowledged that it had much left to do. Blackstone has addressed diversity from its starting positions onward due to its lack of lateral hiring, and it has seen improvements in the number of women, African American, and Hispanic employees. Blackstone has created a hiring pipeline, affinity groups, mentoring programs, and events that help create a sense of support and belonging. Diversity was now assessed in manager reviews, and department leaders received data on their diversity performance against benchmarks. Blackstone was using more inclusive recruitment practices and trying to diversify its board. Some of Blackstone's companies were more diverse than others. Gender equality was more difficult to achieve outside of the United States and Europe, and Mr. Gray communicated to the India office the importance of diversity for Blackstone as a global leader. Blackstone has evolved to more inclusive entrepreneurship since the last financial crisis and has partnered with universities. The company has also hired about 60,000 veterans in partnership with former First Lady Michelle Obama.

Regent Anguiano noted that diversity was an imperative in order to increase investment returns. She asked whether Mr. Gray's previous comments about incumbent industries also applied to the education industry. Mr. Gray responded that technology could democratize access to more basic levels of education. The premium on higher education would likely persist, and intermediaries in higher education would be harder to replace with technology. Regent Anguiano asked Mr. Gray for his opinion on how to meet the global demand for higher education, especially in places that do not have access to billion-dollar campuses. Mr. Gray underscored that technology could be a powerful tool. He did not believe that there was a replacement for the higher education experience. The U.S. rule of law and patent system were competitive advantages at American institutions.

Mr. Bachher asked Mr. Gray for a forecast of private assets in the next five years. Mr. Gray replied that, in private equity, investors were trading liquidity for higher returns and it had been successful. He predicted that private assets would be 300 to 400 basis points over benchmark with variations, but he could not promise the same returns of the last five years. Mr. Bachher stated that the Office of the CIO should then consider much lower discount rates.

Regent Makarechian asked whether Blackstone planned to invest in hotels in space. Mr. Gray responded in the negative.

The meeting adjourned at 4:50 p.m.

Attest:

Secretary and Chief of Staff