The Regents of the University of California

INVESTMENTS COMMITTEE
July 28, 2020

The Investments Committee met on the above date by teleconference meeting conducted in accordance with Paragraph 3 of Governor Newsom's Executive Order N-29-20.

Members present: Regents Anguiano, Blum, Cohen, Leib, Makarechian, Muwwakkil, Sherman, Stegura, and Zettel; Ex officio member Pérez; Advisory member Bhavnani; Chancellors Hawgood, Khosla, and Wilcox; Staff Advisor Tseng

In attendance: Regent-designate Lott, Faculty Representative Gauvain, Secretary and Chief of Staff Shaw, Managing Counsel Shanle, Chief Investment Officer Bachher, Executive Vice President and Chief Financial Officer Brostrom, and Recording Secretary Li

The meeting convened at 1:00 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.

A. Miriam Goldman, UCSF student, addressed item I4, *Update on Diversity, Equity, Inclusion, and Sustainable Investing*. In order to improve diversity, equity, and inclusion on all campuses, she urged the Regents to add to the September agenda an action to divest from UC police departments (UCPD) and invest in mental health services, diversity hiring, cost of living adjustments (COLA), and contributing to local communities. UC spent approximately $140 million annually on policing, and this budget needed reevaluation now more than ever. Every campus had more police than mental health professionals. UCSF had 20 times more police than mental health staff.

B. Tianna Grant, UCSF student, addressed item I4. In order to improve diversity, equity, and inclusion on all campuses, she urged the Regents to add to the September agenda an action to divest from UCPD and invest in mental health services, diversity hiring, COLA, and contributing to local communities. UC spent approximately $140 million annually on policing, and this budget needed reevaluation now more than ever.

C. Michael James Becker, UCSC student, addressed item I4. In order to improve diversity, equity, and inclusion on all campuses, he urged the Regents to add to the September agenda an action to divest from UCPD and invest in mental health services, diversity hiring, COLA, and contributing to local communities. This budget needed reevaluation now more than ever. Between 2000 and 2020, black people in California were 2.5 times more likely to be killed by police. The current law enforcement system needed to be reevaluated and transformed. UCPD was complicit in the oppression of black and indigenous people of color (BIPOC), as demonstrated by close ties to City police departments, large budgets, and the continued harassment of BIPOC. Law enforcement must be held accountable.

D. Nathan Cho, UCSF student, addressed item I4. In order to improve diversity, equity, and inclusion on all campuses, he urged the Regents to add to the September agenda an action to divest from UCPD and invest in mental health services, diversity hiring, COLA, and contributing to local communities. UC spent approximately $140 million annually on policing, and this budget needed reevaluation now more than ever. UC has struggled to find places to make budget cuts, and instituting a systemwide pay freeze would put employees already struggling with the high cost of living at risk. UC must scrutinize the leeway given to UCPD, which has been prioritized over students and public health.

E. Robert Byrd, Executive Coordinator of Pro-Life San Francisco, urged transparency concerning organ harvesting at UCSF. Experiments funded by the National Institutes of Health have created the need for organs from late-term or viable fetuses. There was no justification for killing unborn babies able to survive outside of the womb. Labor induction could result in fetuses born alive up to half of the time. He questioned whether there were policies for verifying signs of life and delivering medical care. Mr. Byrd claimed that UCSF has not complied with a California Public Records Act request from Pro-Life San Francisco submitted in July 2019.

F. Varykina Thackray, member of UCSD faculty and Green New Deal at UCSD, shared three steps that Chief Investment Officer Bachher must take after divesting from fossil fuel companies. First, there must be transparency with regard to what funds had been removed, which could be achieved with an annual accounting of UC's fossil fuel–related investments. Second, divestment from fossil fuel–related companies should be comprehensive and permanent. Third, UC investments should be used to drive a transition from fossil fuels to renewable energy.

G. Monica Nelson, UCSD student, called on the Regents to commit to fully divesting from the fossil fuel industry, including from banks financially supporting the industry, and to acknowledge UC's ethical obligation. Given the severity of the climate crisis, UC's investment, procurement, and employment power should be committed to these ends. She expressed her solidarity with protesters opposed to the Thirty Meter Telescope (TMT) project on Mauna Kea and with calls to defund the UCPD.

H. Enrico Trevisani, UCLA student, shared that over 1,500 signatures had been collected in opposition to the Professional Degree Supplemental Tuition (PDST) increase approved by the Regents over one year ago. UC graduate students urged the Regents to rescind the PDST in light of the challenges students were facing.

They also asked Regents to approve a furlough and salary reduction plan such that higher-paid people would shoulder more of the burden. It was unconscionable to ask students to pay more for remote instruction.

I. Bridget Parr, UCSF nurse, shared her concerns about working conditions. Nurses were reusing personal protective equipment daily and caring for many patients with unknown diagnoses. Nurses had increased exposure risk when administering COVID-19 quick results tests. Ms. Parr experienced a COVID-19 symptom but could not get access to testing until she worked multiple days and was exposed to family members and others. UC should offer staff testing to ensure patient safety.

J. Andrew Kelley, UC Davis Medical Center nurse, shared his concerns about staffing. His department was running at full capacity but was severely understaffed. UC Davis Medical Center must staff appropriately and reduce the number of calls nurses take during overtime so there is less burnout and loss of staff.

K. Catherine Cobb, President of Teamsters Local 2010, spoke about the impact of COVID-19 on union members. The lack of universal mask use, inadequate notification of possible exposure to COVID-19, and failure to accommodate testing have made employees fearful. Governor Newsom mandated statewide mask use and that those exposed to the virus receive support to quarantine. She called on the Regents to ensure that Governor Newsom's orders and UC health and safety policies are followed consistently and universally.

L. Drew Scott, Skilled Trades Director for Teamsters Local 2010, called for insourcing and an end to layoffs. Campuses were still outsourcing work as employees faced layoffs. Insourcing work kept people employed without having to pay prevailing wage. Employees could work on deferred maintenance projects, which were growing more expensive and more hazardous as time passed.

M. Saima Salam, UCLA student, addressed item I4. She urged the Regents to add to the September agenda an action to sign the Open COVID Pledge, which would make UC's intellectual property free and available to use for ending the COVID-19 pandemic. Institutions like UCLA used COVID-19 funding and tax dollars for research, so life-saving innovations should be available to everyone free of charge. The World Health Organization recognized the Open COVID Pledge as one way to respond to its call to action. UC should place people over profits.

N. Yehuda Jian, UCSB student, addressed a systemwide petition calling for defunding UCPD. The petition included a section regarding the Boycott, Divestment, and Sanctions (BDS) movement against Israel, a movement that he regarded as anti-Semitic. This portion of the petition signaled to Jewish students at UC that they mattered less. He urged the Regents not to accept the petition.

O. Ellery Jones, UCSF student, addressed item I4. In order to improve diversity, equity, and inclusion on all campuses, she urged the Regents to add to the

September agenda an action to divest from UCPD and invest in mental health services, diversity hiring, COLA, and contributing to local communities. UC spent approximately $140 million annually on policing, and this budget needed reevaluation now more than ever. Between 2000 and 2020, black people in California were 2.5 times more likely to be killed by police. The connection between UCPD and local law enforcement was one reason why defunding UCPD is a needed step to make campuses and communities safer.

P. Tess Branon, UCB postdoctoral researcher, addressed item I4. In order to invest more money in diversity, equity, and inclusion on all campuses, she urged the Regents to add to the September agenda an action to divest from UCPD and invest in diversity hiring, alternative forms of campus safety, and mental health services. While UC has struggled to find places to make budget cuts and has proposed a systemwide pay freeze for employees already struggling with the high cost of living, UC spent approximately $140 million annually on policing. Every campus had more police than mental health professionals. At some campuses, officers outnumbered counselors more than 11 to one. UC should invest in the well-being of its workers instead; the way UC spends its money should reflect its values.

Q. Bria Puanani Tennyson, UC Berkeley graduate, addressed item I4. The TMT project on Mauna Kea contradicted the values in the item. The project has brought militarized police to Mauna Kea, which was sacred and unceded land, and has led to the arrest of 38 Native Hawaiian elders. UC's continued investment in the TMT project signaled that UC does not value or respect diversity. She called on the Regents to stand on the right side of history, protect Mauna Kea and indigenous people's rights, and divest from the TMT on Mauna Kea and from UCPD.

R. Will Yang, UCSC graduate, spoke about policing at UCSC. Several months ago, police were paid $300,000 per day to bully, harass, and intimidate those trying to address injustice on campus. UCSC has refused to give a COLA to graduate student employees and reinstate them. Students were tired of false promises and demanded that UC address economic inequality on its campuses.

S. Erin Johnson, UCSF student, addressed item I4. In order to improve diversity, equity, and inclusion on all campuses, she urged the Regents to add to the September agenda an action to divest from UCPD and invest in mental health services, diversity hiring, COLA, and contributing to local communities. UC spent approximately $140 million annually on policing, and this budget needed reevaluation now more than ever. As a public institution, UC had the privilege and responsibility to find creative solutions to social problems. Funding a police force perpetuated a system founded in racism and the abuse of black people. Every aspect of law enforcement must be held accountable, including UCPD.

T. Molly Kozminsky, UCB postdoctoral researcher, addressed item I4. In order to improve diversity, equity, and inclusion on all campuses, she urged the Regents to add to the September agenda an action to divest from UCPD and invest in mental health services, diversity hiring, COLA, and contributing to local communities. UC spent approximately $140 million annually on policing, and this budget needed reevaluation now more than ever. UC has struggled to find places to make budget cuts, and instituting a systemwide pay freeze would put employees already struggling with the high cost of living at risk. UC must scrutinize the leeway given to UCPD, which has been prioritized over students and public health.

U. Misha Choudhry, UCR student, addressed item I4. In order to improve diversity, equity, and inclusion on all campuses, she urged the Regents to add to the September agenda an action to divest from UCPD and invest in mental health services, diversity hiring, COLA, and contributing to local communities. UC spent approximately $140 million annually on policing, and this budget needed reevaluation now more than ever. UC could follow the example of the University of Minnesota by divesting from the police and reinvesting in the community.

V. Leandrew Dailey, UCSF student, addressed item I4. In order to improve diversity, equity, and inclusion on all campuses, he urged the Regents to add to the September agenda an action to divest from UCPD and invest in mental health services, diversity hiring, COLA, and contributing to local communities. UC spent approximately $140 million annually on policing, and this budget needed reevaluation now more than ever. Though data analysis is not a solution to a system rooted in oppression, UCPD's lack of data analysis impaired its accountability.

W. Wei Gordon, UCSF student, addressed item I4. In order to improve diversity, equity, and inclusion on all campuses, she urged the Regents to add to the September agenda an action to divest from UCPD and invest in mental health services, diversity hiring, COLA, and contributing to local communities. UC spent approximately $140 million annually on policing, and this budget needed reevaluation now more than ever. Between 2000 and 2020, black people in California were 2.5 times more likely to be killed by police. UCPD was complicit in the oppression of BIPOC, as demonstrated by close ties to City police departments, large budgets, and the continued harassment of BIPOC. Law enforcement must be held accountable.

X. Casey Beppler, UCSF student, addressed item I4. In order to improve diversity, equity, and inclusion on all campuses, she urged the Regents to add to the September agenda an action to divest from UCPD and invest in mental health services, diversity hiring, COLA, and contributing to local communities. UC spent approximately $140 million annually on policing, and this budget needed reevaluation now more than ever. UC has struggled to find places to make budget cuts, and instituting a systemwide pay freeze would put employees already struggling with the high cost of living at risk. UC must scrutinize the leeway given to UCPD, which has been prioritized over students and public health.

Y. Hasan Alkhairo, UCSF student, spoke in support of a systemwide petition to the Regents to add to the September agenda an action to end UC's relationship with the

UCPD union and defund the contract with UCPD union. He stated that UC, a multi-billion-dollar institution, was complicit with the crimes committed by UCPD. Any discussion of diversity and inclusion was useless without addressing systems of oppression. Students, faculty, and staff have spoken. The $140 million should be reinvested in local communities and UC affiliates. He added that, while this petition did not mention the BDS movement, Israel was a colonial state. Anti-Zionism was not anti-Semitic. He called for a free Palestine.

2. APPROVAL OF MINUTES OF PREVIOUS MEETING

Upon motion duly made and seconded, the minutes of the meeting of May 19, 2020 were approved, Regents Anguiano, Blum, Cohen, Leib, Makarechian, Muwwakkil, Pérez, Sherman, and Zettel voting "aye" and Regent Stegura abstaining.[1]

3. FISCAL YEAR 2019–20 UPDATE FROM CHIEF INVESTMENT OFFICER

[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 presented unaudited investment performance results for fiscal year 2019–20. The audited results were typically presented at the September meeting. As of June 30, the Office of the CIO managed $130.2 billion in assets, with $70.2 billion in the pension, $26.9 billion in the UC Retirement Savings Program, $14 billion in the endowment, $17.9 billion in working capital, and $1.2 billion in Fiat Lux, UC's captive insurance company. The Blue and Gold Pool became a source of liquidity for some campuses during this time. Mr. Bachher presented the net returns of each asset class relative to their policy benchmarks. The Total Return Investment Pool (TRIP) and Short Term Investment Pool (STIP) were managed more for liquidity needs in the second half of the fiscal year than for meeting benchmarks. Mr. Bachher compared the performance of the pension over the last 25 years and presented the performance of the pension by asset allocation. Benchmarks for the pension would be presented in detail at the September meeting. He also compared the performance of the endowment over the last 25 years and presented the endowment's performance by asset allocation. The endowment was at $14 billion after payouts were made to campuses. The endowment outperformed the pension in public equity because of active management and outperformed the pension in private equity because of the uniqueness of some of the assets.

Senior Portfolio Manager Satish Ananthaswamy explained the performance of fixed income assets. In a fixed portfolio, the price return was derived from changes in interest rates and credit strength, and the income return was the coupon for the underlying fixed income security. The Office of the CIO's portfolio positioning hurt performance at the start of the pandemic, when the U.S. Treasury stopped trading and markets were in freefall. An increase in volatility unwound mortgage rate leverage, causing fixed income markets to nearly seize. After March 23, markets bounced back due to the backstop provided by the

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

Federal Reserve (Fed). Global banks cut interest rates, and governments around the world pledged almost $8 trillion in fiscal stimulus. Interest rates would likely remain low for the next several years. The Office of the CIO planned to hold enough cash for diversity and liquidity while limiting undue risk. The Fed also announced that it would suspend all its lending programs until December 31.

Managing Director of Public Equity Investments Ronnie Swinkels stated that the equity markets were five percent below their peak in February 2019, but there was much dispersion across sectors and companies. For example, Amazon stocks rose while airline and energy stocks fell. This created a favorable environment for active equity management, which has performed well during the COVID-19 crisis. UC's portfolio has benefited from stocks in China, as well as healthcare and biotechnology stocks. The majority of managers beat their benchmarks and stayed with long-term investment horizons. Active management was expected to continue its good performance due to uncertainty in the equity markets. The Office of the CIO added two black-owned equity management firms in 2020.

Managing Director of Private Equity Investments John Beil stated that the private equity portfolio experienced volatility in the first half of 2020, but the pension and endowment portions of the portfolio generated strong positive returns and outperformed the policy benchmark. Three factors contributed to this strong performance: exiting certain co-investments before the COVID-19–related downturn, overweight investments in the technology and life science sectors, and underweight investments in energy, retail, and some consumer sectors. Cash-on-cash return was the most important performance metric. The Office of the CIO has increased communication with its partners to manage key risk exposures. At the beginning of the pandemic, the private equity portfolio experienced significant cash outflows, and distributions from the sale of portfolio companies was reduced. Managers were now focusing on portfolio management, and few new deals were being done. The majority of UC's portfolio companies held significant cash reserves but would be at risk if the shutdown persists through 2021. Still, the Office of the CIO was optimistic that partners would present attractive new co-investment opportunities.

Senior Managing Director of Absolute Return Investments Edmond Fong explained that the absolute return portfolio experienced significant mark-to-market losses because of liquidation in March. The rerating of the default risk affected the Office of the CIO's exposures, which drove nearly all of its losses in the fiscal year. Unlike securities supported by the Fed, these securities have not fully recovered. Global government intervention has created distortions in markets well suited for alpha-seeking strategies. The Office of the CIO believed that it could still generate strong, risk-adjusted returns. The U.S. may no longer be the best place to invest because of the effect of aggressive Fed action on real rates, expensiveness of U.S. markets, extremes in valuations, the narrowing of the gap between fiscal and monetary stimulus, and the COVID-19 response in the U.S. Security selection and active management might help navigate mispriced and misunderstood risks.

Chief Risk Officer and Senior Managing Director Richard Bookstaber compared the probability of risks such as a large second wave of COVID-19 infection, the technology bubble bursting, a pullback in fiscal stimulus, tensions in trade and geopolitics, U.S.

election turmoil, and a delayed vaccine. In 2019, he would have discussed risks such as climate change, low interest rates, and a trade war with China. The events of this year, such as the pandemic, the 33 percent drop in the market, and negative oil prices, were highly unexpected. There was a strong, asymmetric risk structure.

Mr. Bachher stated that, as of July 27, the Office of the CIO was managing $136 billion in assets. In his view, despite perplexing market behavior, UC needed to stay invested because alternatives like cash had very low to zero interest rates.

In response to a question from Regent Makarechian, Mr. Bachher stated that $130.2 billion in assets at the end of FY 2019–20 did not include the $2.8 billion in bonds recently raised. Regent Makarechian asked Mr. Bachher to comment on the better performance of the endowment compared to the pension. Manager selection seemed to be a big factor. Mr. Bachher replied that the asset allocation of the endowment would be discussed later in the meeting, and the asset allocation of the pension would be discussed at an upcoming Regents meeting. Manager selection has been an important driver.

Regent Makarechian asked Mr. Bookstaber whether there was a risk of the U.S. dollar crashing or of other countries being unable to refinance their debt. Mr. Bookstaber replied that those were undercurrent risks that had not manifested themselves. Other undercurrent risks included emerging markets, and small businesses, especially those that depend on trade financing. These impacts were not readily apparent in the Standard and Poor 500 Index. Regent Makarechian added that there was a trade deficit because of the high prices of U.S. exports as well as trade restrictions on imports into the U.S. Mr. Bachher stated that The Office of the CIO had a $2 billion emerging market debt portfolio. While it did not directly trade currencies, the Office of the CIO held liabilities in U.S. dollars, and other currencies could still affect UC investments.

Committee Chair Sherman asked why the absolute return market mirrored the equity market. Mr. Fong replied that, prior to March, there had been zero correlation between the absolute return market and the equity and bond markets. In March, a funding and liquidity crisis caused markets to spike. Banks seeking collateral acted more aggressively. Capital formation was needed to bring the absolute return market back to an equilibrium, which would take time. This was the fourth time that the absolute return strategy had underperformed its benchmark since it was created in 2003.

Committee Chair Sherman asked what portion of the private equity returns were realized versus unrealized. Mr. Beil replied that bulk of the returns were unrealized; there was very little realization activity in the final quarter of the fiscal year. There was substantial distribution from July 2019 through the end of February 2020. He offered to provide distribution data from the exit of one co-investment.

Regent Cohen asked why the pension performed so far below the benchmark over the last fiscal year. Mr. Bachher replied that active management in public equities helped the performance of the pension. UC was positioned for a shorter duration in fixed income, and longer duration positions saw more benefit. Mr. Ananthaswamy added that UC had high-quality mortgage credit, but unwinding of the mortgage rate leverage left UC out of the index and overweight. The Office of the CIO was more focused on credit securities. Mr. Bachher stated that holding more cash was a defensive posture in a risky environment. From May 18 to the present, markets have grown, and having a protective posture has not helped performance. The bulk of private assets underperformed benchmarks.

Chancellor Hawgood asked about the strategy for the Blue and Gold Pool. Mr. Bachher replied that the Blue and Gold Pool was available if campuses wished to move money from STIP and TRIP. It has proven its usefulness as a source of capital.

4. **AMENDMENT OF THE UNIVERSITY OF CALIFORNIA RETIREMENT SAVINGS PROGRAM PLAN DOCUMENTS TO ALLOW PLAN DISTRIBUTIONS FOR A DEFERRED ANNUITY PURCHASE**

The Chief Investment Officer recommended that the Regents approve the following items in connection with the UC Retirement Savings Program plan:

A. Amendment of the 403(b), 457 (b), 401 (a) Defined Contribution Plan (DCP) plan documents to allow a plan distribution for current employees and retirees to purchase a deferred annuity beginning at age 62.

B. The President of the University be authorized to implement these approved changes, and the Plan Administrator be delegated authority to subsequently amend the Retirement Savings Program (RSP) plan documents as necessary to implement the approved changes.

[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.]

Managing Director of Defined Contributions Products Marco Merz explained that the proposed amendment would provide participants in the UC Retirement Savings Program (RSP) with an option to purchase a deferred income annuity within UC Pathway Funds. The RSP was created in 1967 so that participants could save beyond their mandatory contributions to the pension. There were over 300,000 participants in the RSP, with roughly $27 billion in assets. Starting in 2016, employees could choose between the pension and the Defined Contribution Plan (DCP). In 2014, the target date fund pathway became the default choice in the RSP. Currently, the target date fund had over $10 billion in assets and was comprised of eight underlying asset classes. The fund systematically rebalanced, changed risk over time, and supported periodic withdrawal. The target date fund was still subject to market volatility. In an era of longer life expectancy, participants had an increased risk of outliving their savings. This amendment would embed a lifetime income option. At age 62, participants would have the option to purchase a qualified longevity annuity contract, or a deferred annuity, with 25 percent of their accumulated assets. Income payments for a deferred annuity would not begin until age 78, because of longevity risk, allowing participants to maintain liquidity, and the ability to deliver guaranteed income for life. This investment vehicle would be unique to UC and would provide features such as a spousal option, death benefit, and institutional-quality pricing. Individuals would be able to select this option starting in June 2021. From January to March 2021, the Office of the CIO would provide broad education about the program. From March to June 2021, it would engage in an enrollment campaign. This was an optional program and not the default.

Committee Chair Sherman asked whether a retiree could sell the annuity to generate cash. Mr. Merz replied that the annuity would be irrevocable. There were be no option to reliquefy assets, which was why only a quarter of assets would be used to purchase the annuity, leaving 75 percent of assets in a fully liquid portfolio.

Regent Cohen remarked that, based on economies of scale, UC should be able to buy a better annuity package for its participants. He asked what savings participants could expect. Mr. Merz replied that, unlike annuities in the retail marketplace, this would charge no commission. Participants would be investing 100 percent of what they pay. UC would pay two basis points to implement the annuity.

Regent Cohen asked who bore the risk if a participant had a much longer life expectancy. Mr. Merz replied that the insurer would take on the risk of longevity, not UC.

Regent Zettel asked what would happen if a participant died upon purchasing the annuity. Mr. Merz replied that a participant's estate would receive the full premium if they died before payments commenced. Any payments made would be deducted from the principal before the principal is given to the participant's estate.

Regent Zettel asked what the premium amount was. Mr. Merz replied that the amount would be whatever the participant invests.

Staff Advisor Tseng asked how this program would be communicated to younger staff. Mr. Merz replied that communication and education would be critical to the success of the program. Systemwide Human Resources would engage in a very robust campaign. The Office of the CIO has sought input from the Academic Senate and faculty and planned to share ideas and draft communications with the Academic Senate and other staff advisors.

Committee Chair Sherman asked if there would be a calculator tool for employees and retirees. Mr. Merz stated that this would be a part of the communication effort and would be intuitive and easy to understand. The Office of the CIO could share what it with Regents.

Regent Pérez asked whether the calculator tool would use actuarial data that reflected demographic differences such as occupation, gender, and race. Mr. Merz stated that the tool was currently designed to use average data, but the Office of the CIO was working on incorporating more types of data. There was still plenty of time to refine and augment the tool. Regent Pérez remarked that the bidders would want to see UC's demographic data. This was an interesting approach, and he was pleased with this discussion. Mr. Merz underscored the team's appreciation and the importance of stakeholder engagement.

Regent Anguiano applauded the Office of the CIO's creativity in presenting participants with options. She echoed the importance of the communication strategy, which would be critical.

Faculty Representative Bhavnani shared that the Academic Senate's University Committee on Faculty Welfare was very enthusiastic about this program. She urged the Office of the CIO to involve the Academic Senate and other constituencies when developing materials. Mr. Merz stated that this would be a team effort with various constituencies and that the Office of the CIO would honor the requests of the Academic Senate's qualified endorsement letter.

Regent Cohen asked whether it was the case that the principal would be returned to the estate in the event of early participant death but not any interest earnings. Mr. Merz replied in the affirmative.

Committee Chair Sherman asked why the annuity did not have several payout ages to choose from, especially given the long period between election and payout. Mr. Merz acknowledged the challenge of balancing flexibility with complexity. The Office of the CIO chose one age to make the program easier to understand. Committee Chair Sherman noted that the average life expectancy for males in the U.S was in the low 80s. He suggested soliciting input from constituents on this issue.

Upon motion duly made and seconded, the Committee approved the Chief Investment Officer's recommendation and voted to present it to the Board, Regents Anguiano, Cohen, Leib, Makarechian, Muwwakkil, Pérez, Sherman, Stegura, and Zettel voting "aye."

5. **AMENDMENT OF INVESTMENT POLICY STATEMENTS AND GUIDELINES (REGENT POLICIES 6102, 6108, AND 6109) AND RESCISSION OF ASSET AND RISK ALLOCATION POLICIES (REGENTS POLICIES 6402, 6403 AND 6404)**

The Chief Investment Officer recommended that the Regents, effective as of July 1, 2020:

A. Amend and rename Regents Policy 6108 – UC Total Return Investment Pool Investment Policy Statement, as shown in Attachment 1.

B. Amend and rename Regents Policy 6109 – Short Term Investment Pool Investment Policy Statement, as shown in Attachment 2.

C. Amend and rename Regents Policy 6102 – UC General Endowment Pool Investment Policy Statement, as shown in Attachment 3.

D. Rescind Regents Policy 6402: University of California General Endowment Pool Asset and Risk Allocation Policy, as shown in Attachment 4.

E. Rescind Regents Policy 6403: University of California Total Return Investment Pool Asset and Risk Allocation Policy, as shown in Attachment 5.

F. Rescind Regents Policy 6404: University of California Short Term Investment Pool Asset and Risk Allocation Policy, as shown in Attachment 6.

It is recommended that the Regents confirm, ratify, and approve all actions heretofore taken on or after July 1, 2020 by the Office of the Chief Investment Officer consistent with the investment policies and guidelines included in the foregoing recommendations.

[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 explained that the proposed changes would remove credit risk and simplify the benchmark for the Short Term Investment Pool (STIP) and change the asset allocation within the Total Return Investment Pool (TRIP).

Jay Love of Mercer, an investment consulting firm, stated that uncertainty and volatility in 2020 have made budgeting capital expenditures difficult for chief financial officers. The time horizon for TRIP investments has shortened, and there was a need for rapid liquidity. Bond yields have declined dramatically. Mercer sought to align the time horizon with campus needs, determine an asset allocation that could produce returns close to the expected four percent, and increase liquidity. Mercer proposed restructuring the fixed income portfolio to shorten duration while maintaining the 50 percent allocation; moving the absolute return allocation to the equity portfolio; increasing the equity portfolio allocation to 50 percent; and retaining the ability to invest up to ten percent in private investments. Mr. Love presented the simulated five-year return and risk under the proposed TRIP allocation. Risk would be slightly higher, but more money would be available. Mr. Bachher noted the cost reduction in the proposal. Mr. Love noted that this would be a more streamlined and more straightforward portfolio.

Committee Chair Sherman asked whether private investments could occur in either asset class in TRIP. Mr. Bachher replied that it could occur in either asset class, but he would not make any private investments unless they were attractive for the time horizon.

Regent Makarechian asked how much was held in STIP, TRIP, and the Blue and Gold Pool. Mr. Bachher stated that Blue and Gold was currently at zero, and STIP and TRIP had nearly $20 billion combined, the bulk of which was in STIP. Regent Makarechian noted the difference between this amount and the $17.2 billion previously presented. Mr. Bachher clarified that STIP and TRIP held nearly $20 billion as of July 27 and included $2.8 billion in bonds.

Regent Makarechian asked who would be responsible for ensuring that investments would not be overexposed. Mr. Bachher replied that the Office of the CIO had a team that monitored risk. He wished to keep working capital simple. Regent Makarechian asked if the Office of the CIO was monitoring risks across all assets. Mr. Bachher replied in the affirmative. The risk team was transparent, and there were daily asset and risk reports. That transparency has helped the Office of the CIO better understand its risk exposure. The biggest risk factor that drove all of UC assets was economic growth.

Regent Zettel expressed concern that investing in private credit, such as distressed credit opportunities, and being a secondary or tertiary lender would be riskier in a post–COVID-19 environment. Mr. Bachher replied that this would be discussed in detail later in the meeting and offered to share the daily risk report with the Committee. Regent Zettel asked if the Office of the CIO would need to hire more staff to evaluate these new private credit investments. Mr. Bachher responded in the negative.

Mr. Bachher remarked that the proposed changes to STIP reflected his discomfort with owning credit risk in a money market liquidity pool at this time. Overall, these changes would eliminate the need to cross-reference multiple documents.

Upon motion duly made and seconded, the Committee approved paragraphs A, B, E, and F of the Chief Investment Officer's recommendation and voted to present it to the Board, Regents Anguiano, Cohen, Leib, Makarechian, Muwwakkil, Pérez, Sherman, Stegura, and Zettel voting "aye."

Mr. Bachher stated that he had engaged Cambridge Associates, a global investment firm, to analyze the performance and asset allocation of the endowment after it had done so several years ago.

Alexandra Readey of Cambridge Associates stated that the firm examined UC's returns compared with its peers, its asset allocation policies, and what has contributed to UC's industry-leading success. Cambridge Associates considered how to continue UC's success with a new plan, which would lower alternatives from 60 percent to 50 percent. Private equity would be increased, credit would be extracted from absolute return, and real estate would be its own allocation.

Wendy Walker of Cambridge Associates presented a chart of the recommended allocation shifts. Because of its opportunistic exposure to private credit, absolute returns should be its own allocation. Capping alternatives at 50 percent would ensure liquidity. A cash allocation and a lower fixed income target were recommended. Mr. Bachher added that recommendations for private credit and real assets benchmarks would be presented at an upcoming meeting. A three-month lag in the real estate benchmark would be removed. Ms. Walker stated Cambridge Associates believed that the UC portfolio could withstand higher volatility for higher returns. Moving private credit into its own allocation would bring UC's absolute return exposure closer to that of peer organizations. Cambridge Associates also recommended growing the private equity allocation closer to peer allocation of 28 percent.
Regent Makarechian noted inaccurate percentage totals for the allocations in the presentation slides. Ms. Walker attributed this to rounding numbers and offered to provide the Regents with specific numbers for the allocations.

Ms. Walker stated that the difference between real assets and real estate merited separate asset classes and policy benchmarks. Mr. Bachher added that private debt would be an exclusive category at four percent. Ms. Walker stated that the proposed portfolios would have higher returns that were closer to the long-term returns of peer organizations and would keep pace with inflation. Some negative returns were expected in fixed income.

Ijeh Ogbechie of Cambridge Associates stated that UC's performance, driven mostly by asset allocation, improved relative to its peers in the last ten years. UC outperformed peers in private equity and venture capital, and it benefited from releasing oil and natural gas investments.

Mr. Bachher explained that this change would simplify the asset allocation, keep UC invested, and keep UC open to future investment opportunities. Second, adjustments would need to be made to other assets accommodate the suggested new focus on private credit.

Regent Cohen asked whether the Office of the CIO had the capacity to increase the private equity allocation. Mr. Bachher expressed his belief that it was possible but would take time because of other asset classes that the Office of the CIO managed. Committee Chair Sherman noted that Mr. Bachher was not burdened by previous legacy. The private equity team at the Office of the President was positioned to put money into co-investments, which has represented UC's most significant realized gains. Mr. Bachher added that UC innovations presented new investment opportunities as well.

Upon motion duly made and seconded, the Committee approved paragraphs C and D of the Chief Investment Officer's recommendation and voted to present it to the Board, Regents Anguiano, Cohen, Leib, Makarechian, Muwwakkil, Pérez, Sherman, Stegura, and Zettel voting "aye."

6. **UPDATE ON DIVERSITY, EQUITY, INCLUSION AND SUSTAINABLE INVESTING**

[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 Operating Officer Arthur Guimaraes stated that the Office of the Chief Investment Officer (CIO) believed that environment, social, and governance (ESG) risks were equivalent to any other material risk factor. Studies have shown that diverse teams performed better and delivered better risk-adjusted returns. ESG concerns were added to UC's investment policy in 2018. Mr. Guimaraes presented dashboards which would be used to regularly report ESG updates to the Regents. The Office of the CIO has invested $10 billion in diverse managers and has engaged in shareholder voting in accordance with these values. A 2019 Knight Foundation study showed that, in the U.S., less than one percent of assets were invested with diverse firms. At UC, over 15 percent of active assets under management were invested with diverse managers. The study also indicated that diverse firms performed better. Since conducting its own diversity study, the Office of the CIO doubled the number of black-owned firms as well as these firms' assets under management and invested over $1 billion with Latino(a) firms. The Office of the CIO was committed to allocating an additional $2 billion over the next four years to women and diverse managers, as well as working with campuses to develop the next generation of finance and investment professionals. From April to June, CIO Bachher hosted widely attended interviews with women and diverse leaders on topics such as systemic racism. The Office of the CIO team also had candid conversations about the killings of George Floyd and Breonna Taylor. Mr. Guimaraes shared examples of diverse professional and academic networks from the Office of the CIO's new recruitment outreach list. Success would still be measured by performance. As a shareholder, UC has voted against nominating committees that were not diverse. The Office of the CIO was creating an online portal to share its record of proxy voting. The team was excited and eager to make a difference in the industry.

Mr. Bachher stated that the Office of the CIO would provide quarterly reports on its progress. Despite the distance created by the COVID-19 pandemic, frank discussions about race, culture, and diversity have brought the staff closer together. Mr. Bachher commended his team's progress and thanked his team for their commitment to diversity, equity, and inclusion.

Regent Leib asked if there were short-term diversity goals for money managers and private equity firms. Mr. Bachher replied that the Office of the CIO would increase access and exposure, as well decentralize outreach, in order to find attractive opportunities.

Regent Leib noted that diverse firms might have difficulty approaching UC because of its size. Mr. Bachher replied that some of UC's highest returning assets came from smaller investments. In his experience, the issue was often whether the investment opportunity met holistic criteria. The Office of the CIO should help diverse firms meet those criteria.

Regent Stegura praised the online events that Mr. Bachher hosted. She asked how UC ensured that investment management firms were abiding by UC's ESG and diversity, equity, and inclusion standards. Mr. Bachher replied that this would take time. The statistics were poor across the industry. He wished to see UC lead in diversity, equity, and inclusion in the same way it has led in climate action in the last five years.

Faculty Representative Bhavnani encouraged the Office of the CIO to acknowledge intersectional identities, or the cross-cutting axes of inequalities, in these efforts. She suggested active mentorship and encouragement of newcomers to the industry or recent graduates.

Regent Anguiano emphasized the importance of setting measurable, short-term goals, such as diverse manager outreach and training events, which could be used to report the Office of the CIO's progress to the Regents. Mr. Bachher replied that a more detailed list would be provided at an upcoming Regents meeting.

The meeting adjourned at 4:20 p.m.

Attest:

Secretary and Chief of Staff

Attachment 1

UNIVERSITY OF CALIFORNIA
TOTAL RETURN INVESTMENT POOL
[UC WORKING CAPITAL]

INVESTMENT POLICY STATEMENT

Effective: July 1, 2020
Replaces the TRIP Investment Policy Statement and TRIP Asset and Risk Allocation Policy effective March 15, 2018

UNIVERSITY OF CALIFORNIA TOTAL RETURN INVESTMENT POOL
INVESTMENT POLICY STATEMENT

PURPOSE

The purpose of this Investment Policy Statement ("Policy" or "IPS") is to define the objectives, policies and guidelines for the management and oversight of the University of California ("UC") Total Return Investment Pool ("TRIP"). The management of TRIP is subject to state and federal regulations and laws, and all other University investment policies, which may not be listed in this document.

The Policy consists of the following sections:

1. Roles and Responsibilities
2. Objectives
3. Investment Guidelines
4. Strategic Allocation
5. Risk Management
6. Benchmarks
7. Rebalancing
8. Monitoring and Reporting
9. Policy Maintenance
10. No Right of Action
11. Disclosures
12. Other Policies

1. ROLES AND RESPONSIBILITIES

Board of Regents

The Board defines the goals and objectives of TRIP and is responsible for establishing and approving changes to this Policy.

The Board of Regents may delegate the implementation of this policy to the Chief Investment Officer and investment advisors.

Chief Investment Officer

The Chief Investment Officer ("CIO", "OCIO", "Office of the Chief Investment Officer" or "UC Investments") is responsible for implementing the approved investment policies and developing investment processes and procedures for asset allocation, risk management, investment manager selection and termination, monitoring and evaluation, and the identification of management strategies that will improve the investment efficiency of TRIP assets.

Investment Managers

The OCIO may delegate to external Investment Managers responsibility for managing all or a portion of the assets. Any external Investment Managers will assume the roles and responsibilities of "investment manager" under Section 3(38) of ERISA, including but not limited to acknowledging in writing that such Investment Manager is a fiduciary with respect to the assets it manages on behalf of TRIP. The Investment Manager will accept assets and invest in compliance with all relevant regulations and laws, the Investment Manager's individual investment management agreement(s), and as applicable, the stated investment guidelines in this Policy.

Trustee/Custodian

The role of the Trustee/Custodian is to provide safekeeping, accounting and valuation of Trust assets.

2. OBJECTIVES

Overall Objective

TRIP is an investment pool established by the Board of Regents with the objective to provide a high-quality liquid investment vehicle for intermediate-term needs. The primary investment objective is to earn an overall rate of return consistent with the expected intermediate-term spending of TRIP. The investment objective shall be subject to risk tolerance and liquidity management practices established with the Office of the President and Campuses. TRIP is available to all University groups and affiliates.

Return Objective

TRIP seeks to generate a rate of return, after all costs and fees, consistent with TRIP's Overall Objectives, including spending objectives and time horizon. Subject to the risk objective below, TRIP's return objective is to earn a return consistent with or greater than a portfolio equally allocated between public equities and high-quality bonds.

Risk Objective

TRIP will seek to 1) have a low probability of a negative return over a three to five year time horizon and 2) limit the portfolio's expected volatility and maximum drawdown to the level of a portfolio equally allocated between public equities and high-quality bonds and consistent with TRIP's objectives and payout expectations.

Sustainability Objectives

TRIP will be managed in a manner that balances meeting the needs of current investors without compromising the needs of future investors. TRIP will consider sustainability in both risk assessment and investment due diligence.

3. INVESTMENT GUIDELINES

Permitted Investments

TRIP will primarily investment in public equity and intermediate fixed income. The following is a list of the asset classes allowed in TRIP:

1. **Public Equity**

   Includes publicly traded common and preferred stock of issuers domiciled in US, Non-US, and Emerging (and Frontier) Markets. The objective of this segment of the portfolio is to generate investment returns with adequate liquidity through a globally diversified portfolio of common and preferred stocks.

2. **Fixed Income**

   Fixed income includes a variety of income related asset types. The portfolio may invest in interest bearing and income-based instruments such as corporate and government bonds, high yield debt, emerging markets debt, inflation linked securities, cash and cash equivalents. Both traditional (benchmark relative) strategies and unconstrained (benchmark agnostic) strategies. The objective of the income portfolio is to provide stability and necessary liquidity for payment obligations, while investing in higher yielding and less liquid income opportunities with attractive return potential.

3. Private Assets

Private asset (equity, debt or other non-publicly traded investments) investments are expected to generate higher long-term real returns versus a portfolio equally allocated between public equities and high-quality bonds by exploiting market inefficiencies, informational advantages and time horizon opportunities. TRIP may invest up to 10% in private assets opportunistically at the discretion of the CIO when the expected return and risk are deemed favorable to TRIP's public market assets. All private asset investments must be approved by the CIO.

4. Derivatives

A derivative is a contract or security whose value is derived from another security or risk factor. There are three fundamental classes of derivatives – futures, options and swaps – each with many variations; in addition, some securities are combinations of derivatives or contain embedded derivatives. Use of derivatives to create economic leverage is prohibited. Permitted applications for derivatives are efficient substitutes for physical securities, managing risk by hedging existing exposures, or other approved active management strategies.

Each asset class is assigned a benchmark that represents the opportunity set and risk and return characteristics associated with the asset class. For some private or more complex asset classes the benchmark serves as a proxy for the expected level and pattern of returns rather than an approximation of the actual investment holdings.

Investment Restrictions

The Regents have established that the purchase of securities issued by tobacco companies and companies with business operations in Sudan are prohibited in separately managed accounts. The Chief Investment Officer will determine what constitutes a tobacco or Sudan company based on standard industry classification of the major index providers and must communicate this list to investment managers annually and whenever changes occur.

4. STRATEGIC ALLOCATION

The Strategic Asset Allocation (SAA) is the primary determinant of the return and risk of the portfolio. The SAA is set by the Board of Regents in consultation with the OCIO and reviewed periodically to reflect current program objectives and capital market expectations. The SAA expresses the target allocation and the allowable minimum and maximum allocations for each asset class. The actual portfolio exposures may deviate from the SAA as a result of price drifts, opportunity set, and value adding activities of the OCIO, but generally should remain within the allowable ranges Tactical asset allocation shifts within and across asset classes are permitted if those decisions are expected to add value to TRIP.

Below are the strategic asset allocation long-term weights and allowable ranges:

Table 1

	Strategic Asset Allocation	Allowable Ranges Minimum	Allowable Ranges Maximum
Public Equity	**50.0**	**35.0**	**55.0**
Fixed Income	**50.0**	**35.0**	**55.0**
Private Assets*	**0.0**	**0.0**	**10.0**
TOTAL	**100.0%**		

*TRIP has the flexibility to invest up to ten percent of the portfolio in private investments.

5. RISK MANAGEMENT

The primary risks to TRIP are the inability to meet planned spending and/or the inability to return capital to the owners of TRIP assets. Total program volatility will be managed to limit these risks. The principal factors that determine TRIP's asset volatility, and the parties responsible for managing them, are as follows:

- Capital market risk is the risk that the investment return associated with the asset allocation policy is not sufficient to provide the required returns to meet the TRIP's investment objectives. Responsibility for determining the overall level of capital market risk lies with the Board and OCIO.

- Total active risk refers to the volatility of the difference between the return of the TRIP policy benchmark and the actual return. It incorporates the aggregate of investment style risk, active management risk, and tactical/strategic risks and is thus the responsibility of the Chief Investment Officer.

Although the management of investment portfolios may be outsourced, investment oversight and risk management are primary fiduciary duties of the Board that are delegated to and performed by the Chief Investment Officer.

Active Risk: Each Manager or asset class segment will have a unique active risk budget, relative to its asset class benchmark, which is appropriate to its individual strategy, and specified in its guidelines.

The OCIO is responsible for managing both total and active risk, as well as other portfolio risks including foreign exchange risk, credit risk, and liquidity risk. The OCIO shall implement procedures and safeguards so that the combined risk exposures of all portfolios taken together are kept within limits appropriate to the TRIP's risk tolerance.

6. BENCHMARKS

TRIP's performance will be evaluated against appropriate benchmarks including a strategic asset allocation benchmark ("Total TRIP Portfolio Benchmark") and specific benchmarks for each asset class and investment manager. The Total TRIP Portfolio Benchmark is a weighted average consisting of the asset class benchmarks listed below weighted by the SAA target weights. The benchmarks for each asset class are shown in **Table 2**:

Table 2

Asset Class	Benchmark
Public Equity	MSCI All Country World Index (ACWI) Investable Market Index (IMI) Tobacco and Fossil Fuel Free - Net Dividends
Fixed Income	Bloomberg Barclays US 1-5 Year Government / Credit Index
Private Assets	Total TRIP Portfolio Benchmark

7. REBALANCING

There will be periodic deviations in actual asset weights from the strategic target weights. Causes for periodic deviations are market movements, cash flows, tactical tilts, and asset selection. Significant movements from the asset class policy weights will alter the intended expected return and risk of TRIP. Accordingly, TRIP may be rebalanced when necessary to ensure adherence to this policy and the Investment Policy.

The OCIO will monitor the actual asset allocation. The Board directs the OCIO to take all actions necessary, within the requirement to act prudently, to manage the asset allocation in a manner that ensures that TRIP achieves its risk and return objectives.

The OCIO shall assess and manage the trade-off between the cost of rebalancing and the active risk associated with the deviation from policy asset weights. The Chief Investment Officer may delay a rebalancing program when the Chief Investment Officer believes the delay is in the best interest of TRIP.

8. MONITORING AND REPORTING

The OCIO is responsible for monitoring the portfolio and investment managers on an ongoing basis. The OCIO should monitor and report to the Investments Committee, Finance and Capital Strategies Committee and Board of Regents on the following items.

1. Asset Allocation and Risk Measures and Exposures

2. Investment Performance and Attribution (against benchmarks identified in this Policy)

3. Material Changes to Organization and Investment Strategy

4. Potential Material Issues and Risks

5. Compliance of TRIP with this Policy

While short-term results will be monitored, it is understood that TRIP's objectives are long-term in nature and progress towards these objectives will be evaluated from a long-term perspective.

On at least an annual basis the CIO will report on the implementation of the UC's Sustainability Framework which will include a discussion on the portfolio's environmental, social, and governance risks considered during the year.

9. POLICY MAINTAINANCE

The Policy should be reviewed at least annually and updated as necessary. Revisions may be recommended by the OCIO, Investments Committee, Finance and Capital Strategies Committee, and approved by the Board of Regents.

10. NO RIGHT OF ACTION

This Policy is not intended to, and does not, create any right or benefit, substantive or procedural, enforceable at law or in equity by any party against the University of California or its Board of Regents, individual Regents, officers, employees, or agents.

11. DISCLOSURES

The Chief Investment Officer provides investment-related information on TRIP to the Regents' Investments Committee in a manner consistent with the requirements outlined in this policy. Current and historical materials are publicly available on The Regents' website within the section on Meeting Agendas and Schedule. The Chief Investment Officer's Annual Report for the most recent fiscal year is also available on the Chief Investment Officer's website.

Changes to procedures and related documents do not require Regents approval, and inclusion or amendment of references to these documents can be implemented administratively by the Office of the Secretary and Chief of Staff upon request by the unit responsible for the linked documents.

12. OTHER POLICIES

TRIP will follow the proxy voting and investment valuation policies developed and approved by the Office of the Chief Investment Officer.

Attachment 2

UNIVERSITY OF CALIFORNIA
SHORT TERM INVESTMENT POOL

[UC LIQUIDITY]

INVESTMENT POLICY STATEMENT

Effective: July 1, 2020
Replaces the STIP Investment Policy Statement and STIP Asset and Risk Allocation Policy effective March 15, 2018

UNIVERSITY OF CALIFORNIA SHORT TERM INVESTMENT POOL
INVESTMENT POLICY STATEMENT

PURPOSE

The purpose of this Investment Policy Statement ("Policy" or "IPS") is to define the objectives, policies and guidelines for management and oversight of the University of California ("UC") Short Term Investment Pool ("STIP"). The management of STIP is subject to state and federal regulations and laws, and all other University investment policies, which may not be listed in this document.

The Policy consists of the following sections:

1. Roles and Responsibilities
2. Objectives
3. Investment Guidelines
4. Strategic Allocation
5. Risk Management
6. Benchmarks
7. Monitoring and Reporting
8. Policy Maintenance
9. No Right of Action
10. Disclosures
11. Other Policies

1. ROLES AND RESPONSIBILITIES

Board of Regents

The Board defines the goals and objectives of STIP and is responsible for establishing and approving changes to this Policy. The Board of Regents may delegate the implementation of this policy to sub-committees, the Chief Investment Officer and investment advisors.

Chief Investment Officer

The Chief Investment Officer ("CIO", "Office of the Chief Investment Officer", "OCIO" or "UC Investments") is responsible for implementing the approved investment policies and developing investment processes and procedures for asset allocation, risk management, investment manager selection and termination, monitoring and evaluation, and the identification of management strategies that will improve the investment efficiency of STIP assets.

Investment Managers

The OCIO may delegate to external Investment Managers responsibility for managing all or a portion of the assets. Any external Investment Managers will assume the roles and responsibilities of "investment manager" under Section 3(38) of ERISA, including but not limited to acknowledging in writing that such Investment Manager is a fiduciary with respect to the assets it manages on behalf of STIP. The Investment Manager will accept assets and comply with all relevant laws, the Investment Manager's individual investment management agreement(s), and as applicable, the stated investment guidelines in this Policy.

Trustee/Custodian

The role of the Trustee/Custodian is to provide safekeeping, accounting and valuation of Trust assets.

2. OBJECTIVES

Overall Objective
STIP is a cash investment pool established by the Board of Regents with the objective of providing a high quality liquid investment vehicle for short-term liquidity needs. STIP's primary objective is to preserve capital and to earn investment income consistent with interest available on low-risk investments. The STIP is available to all University groups and affiliates.

Return Objective
STIP seeks to maximize returns consistent with its primary objective of safety of principal and liquidity, and cash flow requirements.

Risk Objective
STIP seeks to preserve capital and avoid negative returns over any one-year time horizon.

Sustainability Objective
STIP will be managed in a manner that balances meeting the needs of current investors without compromising the needs of future investors. STIP will consider sustainability in both risk assessment and investment due diligence.

3. INVESTMENT GUIDELINES

Permitted Investments
STIP will primarily invest in high quality, liquid, short duration US dollar-denominated bills, notes and cash equivalents. The following is a list of the investment classes allowed in STIP:

1. Short term fixed income instruments (having remaining maturity of less than or equal to 12 months)

    a. Obligations issued or guaranteed by the U.S. Federal Government, U.S. Federal Agencies or U.S. government-sponsored corporations and agencies such as US Treasury and Agency bills and notes.
    b. Certificates of deposit (CD)
    c. Time deposit (TD)
    d. Bankers acceptances
    e. Commercial paper
    f. Obligations issued or guaranteed by U.S. local, city and State governments and agencies which are pre-funded by US Treasury Securities in escrow.
    g. Money market funds managed by the custodian

Investment Restrictions
The Regents have established that the purchase of securities issued by tobacco companies and companies with business operations in Sudan are prohibited in separately managed accounts. The Chief Investment Officer will determine what constitutes a tobacco or Sudan company based on standard industry classification of the major index providers and must communicate this list to

investment managers annually and whenever changes occur.

Employing economic leverage in the portfolio through borrowing, derivatives, or forward-settled transactions (beyond regular settlement) is prohibited.

4. STRATEGIC ALLOCATION

The portfolio will be invested in marketable, publicly traded, high quality short term fixed income instruments, notes and debentures denominated in U.S. dollars and cash (or cash equivalent) instruments.

5. RISK MANAGEMENT

The following limitations will apply in order to maintain investment and liquidity risk within acceptable ranges:

1. Credit risk

   a) No more than 40% of the portfolio's investments should be invested in securities other than US Treasury and Agency bills and notes, and US Government money market funds managed by the custodian.
   b) No more than 20% of the portfolio's investments should be invested in US Government money market funds managed by the custodian. Money market funds should have a rating of AAAm/AAAmf or equivalent by the NRSO's.
   c) Commercial Paper must have a rating of at least A-1, P-1, or F-1
   d) Investments should exhibit a credit quality of A (or equivalent) or better, as determined by one of the NRSRO's Split-rated credits are considered to have the lower credit rating. US Treasury and Agency bills and notes are exempt from this requirement.
   e) No more than 5% of the portfolio'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 30 days.
   f) Except for securities issued by the US Treasury or Agencies of the US Government, no more than 3% of the portfolio's market value may be invested in any single issuer.

2. Liquidity risk

   a) The portfolio's investments in aggregate of any security may not exceed 15% of that security's outstanding par value at time of purchase, without a written exception approved by the Chief Investment Officer.

6. BENCHMARK

The STIP Benchmark will be a 50/50 weighted average of the yield on a constant maturity One Year US Treasury Note and US 30 day Treasury Bills.

7. MONITORING AND REPORTING

The OCIO is responsible for monitoring the portfolio and investment managers on an ongoing basis. The OCIO should monitor and report to the Board of Regents and designated sub-committees on the following items.

1. Asset Allocation and Risk Measures and Exposures
2. Investment Performance and Attribution (against the STIP Benchmark)
3. Material Changes to Investment Strategy
4. Potential Material Issues and Risks
5. Compliance of STIP with this Policy

On at least an annual basis the CIO will report on the implementation of the UC's Sustainability Framework which will include a discussion on the portfolio's environmental, social, and governance risks considered during the year.

8. POLICY MAINTENANCE

The Policy should be reviewed at least annually and updated as necessary. Revisions may be recommended by the OCIO, Investments Subcommittee, Finance and Capital Strategies Committee, and approved by the Board of Regents.

9. NO RIGHT OF ACTION

This policy is not intended to, and does not, create any right or benefit, substantive or procedural, enforceable at law or in equity by any party against the University of California or its Board of Regents, individual Regents, officers, employees, or agents.

10. DISCLOSURES

The Chief Investment Officer provides investment-related information on STIP to the Regents' Investments Subcommittee in a manner consistent with the requirements outlined in this policy. Current and historical materials are publicly available on the Regents' website within the section on Meeting Agendas and Schedule. The Chief Investment Officer's Annual Report for the most recent fiscal year is also available on the Chief Investment Officer's website.

11. OTHER POLICIES

STIP will follow the proxy voting and investment valuation policies developed and approved by the Office of the Chief Investment Officer.

UNIVERSITY OF CALIFORNIA
GENERAL ENDOWMENT POOL

[UC ENDOWMENT]

INVESTMENT POLICY STATEMENT

Effective: July 1, 2020
Replaces the GEP Investment Policy Statement and Asset and Risk Allocation Policy effective March 15, 2018

UNIVERSITY OF CALIFORNIA GENERAL ENDOWMENT POOL
INVESTMENT POLICY STATEMENT

POLICY SUMMARY/BACKGROUND

The purpose of this Statement of Investment Policy Statement ("Policy") is to define the objectives, policies and guidelines for the management and oversight of the University of California ("UC") General Endowment Pool ("GEP"). The management of GEP is subject to state and federal regulations and laws, and all other University investment policies, which may not be listed in this document. This policy reflects the Governance Framework outlined in Bylaws 22 and 23 of the University and the Finance and Capital Strategies Committee Charter.

The Policy consists of the following sections:

1. Roles and Responsibilities
2. Objectives
3. Investment Guidelines
4. Strategic Allocation
5. Risk Management
6. Benchmarks
7. Rebalancing
8. Monitoring and Reporting
9. Total Return Expenditure (Spending) Rate
10. Endowment Administration Cost Recovery
11. Policy Maintenance
12. No Right of Action
13. Disclosures

1. ROLES AND RESPONSIBILITIES

Board of Regents

The Board defines the goals and objectives of GEP and is responsible for establishing and approving changes to this Policy. The Board of Regents may delegate the implementation of this policy to sub-committees, the Chief Investment Officer and investment advisors.

Chief Investment Officer

The Chief Investment Officer ("Office of the Chief Investment Officer", "OCIO") is responsible for implementing the approved investment policies and developing investment processes and procedures for asset allocation, risk management, investment manager selection and termination, monitoring and evaluation, and the identification of management strategies that will improve the investment efficiency of the GEP assets.

Investment Managers

The OCIO may delegate to external Investment Managers responsibility for managing all or a portion of the assets. Any external Investment Managers will assume the roles and responsibilities of "investment manager" under Section 3(38) of ERISA, including but not limited to acknowledging in writing that such Investment Manager is a fiduciary with respect to the assets it manages on behalf of GEP. The Investment Manager will accept assets and invest in compliance with all relevant laws, the Investment Manager's individual investment management agreement(s), and as applicable, the stated investment guidelines in this Policy.

Trustee/Custodian
The role of the Trustee/Custodian is to provide safekeeping, accounting and valuation of Trust assets.

2. OBJECTIVES

Overall Objective

The GEP provides a common investment vehicle, intended to generate a stable and growing income stream, for (most but not all of) the University's endowments and quasi-endowments, for which the University is both trustee and beneficiary.

The overall investment objective of the GEP is to preserve and grow the purchasing power of the future stream of endowment payout for those funds and activities supported by the endowments. GEP also seeks to maintain liquidity needed to support spending in prolonged down market environments without impairing long term growth..

Return Objective

GEP seeks to maximize its return on investment, consistent with levels of investment risk that are prudent and reasonable given long-term capital market expectations and the overall objectives of the GEP. The performance of GEP will be measured relative to its objectives (e.g. spending, inflation growth) and policy benchmarks found in this Policy.

Risk Objective

While the Board recognizes the importance of the preservation of capital, it also recognizes that to achieve the GEP's overall objectives requires prudent risk-taking, and that risk is the prerequisite for generating investment returns GEP seeks a level of risk that is prudent and reasonable to maximize the probability of achieving its overall objective consistent with capital market conditions. GEP should limit the probability of loss of capital and/or a loss of purchasing power over a full market cycle (typically 4-8 years). Another important risk objective is limiting declines in purchasing power over the spending policy's stated rolling period of 60 months.

Sustainability Objective

The Office of the Chief Investment Officer shall incorporate environmental sustainability, social responsibility, and governance (ESG) into the investment evaluation process as part of its overall risk assessment in its investments decision making. ESG factors are considered with the same weight as other material risk factors influencing investment decision making.

The Office of the Chief Investment Officer uses a proprietary sustainability framework to provide core universal principles that inform the decisions and assist in the process of investment evaluation. The Office of the Chief Investment Officer manages the GEP consistent with these sustainability principles. The Framework can be found on the Office of the Chief Investment Officer website in the sustainability section.

3. INVESTMENT GUIDELINES

Permitted Investments

Below is a list of asset class types in which the GEP may invest so long as they do not conflict with the constraints and restrictions described elsewhere in this document. The criteria used to determine which asset classes may be included are:

- Positive contribution to the investment objective of GEP
- Widely recognized and accepted among institutional investors
- Diversification with some or all of the other accepted asset classes

Based on the criteria above, the types of assets for building the portfolio allocation are:

1. **Public Equity**
   Includes publicly traded common and preferred stock of issuers domiciled in US, Non-US, and Emerging (and Frontier) Markets. The objective of the public equity portfolio is to generate investment growth with adequate liquidity through a globally diversified portfolio of common and preferred stocks.

2. **Fixed Income**
   Fixed Income includes a variety of income related asset types. The portfolio will invest in interest bearing and income based instruments such as corporate and government bonds, high yield debt, emerging markets debt, inflation linked securities, cash and cash equivalents. The portfolio can hold a mix of traditional (benchmark relative) strategies and unconstrained (benchmark agnostic) strategies. The objectives of the fixed income portfolio are to provide diversification relative to other higher risk assets and necessary liquidity for payment obligations and portfolio rebalancing needs, while investing in higher yielding and less liquid fixed income opportunities when appropriate.

3. **Private Equity**
   Private equity includes, but is not limited to, venture capital and buyout funds, direct investments, special situations and co-investments in private companies. This includes investments in privately held companies and private investments in public entities which are illiquid. The objective of the portfolio is to earn higher returns than the

public equity markets over the long term and take advantage of the illiquidity premium.

4. **Private Credit**
   Private credit includes debt issued by and loans made to companies through privately negotiated, non-public transactions, other debt backed private structures, such as consumer or asset backed loans. The objective of the portfolio is to earn higher returns than the public debt markets over the long term and take advantage of preferential yields, terms and other characteristics available through private transactions.

5. **Real Estate**
   Real estate includes private investments in real property and related debt investments. The objectives of the real estate portfolio are to contribute to the diversification of the portfolio, generate returns through income and/or capital appreciation, and provide protection against unanticipated inflation.

6. **Real Assets**
   Real assets includes, but is not limited to, natural resources, timberland royalties, energy, infrastructure, and commodities related equity and related debt investments. The objectives of the real assets portfolio are to contribute to the diversification of the portfolio, generate returns through income and/or capital appreciation, and provide protection against unanticipated inflation.

7. **Absolute Return**
   Absolute return investments are expected to generate long-term real returns by exploiting market inefficiencies. The portfolio may invest in various strategies, including, but not limited to, Relative Value, Macro and Event Driven strategies. The objective of the portfolio is to provide diversification and generate capital appreciation.

8. **Derivatives**
   A derivative is a contract or security whose value is derived from another security or risk factor. There are three fundamental classes of derivatives – futures, options and swaps – each with many variations; in addition, some securities are combinations of derivatives or contain embedded derivatives. Use of derivatives to create economic leverage is prohibited. Permitted applications for derivatives are: efficient substitutes for physical securities, managing risk by hedging existing exposures, to implement arbitrage or other approved active management strategies.

Each asset class is assigned a benchmark that represents the opportunity set and risk and return characteristics associated with the asset class. For some private or more complex asset classes the benchmark serves as a proxy for the expected level and pattern of returns rather than an approximation of the actual investment holdings.

Investment Restrictions

The Regents have established that the purchase of securities issued by tobacco and fossil fuel companies and companies with business operations in Sudan are prohibited in separately managed accounts. The Chief Investment Officer will determine what constitutes a tobacco or Sudan company based on standard industry classification of the major index providers and must communicate this list to investment managers annually and whenever changes occur**.**

4. STRATEGIC ALLOCATION

The Strategic Asset Allocation (SAA) is the primary determinant of the return and risk of the portfolio. The SAA is set by the Board of Regents in consultation with the OCIO and reviewed periodically to reflect current program objectives and capital market expectations. The SAA expresses the target allocation and the allowable minimum and maximum allocations for each asset class. The actual portfolio exposures may deviate from the SAA as a result of price drifts, opportunity set, and value adding activities of the OCIO, but generally should remain within the allowable ranges Tactical asset allocation shifts within and across asset classes are permitted if those decisions are expected to add value to GEP.

Below are the strategic asset allocation long-term weights and allowable ranges:

Table 1

	Strategic Asset Allocation	Allowable Ranges	
		Minimum	Maximum
Public Equity	40.0	30.0	50.0
Fixed Income	8.0	5.0	15.0
Private Equity	24.0	10.0	30.0
Real Estate	8.0	4.0	12.0
Real Assets	4.0	0.0	8.0
Private Credit	4.0	0.0	6.0
Absolute Return	10.0	5.0	15.0
Cash	2.0	1.0	5.0

5. RISK MANAGEMENT

The primary risks to GEP are the inability to meet planned spending and deterioration in long term spending power. Total program volatility will be managed to limit these risks. The principal risk factors that determine GEP's asset volatility, and the parties responsible for managing them are as follows:

- **Capital market risk** is the risk that the investment return associated with the asset allocation policy is not sufficient to provide the required returns to meet the GEP's investment objectives. Responsibility for determining the overall level of capital market risk lies with the Board and OCIO.

- **Total active risk** refers to the volatility of the difference between the return of the GEP policy benchmark and the actual return. It incorporates the aggregate of investment style risk, active management risk, and tactical/strategic risks and is thus the responsibility of the Chief Investment Officer.

The OCIO is responsible for managing both active risk and total risk, including both capital market and active risk, and shall implement procedures and safeguards so that the combined risk exposures of all portfolios taken together are kept within risk bands. Further, within limits of prudent diversification and risk budgets, total and active risk exposures are fungible. That is, the OCIO may allocate risk exposures within and between asset types in order to optimize return.

Although the management of investment portfolios may be outsourced, investment oversight and risk management are primary fiduciary duties of the Board that are delegated to and performed by the Chief Investment Officer.

6. BENCHMARKS

GEP's performance will be evaluated against appropriate benchmarks including a strategic asset allocation benchmark ("Total GEP Portfolio Benchmark") and specific benchmarks for each asset class and investment manager. The Total GEP Portfolio Benchmark is a weighted average consisting of the asset class benchmarks listed below weighted by the SAA target weights. The benchmarks for each asset class are shown in **Table 2**:

Table 2

Asset Class	Benchmark
Global Equity	MSCI All Country World Index (ACWI) Investable Market Index (IMI) Tobacco and Fossil Fuel Free - Net Dividends
Fixed Income	Bloomberg Barclays 1-5 Year US Government/Credit Index
Private Equity	Russell 3000 + 3*%
Real Estate	NCREIF Fund Index – Open End Diversified Core Equity (ODCE)
Real Assets	Actual Real Assets Portfolio Return
Private Credit	Actual Private Credit Portfolio Return
Absolute Return	HFRI Fund of Funds Composite
Cash	BofA 3-Month US Treasury Bill Index

* The Private Equity benchmark is in transition from Russell 3000 + 2.5% for FY 2021 and will be Russell 3000 + 3.0% thereafter.

The **Total GEP Portfolio Benchmark** is a weighted average consisting of each of the monthly returns of the benchmarks noted above weighted by the Policy Allocation percentages. The policy benchmarks may differ from the target allocations in **Table 1** until implementation reaches the long- term strategic asset allocation.

7. REBALANCING

There will be periodic deviations in actual asset weights from the strategic target weights. Causes for periodic deviations are market movements, cash flows, tactical tilts, and asset selection. Significant movements from the asset class policy weights will alter the intended expected return and risk of the GEP. Accordingly, the GEP may be rebalanced when target weights are outside of the allowable ranges to ensure adherence to this policy.

The OCIO will monitor the actual asset allocation. The Board directs the OCIO to take all actions necessary, within the requirement to act prudently, to manage the asset allocation in a manner that ensures that the GEP achieves its long-term risk and return objectives.

The OCIO shall assess and manage the trade-off between the cost of rebalancing and the active risk associated with the deviation from policy asset weights. The Chief Investment Officer may delay a rebalancing program when the Chief Investment Officer believes the delay is in the best interest of the GEP.

8. MONITORING AND REPORTING

The OCIO is responsible for monitoring the portfolio and investment managers on an ongoing basis. The OCIO should monitor and report to the Investments Subcommittee, Finance and Capital Strategies Committee and Board of Regents on the following items:

1. Asset and Risk Measures and Exposures
2. Investment Performance and Attribution (against benchmarks identified in this Policy)
3. Material Changes to Organization and Investment Strategy
4. Potential Material Issues and Risks
5. Compliance of GEP with this Policy

While short-term results will be monitored, it is understood that GEP's objectives are long-term in nature and progress towards these objectives will be evaluated from a long-term perspective.

On at least an annual basis the CIO will report on the implementation of the UC's Sustainability Framework which will include a discussion on the portfolio's environmental, social, and governance risks considered during the year.

9. TOTAL RETURN EXPENDITURE (SPENDING) RATE

The endowment spending rate provides University programs with a source of income that is perpetual, growing (at least as fast as inflation) and predictable. The spending rate should balance the needs of current and future generations (equalize real value of per unit distributions over time), and preserve the purchasing power (real value) of the endowment, net of annual spending distributions.

The objective of the spending rate is to allow the principal or core assets to grow on a total return basis (total return = change in market value + income generated from the securities held) while "smoothing" the payout from the endowment assets in order to mitigate disruptions to the budgets of the endowed activities throughout economic and market cycles. Total return expenditure rates permit the spending of realized portfolio gains. The Spending Rate is a percent of unit value (or average unit value) distributed to programs each year and uses a smoothing formula that mediates between volatile market returns and program needs for predictable income.

The total return expenditure (spending) policy for eligible assets in the General Endowment Pool is 4.75 percent of a 60-month moving average of the market value of a unit invested in the GEP.

10. ENDOWMENT ADMINISTRATION COST RECOVERY

Endowment cost recovery is taken from the endowment payout each year and is used to defray, in part, the cost of the campuses and at the system-wide offices of administering and carrying out the terms of the Regents' endowments. The funds released by this mechanism are used by the campuses and the Office of the President as support for incremental fundraising activities. The endowment administration cost recovery rate of 55 basis points (0.55 percent) is to recover reasonable and actual costs related to the administration of gift assets invested in the General Endowment Pool.

11. POLICY MAINTENANCE

The Policy should be reviewed at least annually and updated as necessary. Revisions may be recommended by the OCIO, Investments Committee, Finance and Capital Strategies Committee, and approved by the Board of Regents.

12. NO RIGHT OF ACTION

This policy is not intended to, and does not, create any right or benefit, substantive or procedural, enforceable at law or in equity by any party against the University of California or its Board of Regents, individual Regents, officers, employees, or agents.

13. DISCLOSURES

The Chief Investment Officer provides investment-related information on the GEP to The Regents' Investments Subcommittee in a manner consistent with the requirements outlined in this policy. Current and historical materials are publicly available on The Regents' website within the section on Meeting Agendas and Schedule. The Chief Investment Officer's Annual Report for the most recent fiscal year is also available on the Chief Investment Officer's website. Other disclosures that will be posted on the Chief Investment Officer's website are:

1. A report on private equity internal rates of return is publicly available on the Chief Investment Officer's website on a lagged quarterly basis.
2. As soon as practicable after each fiscal year, a complete listing of all assets held by the GEP at calendar year end will be posted on the Chief Investment Officer's website. Each listing will include the asset's market value at the end of the year. The assets will be

grouped in the standard categories used by the custodian bank to group the assets in the asset reports provided to the Chief Investment Officer

Changes to procedures and related documents do not require Regents approval, and inclusion or amendment of references to these documents can be implemented administratively by the Office of the Secretary and Chief of Staff upon request by the unit responsible for the linked documents.

Attachment 4

~~UNIVERSITY OF CALIFORNIA~~
~~GENERAL ENDOWMENT POOL~~

~~ASSET AND RISK ALLOCATION POLICY~~

~~Approved March 15, 2018~~

UNIVERSITY OF CALIFORNIA GENERAL ENDOWMENT POOL
ASSET AND RISK ALLOCATION POLICY

~~**POLICY SUMMARY/BACKGROUND**~~

~~The purpose of this Asset and Risk Allocation Policy ("Policy") is to define the asset types, strategic asset allocation, risk management, benchmarks, and rebalancing for the University of California General Endowment Pool ("GEP"). The Investments Subcommittee has consent responsibilities over this policy.~~

~~**POLICY TEXT**~~

~~**ASSET CLASS TYPES**~~

~~Below is a list of asset class types in which the GEP may invest so long as they do not conflict with the constraints and restrictions described in the GEP Investment Policy Statement. The criteria used to determine which asset classes may be included are:~~

- ~~Positive contribution to the investment objective of GEP~~
- ~~Widely recognized and accepted among institutional investors~~
- ~~Low cross correlations with some or all of the other accepted asset classes~~

~~Based on the criteria above, the types of assets for building the portfolio allocation are:~~

~~**1. Public Equity**~~

~~Includes publicly traded common and preferred stock of issuers domiciled in US, Non-US, and Emerging (and Frontier) Markets. The objective of the public equity portfolio is to generate investment returns with adequate liquidity through a globally diversified portfolio of common and preferred stocks.~~

~~**2. Liquidity (Income)**~~

~~Liquidity includes a variety of income related asset types. The portfolio will invest in interest bearing and income based instruments such as corporate and government bonds, high yield debt, emerging markets debt, inflation linked securities, cash and cash equivalents. The portfolio can hold a mix of traditional (benchmark relative) strategies and unconstrained (benchmark agnostic) strategies. The objective of the income portfolio is to provide necessary liquidity for payment obligations and portfolio rebalancing needs, while investing in higher yielding and less liquid income opportunities with excess liquidity.~~

~~**3. Private Equity**~~

~~Private equity includes, but is not limited to, venture capital and buyout funds, direct investments, and co-investments in private companies. This includes investments in privately held companies and private investments in public entities which are illiquid. The objective of the portfolio is to earn higher returns than the public equity markets over the long term and take advantage of the illiquidity premium.~~

~~4. Real Assets~~

~~Real assets includes, but is not limited to, natural resources, real estate, timberland royalties, energy, infrastructure, and commodities related equity and debt related investments. The objective of the real assets portfolio is to contribute to the diversification of the portfolio, generate returns through income and/or capital appreciation, and provide protection against unanticipated inflation.~~

~~5. Absolute Return / Strategic Opportunities~~

~~Absolute return investments are expected to generate long-term real returns by exploiting market inefficiencies. The portfolio invests in a collection of strategies that includes, but is not limited to, strategy types such as Relative Value, Event Driven, and Strategic Opportunities. The objective of the portfolio is to provide diversification and generate capital appreciation.~~

~~6. Derivatives~~

~~A derivative is a contract or security whose value is derived from another security or risk factor. There are three fundamental classes of derivatives – futures, options and swaps – each with many variations; in addition, some securities are combinations of derivatives or contain embedded derivatives. Use of derivatives to create economic leverage is prohibited. Permitted applications for derivatives are: efficient substitutes for physical securities, managing risk by hedging existing exposures, to implement arbitrage or other approved active management strategies.~~

~~Each asset class is assigned a benchmark that represents the opportunity set and risk and return characteristics associated with the asset class. For some private or more complex asset classes the benchmark serves as a proxy for the expected level and pattern of returns rather than an approximation of the actual investment holdings.~~

~~RISK MANAGEMENT~~

~~There are four principal factors that affect an endowment fund's financial status:~~

- ~~Contributions~~
- ~~Annual payout to endowment recipients~~
- ~~Inflation~~
- ~~Investment performance~~

~~The level of risk tolerance will take into account all four factors. At certain levels of assets and a given spending policy, it could be impossible for the investments to achieve the necessary performance to meet the desired spending. The result is that either spending policy has to be changed, contributions increased or risk tolerance changed.~~

~~There are different types of risk tied to various responsible parties at each level of GEP investment management. Thus, different risk metrics are appropriate at each level.~~

~~The **principal risks** that impact the GEP, and the parties responsible for managing them are as follows:~~

- ~~Capital market risk is the risk that the investment return associated with the Subcommittee's asset allocation policy is not sufficient to provide the required returns to meet the GEP's investment objectives. Responsibility for determining the overall level of capital market risk lies with the Board and Subcommittee.~~

- ~~Investment style risk is associated with an active management investment program. It is the performance differential between an asset category's market target and the aggregate of the managers' benchmarks within the asset category weighted according to a policy allocation specified by the Chief Investment Officer. This risk is an implementation risk and is the responsibility of the Chief Investment Officer.~~

- ~~Manager value-added risk is also associated with an active management investment program. It is the performance differential between the aggregate of the managers' actual (active) portfolios and the aggregate of the managers' benchmarks. This risk is an implementation risk and is the responsibility of the Chief Investment Officer (and indirectly the investment managers retained by the Chief Investment Officer).~~

- ~~Tactical/strategic risk is the performance differential between (1) policy allocations for the GEP's asset categories and its investment managers and (2) the actual allocations. This risk is the responsibility of the Chief Investment Officer.~~

- ~~Total active risk refers to the volatility of the difference between the return of the GEP policy benchmark and the actual return. It incorporates the aggregate of the risks above, and is thus the responsibility of the Chief Investment Officer.~~

~~Although the management of investment portfolios may be outsourced, investment oversight and risk management are primary fiduciary duties of the Board that are delegated to and performed by the Chief Investment Officer. The Chief Investment Officer shall report on risk exposures and the values of the several risk measures to the Board.~~

~~GEP Product level (Board, Investments Subcommittee, and Office of the Chief Investment Officer)~~

- ~~Spending Risk (insufficient assets to meet planned spending)~~
    - ~~Measures the risk of inappropriate investment policy and strategy~~
    - ~~Loss of purchasing power and loss of capital~~
- ~~Total Investment Risk (volatility of total return)~~
    - ~~Measures the risk of asset allocation policy~~

~~**Implementation level (Office of the Chief Investment Officer)**~~

- ~~Active Risk or "Tracking Error" (volatility of deviation from style or benchmark)~~
    - ~~Measures the risk of unintended exposures or ineffective implementation~~

~~**Risk Measures:** GEP will use various risk analysis tools (e.g. factor analysis, simulation modeling) to measure the portfolio risks noted below. These metrics are intended to be used as one of many inputs in the asset and risk allocation process and are not intended to be used as benchmarks to measure actual results.~~

- ~~**Loss of Purchasing Power**: Loss of purchasing power is defined by the portfolio value losing value, after adjusting for inflation. To measure this risk, GEP will estimate the expected probability that the Portfolio's ***real*** return will be less than 0.0% (i.e. a loss) over the spending policy period.~~

- ~~The Office of the Chief Investment Officer (OCIO) will evaluate the **probability of "ruin,"** where the plan's spending, combined with market losses, incorporating the **loss of capital** (portfolio losing value after adjusting for inflation over a full market cycle) result in the plan being unable to recover its purchasing power over a full market cycle. The probability of ruin should be minimal, and the OCIO should report on any concerns about the feasibility of achieving its return objectives without a material probability of ruin.~~

~~The OCIO is responsible for managing both total and active risk, and shall implement procedures and safeguards so that the combined risk exposures of all portfolios taken together are kept within risk bands. Further, within limits of prudent diversification and risk budgets, total and active risk exposures are fungible. That is, the OCIO may allocate risk exposures within and between asset types in order to optimize return.~~

~~**STRATEGIC ALLOCATION**~~

~~The purpose of the Strategic Asset Allocation is to reflect GEP's long-term purpose and objectives, as well as the investment beliefs and organizational capability of the OCIO. The actual portfolio exposures will deviate from the Strategic Asset Allocation as a result of price drifts, opportunity set, and value adding activities of the OCIO. This is underpinned by the recognition that investment opportunities come and go, values rise and fall, and that implementation must be dynamic in order to benefit from this fluctuation. This belief is critical to add value to the GEP. The OCIO follows a risk allocation process to ensure that the attractiveness of all opportunities is assessed on a consistent basis and that will meet the objectives set.~~

~~The investment strategy of the GEP will incorporate the risk tolerance of the Board, Committee, and Subcommittee, the relationship between current and projected assets, evolution of the University's financial needs, namely GEP Spending Policy, contributions, and growth expectations.~~

UNIVERSITY OF CALIFORNIA GENERAL ENDOWMENT POOL
ASSET AND RISK ALLOCATION POLICY

~~Below are the strategic asset allocation long-term weights and allowable ranges:~~

~~Table 1~~

	~~Strategic Asset Allocation~~	~~Allowable Ranges~~	
		~~Minimum~~	~~Maximum~~
~~Public Equity~~	**~~30.0~~**	**~~20.0~~**	**~~52.5~~**
~~Private Equity~~	**~~22.5~~**	**~~10.0~~**	**~~32.5~~**
~~Absolute Return (Strategic Opportunities)~~	**~~25.0~~**	**~~15.0~~**	**~~32.0~~**
~~Real Assets~~	**~~12.5~~**	**~~3.0~~**	**~~17.5~~**
~~Liquidity (Income)~~	**~~10.0~~**	**~~0.0~~**	**~~17.5~~**
~~TOTAL~~	**~~100.0%~~**		

~~BENCHMARKS~~

~~The following criteria have been adopted for the selection of benchmark indices. It is understood that not all benchmarks will meet the entire list of criteria, but ideally, benchmarks that meet most of the criteria will be selected. There may be instances where tradeoffs are made between benchmarks that meet some of the criteria but not others.~~

1. ~~**Unambiguous**: the names and weights of securities comprising the benchmark are clearly delineated.~~

2. ~~**Investable**: is possible to replicate the benchmark performance by investing in the benchmark holdings.~~

3. ~~**Measurable**: it is possible to readily calculate the benchmark's return on a reasonably frequent basis.~~

4. ~~**Appropriate**: the benchmark is consistent with investment preferences or biases.~~

5. ~~**Specified in Advance**: the benchmark is constructed prior to the start of an evaluation period.~~

6. ~~**Reflects Current Investment Opinion**: investment professionals in the asset class should have views on the assets in the benchmark and incorporate those views in their portfolio construction.~~

~~Benchmarks are a tool against which to measure the effectiveness of investment strategy either at a total fund level, at an investment class or strategy level, or at the mandate level. Based on the benchmark selection criteria, the following strategic policy benchmarks have been chosen:~~

~~**Table 2**~~

~~**Asset Class**~~	~~**Benchmark**~~
~~**Global Equity**~~	~~MSCI All Country World Index (ACWI) Investable Market Index (IMI) Tobacco Free – Net Dividends~~
~~**Private Equity**~~	~~Russell 3000 + 3%~~[1]
~~**Absolute Return (Strategic Opportunities)**~~	~~HFRI Fund of Funds Composite~~
~~**Real Assets (non Real Estate)**~~ ~~**Real Assets (Real Estate)**~~	~~Actual Real Assets Portfolio Return~~ ~~NCREIF Fund Index - Open End Diversified Core Equity (ODCE), lagged 3 months~~
~~**Income (Liquidity)**~~	~~Barclays US Aggregate Index~~

~~The **Total GEP Portfolio Benchmark** is a weighted average consisting of each of the monthly returns of the benchmarks noted above weighted by the Policy Allocation percentages. The policy benchmarks may differ from the target allocations in **Table 1** until implementation reaches the long-term strategic asset allocation.~~

~~**REBALANCING**~~

~~There will be periodic deviations in actual asset weights from the strategic target weights. Causes for periodic deviations are market movements, cash flows, tactical tilts, and asset selection. Significant movements from the asset class policy weights will alter the intended expected return and risk of the GEP. Accordingly, the GEP may be rebalanced when necessary to ensure adherence to this policy and the Investment Policy.~~

~~The OCIO will monitor the actual asset allocation. The Board directs the OCIO to take all actions necessary, within the requirement to act prudently, to manage the asset allocation in a manner that ensures that the GEP achieves its long-term risk and return objectives.~~

~~The OCIO shall assess and manage the trade-off between the cost of rebalancing and the active risk associated with the deviation from policy asset weights. The Chief Investment Officer may delay a rebalancing program when the Chief Investment Officer believes the delay is in the best interest of the GEP.~~

~~**COMPLIANCE/DELEGATION**~~

~~The GEP Asset and Risk Allocation Policy should be reviewed at least annually and updated as necessary. The Investments Subcommittee may recommend action which will be placed on the Consent Agenda for approval by the Board.~~

[1] ~~As the Office of the CIO transitions the benchmark into the portfolio, 150 basis points illiquidity premium will be used for the first year starting in July 2017.~~

~~**NO RIGHT OF ACTION**~~

~~This policy is not intended to, and does not, create any right or benefit, substantive or procedural, enforceable at law or in equity by any party against the University of California or its Board of Regents, individual Regents, officers, employees, or agents.~~

~~**PROCEDURES AND RELATED DOCUMENTS**~~

~~Investment Implementation Manual~~

~~Changes to procedures and related documents do not require Regents approval, and inclusion or amendment of references to these documents can be implemented administratively by the Office of the Secretary and Chief of Staff upon request by the unit responsible for the linked documents.~~

Attachment 5

~~UNIVERSITY OF CALIFORNIA~~
~~TOTAL RETURN INVESTMENT POOL~~

~~ASSET AND RISK ALLOCATION POLICY~~

~~Approved March 15, 2018~~

~~Replaces version effective August 1, 2013 and amended July 23, 2015~~

UNIVERSITY OF CALIFORNIA TOTAL RETURN INVESTMENT POOL
ASSET AND RISK ALLOCATION POLICY

~~POLICY SUMMARY/BACKGROUND~~

~~The purpose of this Asset and Risk Allocation Policy ("Policy") is to define the asset types, strategic asset allocation, risk management, benchmarks, and rebalancing for the University of California Total Return Investment Pool ("TRIP"). The Investments Subcommittee has consent responsibilities over this policy.~~

~~POLICY TEXT~~

~~ASSET CLASS TYPES~~

~~Below is a list of asset class types in which TRIP may invest so long as they do not conflict with the constraints and restrictions described in the TRIP Investment Policy Statement. The criteria used to determine which asset classes may be included are:~~

- ~~Positive contribution to the investment objective of TRIP~~
- ~~Widely recognized and accepted among institutional investors~~
- ~~Low cross correlations with some or all of the other accepted asset classes~~

~~Based on the criteria above, the types of assets for building the portfolio allocation are:~~

1. ~~**Growth**~~

   ~~Includes publicly traded common and preferred stock of issuers domiciled in US, Non-US, and Emerging (and Frontier) Markets. The objective of the growth portfolio is to generate investment returns with adequate liquidity through a globally diversified portfolio of common and preferred stocks.~~

2. ~~**Income**~~

   ~~Income includes a variety of income related asset types. The portfolio will invest in interest bearing and income based instruments such as corporate and government bonds, high yield debt, emerging markets debt, inflation linked securities, cash and cash equivalents. The portfolio can hold a mix of traditional (benchmark relative) strategies and unconstrained (benchmark agnostic) strategies. The objective of the income portfolio is to provide necessary liquidity for payment obligations and portfolio rebalancing needs, while investing in higher yielding and less liquid income opportunities with excess liquidity.~~

3. ~~**Absolute Return / Strategic Opportunities**~~

~~Absolute return investments are expected to generate high long-term real returns by exploiting market inefficiencies. The portfolio invests in a collection of strategies that includes, but is not limited to, strategy types such as Relative Value, Event Driven, and Strategic Opportunities. The objective of the portfolio is to provide diversification and generate capital appreciation.~~

~~4. **Derivatives**~~

~~A derivative is a contract or security whose value is derived from another security or risk factor. There are three fundamental classes of derivatives — futures, options and swaps — each with many variations; in addition, some securities are combinations of derivatives or contain embedded derivatives. Use of derivatives to create economic leverage is prohibited, except for specific strategies only. Permitted applications for derivatives are: efficient substitutes for physical securities, managing risk by hedging existing exposures, to implement arbitrage or other approved active management strategies.~~

~~Each asset class is assigned a benchmark that represents the opportunity set and risk and return characteristics associated with the asset class. For some private or more complex asset classes the benchmark serves as a proxy for the expected level and pattern of returns rather than an approximation of the actual investment holdings.~~

~~RISK MANAGEMENT~~

~~There are three principal factors that affect TRIP's financial status: 1) annual payout, 2) inflation, and 3) investment performance. The level of risk tolerance will take into account all three factors. At certain levels of assets and a given payout policy, it could be impossible for the investments to achieve the necessary performance to meet the desired spending. The result is that either spending policy has to be changed or risk tolerance changed.~~

~~There are different types of risk tied to various responsible parties at each level of TRIP investment management. Thus, different risk metrics are appropriate at each level.~~

~~The **principal risks** that impact the TRIP, and the parties responsible for managing them are as follows:~~

- ~~Capital market risk is the risk that the investment return associated with the Subcommittee's asset allocation policy is not sufficient to provide the required returns to meet the TRIP's investment objectives. Responsibility for determining the overall level of capital market risk lies with the Board and Investments Subcommittee.~~

- ~~Investment style risk is associated with an active management investment program. It is the performance differential between an asset category's market target and the aggregate of the managers' benchmarks within the asset category weighted according to a policy~~

- ~~allocation specified by the Chief Investment Officer. This risk is an implementation risk and is the responsibility of the Chief Investment Officer.~~

- ~~Manager value-added risk is also associated with an active management investment program. It is the performance differential between the aggregate of the managers' actual (active) portfolios and the aggregate of the managers' benchmarks. This risk is an implementation risk and is the responsibility of the Chief Investment Officer (and indirectly the investment managers retained by the Chief Investment Officer).~~

- ~~Tactical/strategic risk is the performance differential between (1) policy allocations for the TRIP's asset categories and its investment managers and (2) the actual allocations. This risk is the responsibility of the Chief Investment Officer.~~

- ~~Total active risk refers to the volatility of the difference between the return of the TRIP policy benchmark and the actual return. It incorporates the aggregate of the risks above, and is thus the responsibility of the Chief Investment Officer.~~

~~Although the management of investment portfolios may be outsourced, investment oversight and risk management are primary fiduciary duties of the Board that are delegated to and performed by the Chief Investment Officer. The Chief Investment Officer shall report on risk exposures and the values of the several risk measures to the Board.~~

~~TRIP Product level (Board, Investments Subcommittee, and Office of the Chief Investment Officer)~~

- ~~Spending Risk (insufficient assets to meet planned spending)~~
    - ~~Measures the risk of inappropriate investment policy and strategy~~
    - ~~Loss of purchasing power and loss of capital~~

- ~~Total Investment Risk (volatility of total return)~~
    - ~~Measures the risk of asset allocation policy~~

~~Implementation level (Office of the Chief Investment Officer)~~

- ~~Active Risk or "Tracking Error" (volatility of deviation from style or benchmark)~~
    - ~~Measures the risk of unintended exposures or ineffective implementation~~

~~Risk Measures:~~ ~~TRIP shall be managed so that its annualized tracking error budget shall not exceed 200 basis points. This budget is consistent with the ranges around the combined asset classes and incorporates asset / sector allocation and security selection differences from the aggregate benchmark. Each Manager or asset class segment will have a unique active risk budget, relative to its asset class benchmark, which is appropriate to its individual strategy, and specified in its guidelines,~~

UNIVERSITY OF CALIFORNIA TOTAL RETURN INVESTMENT POOL
ASSET AND RISK ALLOCATION POLICY

~~The Office of the Chief Investment Officer (OCIO) is responsible for managing both total and active risk and shall implement procedures and safeguards so that the combined risk exposures of all portfolios taken together are kept within risk bands. Further, within limits of prudent diversification and risk budgets, total and active risk exposures are fungible. That is, the OCIO may allocate risk exposures within and between asset types in order to optimize return.~~

~~STRATEGIC ALLOCATION~~

~~The purpose of the Strategic Asset Allocation is to reflect TRIP's purpose and objectives, as well as the investment beliefs and organizational capability of the OCIO. The actual portfolio exposures will deviate from the Strategic Asset Allocation as a result of price drifts, opportunity set, and value adding activities of the OCIO. This is underpinned by the recognition that investment opportunities come and go, values rise and fall and, that implementation must be dynamic in order to benefit from this fluctuation. This belief is critical to add value to TRIP. We follow a risk allocation process to ensure that the attractiveness of all opportunities is assessed on a consistent basis and that will meet the objectives set.~~

~~The investment strategy of TRIP will incorporate the risk tolerance of the Board, Committee, and Subcommittee, the relationship between current and projected assets, evolution of the University's financial needs, namely TRIP Payout, contributions, and growth expectations.~~

~~Below are the strategic asset allocation long-term weights and allowable ranges:~~

~~Table 1~~

	~~Strategic Asset Allocation~~	~~Allowable Ranges~~	
		~~Minimum~~	~~Maximum~~
~~Growth~~	~~35.0~~	~~30.0~~	~~40.0~~
~~Income~~	~~50.0~~	~~45.0~~	~~55.0~~
~~Absolute Return~~	~~15.0~~	~~5.0~~	~~25.0~~
~~TOTAL~~	~~100.0%~~		

~~TRIP has the flexibility to invest up to ten percent of the portfolio in private investments. While the program will generally invest in liquid, marketable securities, there will at times be a trade-off of illiquidity for higher expected return.~~

~~BENCHMARKS~~

~~The following criteria have been adopted for the selection of benchmark indices. It is understood that not all benchmarks will meet the entire list of criteria, but ideally, benchmarks that meet most of the criteria will be selected. There may be instances where tradeoffs are made between benchmarks that meet some of the criteria but not others.~~

1. ~~**Unambiguous**: the names and weights of securities comprising the benchmark are clearly delineated.~~

2. ~~**Investable**: is possible to replicate the benchmark performance by investing in the benchmark holdings.~~

3. ~~**Measurable**: it is possible to readily calculate the benchmark's return on a reasonably frequent basis.~~

4. ~~**Appropriate**: the benchmark is consistent with investment preferences or biases.~~

5. ~~**Specified in Advance**: the benchmark is constructed prior to the start of an evaluation period.~~

6. ~~**Reflects Current Investment Opinion**: investment professionals in the asset class should have views on the assets in the benchmark and incorporate those views in their portfolio construction.~~

~~Benchmarks are a tool against which to measure the effectiveness of investment strategy either at a total fund level, at an investment class or strategy level, or at the mandate level. Based on the benchmark selection criteria, the following strategic policy benchmarks have been chosen:~~

~~**Table 2**~~

~~**Asset Class**~~	~~**Benchmark**~~
~~**Growth**~~	~~MSCI All Country World Index (ACWI) Investable Market Index (IMI) Tobacco Free - Net Dividends~~
~~**Income**~~	~~Barclays US Aggregate Index~~
~~**Absolute Return (Strategic Opportunities)**~~	~~HFRX Absolute Return Index~~

~~The **Total TRIP Portfolio Benchmark** is a weighted average consisting of each of the monthly returns of the benchmarks noted above weighted by the Policy Allocation percentages.~~

~~REBALANCING~~

~~There will be periodic deviations in actual asset weights from the strategic target weights. Causes for periodic deviations are market movements, cash flows, tactical tilts, and asset selection. Significant movements from the asset class policy weights will alter the intended expected return and risk of TRIP. Accordingly, TRIP may be rebalanced when necessary to ensure adherence to this policy and the Investment Policy.~~

~~The OCIO will monitor the actual asset allocation. The Board directs the OCIO to take all actions necessary, within the requirement to act prudently, to manage the asset allocation in a manner that ensures that TRIP achieves its risk and return objectives.~~

~~The OCIO shall assess and manage the trade-off between the cost of rebalancing and the active risk associated with the deviation from policy asset weights. The Chief Investment Officer may delay a rebalancing program when the Chief Investment Officer believes the delay is in the best interest of TRIP.~~

~~COMPLIANCE/DELEGATION~~

~~The TRIP Asset and Risk Allocation Policy Statement should be reviewed at least annually and updated as necessary. The Investments Subcommittee may recommend action which will be placed on the Consent Agenda for approval by the Board.~~

~~NO RIGHT OF ACTION~~

~~This policy is not intended to, and does not, create any right or benefit, substantive or procedural, enforceable at law or in equity by any party against the University of California or its Board of Regents, individual Regents, officers, employees, or agents.~~

~~PROCEDURES AND RELATED DOCUMENTS~~

~~Investment Implementation Manual (add links)~~

~~Changes to procedures and related documents do not require Regents approval, and inclusion or amendment of references to these documents can be implemented administratively by the Office of the Secretary and Chief of Staff upon request by the unit responsible for the linked documents.~~

Attachment 6

~~UNIVERSITY OF CALIFORNIA~~
~~SHORT TERM INVESTMENT POOL~~

~~ASSET AND RISK~~
~~ALLOCATION POLICY~~

~~Approved March 15, 2018~~

UNIVERSITY OF CALIFORNIA SHORT TERM INVESTMENT POOL
ASSET AND RISK ALLOCATION POLICY

~~POLICY SUMMARY/BACKGROUND~~

~~The purpose of this Asset and Risk Allocation Policy ("Policy") is to define the asset allocation, risk guidelines, and benchmark for the University of California Short Term Investment Pool ("STIP"). The Investments Subcommittee has consent responsibilities over this policy.~~

~~POLICY TEXT~~

~~ASSET CLASS TYPES~~

~~STIP will primarily invest in short duration US dollar-denominated bonds and cash equivalents.~~

~~The following list is indicative of the investment classes, which are appropriate for STIP, given its Benchmark and risk budget. This is not an exhaustive list of "allowable" asset types.~~

~~Security types and/or strategies not specifically enumerated, but which the Chief Investment Officer believes are appropriate and consistent with the Investment Policy may also be held, subject to policy restrictions.~~

~~The Program may purchase securities on a when-issued basis or for forward delivery.~~

1. ~~Fixed income instruments~~

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

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

    c. ~~Mortgage-backed and asset-backed securities~~

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

    e. ~~Obligations issued or guaranteed by U.S. local, city and State governments and agencies~~

    f. ~~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)~~

    a. ~~US Treasury and Agency bills and notes~~

    b. ~~Certificates of deposit~~

    c. ~~Bankers acceptances~~

    d. ~~Commercial paper~~

~~e. Repurchase and reverse repurchase agreements (must be fully collateralized with approved collateral, using approved counterparties only)~~

~~f. Eurodollar CD's, TD's, and commercial paper~~

~~g. US and Eurodollar floating rate notes~~

~~h. Money market funds managed by the custodian~~

~~**Restrictions**~~

~~The following security types are **not** permitted:~~

~~a) Interest rate derivative contracts, including options and futures~~

~~b) Equity like securities, including but not limited to convertible bonds, preferred stocks, warrants, equity linked notes, and commodities~~

~~c) Securities issued in currencies other than US Dollar~~

~~d) Foreign currency linked notes~~

~~e) Buy securities on margin~~

~~f) Sell securities short~~

~~g) Buy party-in-interest securities~~

~~h) Buy securities restricted as to sale or transfer, except for 144A securities, which are permitted~~

~~i) Buy or write structured ("levered") notes~~

~~j) Employ economic leverage in the portfolio through borrowing or derivatives, or engage in derivative strategies that conflict with the Derivatives Policy~~

~~k) Purchase or sell foreign exchange contracts~~

~~l) Below investment grade securities, but we maintain the ability to hold up to 5% below investment grade in the event of ratings downgrades~~

~~m)~~

~~**STRATEGIC 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.~~

~~STIP will be invested in a diversified portfolio of fixed income securities, subject to policy restrictions.~~

~~RISK MANAGEMENT~~

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

1. ~~Interest rate risk~~

    a. ~~No security may have a maturity of more than 5 ½ years, excluding internal notes receivable~~

    b. ~~The effective duration of the investment program, excluding internal note receivables, should be less than 3 years~~

2. ~~Credit risk~~

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

    b. ~~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 NRSRO's~~

    c. ~~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.~~

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

3. ~~Liquidity risk~~

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

    b. ~~The Programs' investments in aggregate of any security may not exceed 20% of that security's outstanding par value at time of purchase, without a written exception approved by the Chief Investment Officer.~~

~~BENCHMARKS~~

~~The following criteria have been adopted for the selection of benchmark indices. It is understood that not all benchmarks will meet the entire list of criteria, but ideally, benchmarks that meet most of the criteria will be selected. There may be instances where tradeoffs are made between benchmarks that meet some of the criteria but not others.~~

1. ~~**Unambiguous**: the names and weights of securities comprising the benchmark are clearly delineated.~~

2. ~~**Investable**: is possible to replicate the benchmark performance by investing in the benchmark holdings.~~

3. ~~**Measurable**: it is possible to readily calculate the benchmark's return on a reasonably frequent basis.~~

4. ~~**Appropriate**: the benchmark is consistent with investment preferences or biases.~~

5. ~~**Specified in Advance**: the benchmark is constructed prior to the start of an evaluation period.~~

6. ~~**Reflects Current Investment Opinion**: investment professionals in the asset class should have views on the assets in the benchmark and incorporate those views in their portfolio construction.~~

~~Benchmarks are a tool against which to measure the effectiveness of investment strategy either at a total fund level, at an investment class or strategy level, or at the mandate level. Based on the benchmark selection criteria, the STIP Benchmark will be a weighted average of the income return on a constant maturity two (2) year US Treasury note and the return on US 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 rebalanced monthly.~~

~~COMPLIANCE/DELEGATION~~

~~The STIP Asset and Risk Allocation Policy Statement should be reviewed at least annually and updated as necessary. The Investments Subcommittee may recommend action which will be placed on the Consent Agenda for approval by the Board.~~

~~NO RIGHT OF ACTION~~

~~This policy is not intended to, and does not, create any right or benefit, substantive or procedural, enforceable at law or in equity by any party against the University of California or its Board of Regents, individual Regents, officers, employees, or agents.~~

~~PROCEDURES AND RELATED DOCUMENTS~~

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