The Regents of the University of California

INVESTMENTS COMMITTEE
February 18, 2021

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, Park, Sherman, Stegura, and Zettel; Advisory members Horwitz, Lott, and Torres; Chancellors Hawgood, Khosla, Muñoz, and Wilcox; Advisor Zager; Staff Advisor Tseng
In attendance:	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 2:00 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. The following persons addressed the Committee concerning the items noted.

A. Monica Nelson, UC San Diego student, called on Chief Investment Officer (CIO) Bachher to provide transparency so that the announcement that the University endowment was now free of fossil fuel investments (fossil-free) could be confirmed. The Academic Senate had also requested this. She asked the Regents to direct Mr. Bachher to remove companies that provide services to or rely on business with fossil fuel companies from UC's portfolio. UC investments decisions should reflect the urgency of the climate emergency, which disproportionately affected people who were least responsible for it. Students had been calling for divestment from all fossil fuel–related assets since the Fossil Free UC campaign began in 2012.

B. Eric Halgren, UC San Diego professor, spoke about various requests that the Academic Senate had made regarding UC fossil fuel divestment. In September 2019, the Academic Senate delivered a memorial requesting fossil fuel divestment with appropriate accountability measures. In June 2020, several Senate Committees passed a resolution requesting that the CIO provide the Academic Council with an annual report on all direct and indirect equity bond investments, both public and private. No response has been received in over seven months. Mr. Halgren, appealed to the Committee's fiduciary responsibility to oversee UC investments decisions and questioned why it did not request the same transparency.

C. Sam Wilder-King II, Executive Director of Imua TMT, spoke in support of the Thirty Meter Telescope (TMT) project. He encouraged UC to continue to invest in the TMT and in Mauna Kea. Claims that Mauna Kea was sacred such that construction should be banned there violated Native Hawaiian freedom of belief. In 1819, the *kapu* system that had prohibited people from going to Mauna Kea was overthrown and replaced with *ʻAi Noa*, or freedom from previous prohibitions. Leimomi Lum, the *kahuna* (priestess) of Mo'okini Heiau, a place of worship, stated that astronomy honored the sacred nature of Mauna Kea by advancing knowledge. Native Hawaiians had also mined Mauna Kea in the past. Modern astronomy was consistent with Hawaiian values of excellence, seeking knowledge, and sharing equally. Opponents of the TMT were using the issue of consent to advance a political agenda and assert control over Mauna Kea. The people of Hawaii consented to the construction of the TMT, and Hawaii has long been a multicultural society with a secular democracy.

2. APPROVAL OF MINUTES OF PREVIOUS MEETING

Upon motion duly made and seconded, the minutes of the meeting of September 15, 2020 were approved, Regents Anguiano, Blum, Cohen, Leib, Makarechian, Muwwakkil, Park, Sherman, Stegura, and Zettel voting "aye."[1]

3. UPDATE ON UNIVERSITY OF CALIFORNIA INVESTMENT PRODUCTS – RETIREMENT, ENDOWMENT, AND WORKING CAPITAL

[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 provided an overview of UC investments performance since September 2020. Progress had been made with COVID-19 vaccines, and another round of government stimulus was anticipated. Despite growth on Wall Street, however, many were still unemployed. Currently, UC managed $158 billion in total assets, up from $130 billion at the start of fiscal year 2020–21. There was $86 billion in the pension, $33 billion in the UC Retirement Savings Program, $17 billion in the endowment, $12 billion in the Total Return Investment Pool (TRIP), and $10 billion in the Short Term Investment Pool (STIP). Asset allocation decisions made at these Committee meetings drove performance. Currently, 64 percent of the pension was invested in stocks, 16 percent in bonds, and 20 percent in private assets. In the endowment, 54 percent was invested in stocks, six percent in bonds, and 40 percent in private assets. In TRIP, 56 percent was invested in stocks and 44 percent in bonds. STIP was 100 percent invested in bonds. Since the beginning of FY 2020–21, the net returns were as follows: stocks at 30 percent, bonds at 0.5 percent, private assets at nine percent, the pension at 22 percent, the endowment at 21 percent, TRIP at 18 percent, and STIP at 0.5 percent. Mr. Bachher noted that these returns were fairly high compared with historical averages, and he did not expect this rate of growth to continue. In the last 25 years, the pension has grown eight percent and 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.

endowment has grown 8.7 percent. Since their inception, TRIP has grown 7.1 percent and STIP has grown two percent. He introduced members of his team who would speak about the Federal Reserve, government policy, and trends in the private and public markets.

Senior Portfolio Manager of Asia Investments and Global Rates and Trading Satish Ananthaswamy stated that the actions of the Federal Reserve (Fed) and the U.S. government could shed light on the behavior of the stock market. During the financial crisis in 2008, the Fed lowered interest rates to zero and bought $4.5 trillion worth of Treasury bonds and mortgage-backed securities. At the start of the pandemic, the Fed again lowered interest rates to zero and bought more bonds. In response to this, the Office of the CIO sold long-maturity bonds, de-risked the UC portfolio, transitioned to a lower-maturity benchmark, and moved to passive management. In addition, the Office of the CIO reduced the fixed income allocation to 16 percent in the pension and six percent in the endowment. He believed that the Fed would continue to keep interest rates low and work hard to recover the economy. Corporations were also borrowing record amounts from the bond market. For example, Apple was borrowing money to buy back stock. With Coronavirus Aid, Relief, and Economic Security (CARES) Act relief, direct checks last December, and Congress deciding whether to approve a $1.9 trillion stimulus package, the U.S. Treasury could be spending a total of $5.5 trillion. Over the next five to ten years, the U.S. government wished to spend $3 trillion to $4 trillion in infrastructure and project spending as well. Low interest rates and much liquidity have given investors no choice but to buy equities, which accounted for their performance in the last several months. Mr. Ananthaswamy cautioned that there were risks associated with aggressive monetary and fiscal policies. As interest rates slowly rise, markets could become volatile, but the Office of the CIO was able to withstand short-term volatility. However, unemployment in the U.S. was still very high, and a very tepid economic recovery was predicted. Any increase in interest rates could also result in foreign buyers acquiring U.S. Treasury bonds. In his view, global equities benefitted from this landscape.

Managing Director of Public Equity Investments Ronnie Swinkels stated that, in addition to government stimulus, global equities have performed well because company earnings were stronger than expected, with companies also issuing positive guidance for future earnings. While the equity environment was still favorable, the Office of the CIO has tempered its expectations for future returns due to existing growth and historically high valuations. An increase in day trading and companies going public, including risky and speculative businesses, indicated that this growth was in its later stages. There was more dispersion in equity returns across countries and sectors. For the first time in several years, global equities, driven by emerging markets such as China and India, were outperforming U.S. equities, even despite global and economic tensions between China and the U.S. Economic recovery in the U.S. lagged many of these countries. Equities in Europe, where the vaccine rollout was slow and many countries were in lockdown, were underperforming compared to those of the U.S. and other regions. Small cap stocks were outperforming large cap stocks in many parts of the world. The economy did not rebound as quickly as people expected, and fiscal stimulus tended to support small cap companies. Financial, industrial, and energy industries might recover further as the economy improves. UC's external managers have been able to keep up with the benchmark, and being overweight to emerging markets has also helped.

Managing Director of Private Equity Investments John Beil stated that UC's private equity portfolio was made up of private equity, venture capital, and co-investments, with 70 percent of these investments was in the U.S. and 30 percent in Asia and Europe. In June 2017, the Office of the CIO doubled its target private equity allocation, and the market value of UC's private investments grew from $4 billion to nearly $8 billion. The pension and endowment were expected to reach their target private equity allocation between 2025 and 2026, likely totaling $15 billion. After a pause in activity from April through June, activity in the private equity portfolio accelerated through this year. Valuations have increased in this low interest rate environment, and investors were willing to pay premiums for high-quality businesses, particularly those from the technology, consumer, and life sciences sectors that were benefitting from the pandemic. In the U.S. private equity market, valuation multiples reached a record high of 14.1 times at the end of 2020. Debt leverage also reached an all-time high of 6.3 times the company's cash flow. Given the pause in the market in 2020, deal count and deal value were slightly diminished year-over-year. In 2021, the Office of the CIO anticipated a record year in deal activity and fundraising in the private markets. About $300 billion was invested in venture capital worldwide in 2020, and about $400 billion exited from existing venture capital investments. Also in 2020, over 200 venture capital–backed companies made an initial public offering (IPO). UC stood to benefit from this trend due to its investments in technology companies transitioning from UC's venture portfolio into the public markets. Since the private markets were likely near or at the top of the market cycle, the Office of the CIO strategy was to maintain an investment base of $3 billion per year and to partner with and invest alongside a small number of high-conviction managers.

Mr. Bachher projected a higher probability of the markets trending downward.

Regent Makarechian suggested convening economics experts to examine the long-term consequences of this low-rate environment. Mr. Bachher stated that he was hosting a meeting where faculty from several UC campuses would be discussing this issue.

Regent Makarechian asked why interest rates were predicted to go up even with the federal government's high deficits. Mr. Ananthaswamy replied that excess liquidity was a result of government stimulus in an economy with an estimated output gap of about $700 billion. This was a harbinger for inflation. Real yields for bonds were still suppressed. Inflation could be transitory given consumers' pent-up demand, an inability to spend stimulus checks, and declining rental rates. In his view, inflation did not appear to be a long-term issue. The Fed was currently trying to stimulate growth in the bond market. There were many unknowns regarding the economy and vaccinations. Ten million people were still unemployed in the United States

Regent Leib asked about the current funded ratio of the pension. Mr. Bachher replied that, as of June 30, 2020, the liability was at $92 billion. The pension currently had an artificially high funded ratio of 92 or 93 percent, but he predicted that the actuarial valuation at the end of the fiscal year would be 88 to 89 percent, an improvement from the past.

Faculty Representative Horwitz shared that he and Faculty Representative Gauvain met regularly with Chief Compliance and Audit Officer Bustamante regarding export control, foreign influence, conflicts of interests and commitments of faculty researchers, and theft. The Federal Bureau of Investigation had communicated its concern about these issues to Mr. Bustamante. Meanwhile, UC had investments in China. He asked if the Office of the CIO dealt with the same requirements as faculty. Mr. Bachher responded in the affirmative. Investors must pay attention to geopolitical tensions, and the relationship between the U.S. and China had not reverted to what it had been. The Office of the CIO was working with a third-party manager to create a concentrated portfolio of public and private companies in China. The Office of the CIO has complied with directives from the U.S. Department of the Treasury and sold certain equities, and it would comply with directives regarding intelligence and security issues. Four percent of UC assets were invested in China, the second largest economic engine in the world, which demonstrated that the Office of the CIO was taking a very cautious approach. Mr. Horwitz noted that faculty have been feeling pressure and asked if the Office of the CIO had felt pressure as well. Mr. Bachher replied in the affirmative.

Regent Cohen asked how day trading, such as the events surrounding GameStop, could affect UC investments. Mr. Bachher responded that there had been a growth of financial technologies and platforms worldwide. For instance, the IPO of Ant Financial, a financial technology in China, was slated to be valued even higher than Alibaba but was curtailed by the Chinese government. Policymakers were focusing more on unchecked information, financial, and media technologies. New companies were democratizing access to the financial markets, and younger generations were investing. During the pandemic, there was now a total of $1.6 trillion in bank accounts, and people had more time to pay attention to their personal finances. Activity such as that in connection with GameStop occurred occasionally. Companies like Robinhood might seem attractive but were volatile. Mr. Swinkels added that UC had very little exposure of hedge funds. The financial industry learned that unfavorable long and short positions could result in heavy losses. Investors should watch for unexpected linkages in what might seem like an uncorrelated market. Mr. Bachher stated that the Office of the CIO did pay attention to short-term volatility.

Chancellor Khosla stated that the lowered discount rate had burdened campus operations when budgets were tight. He asked if it was time to raise the discount rate, which would put less money in the pension and make more available for campuses to address immediate issues. Mr. Bachher replied that he was working closely with Executive Vice President and Chief Financial Officer Brostrom and President Drake on this issue. He cautioned against spending one’s savings during uncertain times but acknowledged that these times were also catastrophic and highly unusual. UC needed to ensure that it had a strong foundation so that it could emerge as a leader. He was open to having discussions with the chancellors on how the Office of the CIO could help.

Chancellor Khosla noted that a few stocks had grown immensely while many others, such as blue-chip stocks, were languishing. He asked if UC was seeing high rates of return because it was making more high-risk investments. Mr. Bachher responded that UC had over $50 billion in the passive index, which was about 70 percent of UC's stock portfolio. UC was invested in the Morgan Stanley Capital International All Country World Index (MSCI) Global Ex-Tobacco Involvement and Fossil Fuels Exclusion indices. The top five companies in the Standard & Poor's 500 index had seen much growth. The Office of the CIO was able to add value by actively investing $15 billion.

Advisor Zager asked if the Office of the CIO's approach to active public equities was based on the performance of an active manager compared with passive equities. Mr. Swinkels replied in the affirmative. Managers might underperform in the short term due to volatility or stock choice, but the Office of the CIO required that a manager must outperform the Global All Country World Index (ACWI) index in the long term, which was three to five years. The Office of the CIO was working with fewer than 20 managers, many of whom had very concentrated portfolios, which was needed to achieve the excess returns reported. Mr. Bachher added that there were more inefficiencies in markets outside of the U.S.

Mr. Zager asked if Special Purpose Acquisition Companies (SPACs) were a financing fad and if they would change how the Office of the CIO regarded private equity performance over public equity performance. Mr. Beil noted that SPACs were popular and that their persistence would depend on the quality of the companies going through the SPAC process and how the SPACs fared in the market cycle. SPACs were addressing inefficiencies in the IPO system, such as time, process, and pricing. In his view, SPACs would persist in the medium term, offering an exit option that could benefit the UC portfolio. At the same time, SPACs might compete with UC's external managers, because they gave private companies a new way to interact with the public market. UC had previously benefitted from companies staying private for longer periods of time because they were able to raise large amounts of capital. The Office of the CIO was monitoring the situation. Many SPACs were raising money but had not identified or executed on targets, and their performance upon going public remained to be seen. Mr. Bachher added that the SPAC fee structure for private equity was innovative. SPACs delivered strong returns to promoters, but whether they could deliver strong, longer-term returns to investors was unknown.

Regent Makarechian cautioned against spending earnings instead of contributing them to the pension. He recalled when the Regents voted for a pension contribution holiday, and he suggested reexamining the discount rate.

Committee Chair Sherman asked if a private investment would be transferred to the Office of the CIO's public equity team if it went public. Mr. Beil replied that most managers on the buyout side of the portfolio would exit those shares on behalf of UC. On the venture side, UC received more stock distribution. Unless the Office of the CIO believed that the shares would continue to grow in value, it was policy to exit those shares at or above the distribution price. Outsized distributions were considered on a case-by-case basis. Mr. Bachher added that there were three companies that had gone public and were moved to the public equities portfolio.

Committee Chair Sherman asked if there were opportunities for private investments in public equity deals (PIPEs), which were similar to co-investments. Mr. Beil replied that he anticipated seeing more PIPEs due to the increase in SPACs and target companies' need to raise capital. Committee Chair Sherman remarked that UC had the benefit of available capital, familiarity with the asset, and liquidity. Mr. Bachher noted that this type of investment was becoming popular, and UC was being sought as an anchor investor.

4. **PRIVATE CREDIT AS AN ASSET CLASS AND AMENDMENT OF REGENTS POLICY 6101: UNIVERSITY OF CALIFORNIA RETIREMENT PLAN INVESTMENT POLICY STATEMENT, REGENTS POLICY 6102: UC GENERAL ENDOWMENT POOL INVESTMENT POLICY STATEMENT, AND REGENTS POLICY 6111: UNIVERSITY OF CALIFORNIA RETIREMENT SAVINGS PROGRAM DEFINED CONTRIBUTION PLAN, TAX DEFERRED 403(B) PLAN, AND 457(B) DEFERRED COMPENSATION PLAN INVESTMENT POLICY STATEMENT**

The Chief Investment Officer (CIO) recommended that the Regents:

1. Amend Regents Policy 6101 – UCRP Investment Policy Statement, as shown in Attachment 1.

2. Amend Regents Policy 6102 – GEP Investment Policy Statement, as shown in Attachment 2.

3. Amend Regents Policy 6111 – UCRSP comprised of the 401(a) Defined Contribution Plan, Tax Deferred 403(B) Plan, and 457(B) Deferred Compensation Plan Investment Policy Statement, as shown in Attachment 3.

It is recommended that the Regents confirm, ratify, and approve all actions and that these actions be effective July 1, 2020.

[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 Office of the CIO had been investing in private credit since 2016 and currently had about a $3.5 billion portfolio. He engaged Cambridge Associates to explore making private credit its own asset class.

Cambridge Associates Managing Director Richard Grimm defined private credit as a provision of credit from non-bank lenders to borrowers in a directly negotiated private transaction that replaced publicly traded bonds and syndicated loans. Investors in private credit traded liquidity for consistent outperformance. A private credit portfolio could be catered to specific objectives, and yield could be re-invested to compound returns. The investor would be typically repaid before others, and there were other levers and protections. A floating rate instrument provided an embedded hedge from the risk of rising interest rates, and there was lower correlation and lower loan-to-value. The investment could perform well even if the company does not perform as planned. Specialized non-corporate strategies were available that would provide a diversified return to the portfolio. Compared with high yield, a private credit investor was higher in the capital structure and had more control. Private credit managers held their position to maturity or another event, such as a refinancing, to retrieve their capital. Private credit managers retained maintenance financial covenants, which were an early warning system for problems and helped lenders get paid more. In a restructuring situation, these managers had control of the documents and the process. Historically, private credit had lower volatility than the public markets. The portfolio would have a target blended net return of seven to nine percent. Capital preservation would make up about 75 percent of the portfolio and produce lower-risk and fewer returns from interest and fees. About 25 percent would go to opportunistic, specialty strategies that were higher-risk and higher-return. These benchmarks aligned with the indices Credit Suisse Leveraged Loan Fossil Free Index and Merrill Lynch High Yield BB-B Fossil Free Index, respectively. An additional, blended 1.5 percent benchmark would capture the illiquidity premium and the fund-level leverage. Cambridge Associates would complement and supplement efforts at the Office of the CIO.

Managing Director of Fixed Income Investments and Credit Research Steven Sterman stated that he and his team had experience with the private debt markets prior to working at UC and while at UC. The Office of the CIO had team members who would maintain transparency and manage risk, reporting, valuation, and environmental, social, and governance (ESG) considerations. Cambridge Associates would offer their expertise, industry knowledge, and ideas on how to develop the program over time. Mr. Bachher added that this asset class involved much of the Office of the CIO team and its partners. Risks must be managed appropriately. Private equity was growing in popularity. Debt was very inexpensive, so earning seven to nine percent seemed to be a luxury.

Regent Makarechian expressed his support of this proposal and asked who would be underwriting these investments. Mr. Sterman replied that the investment managers would underwrite in corporate private credit lending, and UC would underwrite alongside the manager for co-investments. UC needed to have confidence that managers would have the discipline to either negotiate a bilateral document with the borrower or decline transactions whose covenants were too aggressive. The managers partnering with UC were more flexible on price but not on the document.

Regent Makarechian remarked that investment managers were replacing bankers while playing the same role. He asked if the Office of the CIO had the in-house expertise to check covenants and ratios, as well as to draft and negotiate covenants. He cited examples of covenants that required restructuring. Mr. Bachher responded that he and his team had discussed these concerns and the risks involved. The Office of the CIO would continue to maintain a small number of manager relationships so that it could spend time to understand how these managers underwrote and negotiated covenants. Recently, the Office of the CIO declined a deal in which managers underwrote $100 million of the deal out of caution. The Office of the CIO needed to remain careful, understand the quality of the portfolio, and track risk exposures.

Regent Makarechian asked if UC would be in a senior secured position. Mr. Sterman responded in the affirmative. Regent Makarechian expressed concern about leveraging by managers. Mr. Sterman stated that the strategies like first lien funds, which occurred higher in the capital structure and had more equity cushion, tended to be levered. Another way to achieve higher returns was through more credit risk lower in capital structure, which would not be levered. Regent Makarechian remarked that this could change UC's ratio.

Regent Makarechian asked if UC would be investing in the private credit of private or public companies. Mr. Sterman replied that UC would be investing in private equity–owned private companies. Strategic financing to a public company was rarer.

Regent Makarechian asked if UC would require a rating on the debt. Mr. Sterman stated that these were generally unrated securities that could be regarded as below investment grade. They were typically higher leverage and in the B category.

Regent Makarechian asked what would happen in the event of default. Mr. Sterman replied that, if the Office of the CIO was co-investing, it would retain external counsel to review those documents. Generally, the manager would be the lead agent and would have the majority position in the loan, working on behalf of the fund and UC. The Office of the CIO would be informed. The experience of the manager's team was very important.

Regent Makarechian stated that the University would be entrusting its money to a fee-oriented party and differentiated this situation from that of equity. Mr. Bachher stated that he and his risk team shared his concerns. The Office of the CIO had carried out few transactions because of these concerns. Misalignment in terms of fees and investment decisions existed with all managers. The Office of the CIO would report transparently to the Committee.

Regent Makarechian asked how much money would be invested. Mr. Bachher replied that UC already owned investments in private credit within fixed income and within absolute return. The target allocation for private credit was 3.5 percent of the pension, roughly $2.5 billion, and four percent of the endowment, about $600 million. These targets had been reached with existing investments. If it wished to add more investments, the Office of the CIO would have to wait until some existing investments run their course.

Regent Makarechian asked whether Mr. Bachher would change the allocation to add more investments. Mr. Bachher responded in the negative. This would be a highly judicious and selective process to build up capacity in a risk-controlled fashion; Mr. Bachher wished to build a good foundation. He stated that he would provide the Regents with a standardized dashboard on private credit.

Regent Makarechian stated that his greatest concern was the leveraging. Mr. Bachher stated that, at the Office of the CIO, three risks were considered for every proposal: liquidity, leverage, and concentration. Leveraged and unleveraged returns were different.

Regent Leib asked how much UC was currently investing in private credit. Mr. Bachher stated that UC was currently investing $2.9 billion, or about 1.8 percent of total assets. Regent Leib asked if this would be the smallest asset class and if the Office of the CIO was separating it to do more specific reporting. Mr. Bachher stated that it was comparable to real assets and noted the size of private credit in aggregate. These investments should be compared to benchmarks that were appropriate to the risk being taken.

Regent Leib expressed his belief that the proposed action best addressed the concerns raised by Regent Makarechian.

Mr. Zager asked how much of the net internal rates of return would be from yield spread and how much would be from leverage. Mr. Grimm replied that the vast majority would come from yield spread. A typical private credit lender would have a London Interbank Offered Rate (LIBOR) floor, around one percent in the U.S. Above that, the spread would depend on the investor's position in the capital structure, typically 550 to 600 basis points. In his view, these were good businesses being purchased by impressive sponsors who were borrowing to enhance yield for the first turn of leverage. There was no mark-to-market risk. This would also depend on the portfolio. Since 1999, Cambridge Associates had been following the work of a group of managers who had experience with financial downturns and the COVID-19 pandemic. All the funds returned principal even if some assets within the fund did not. These funds were diversified.

Mr. Zager asked if Cambridge Associates was working with the Office of the CIO to select managers. Mr. Grimm replied in the affirmative. Cambridge Associates was constantly doing diligence and in dialogue with the underlying funds.

Regent Cohen expressed support for the proposal and highlighted the risk and trendiness of investing in private credit. He believed that yields would decrease as competition increases. This was one of the few ways that UC could reach its 6.75 percent return target.

Regent Cohen moved to strike the word "consent" in the "Policy Maintenance" paragraph of the proposed Regents Policy documents.

Regent Zettel expressed her support for the proposal and asked for clarification regarding the companies, which had been valued ten to 15 times previously. Mr. Grimm explained that many private credit managers were helping private equity sponsors' acquisitions of businesses that had been valued 12 times or more, with 30 percent loan-to-value. UC would have a large insulation of capital should something go wrong.

Regent Zettel stated her observation that private equity companies overvalued companies in order to make profit. She asked who was managing this risk for UC. Mr. Bachher stated that the private equity team at the Office of the CIO was reviewing the entry point valuations for co-investment opportunities. Fund valuation was based on what managers were buying. The risk team was examining risk statistics of the private equity portfolio, which included valuation, leverage, and concentration of companies. He himself often raised concerns over valuations or the amount of leverage. Another trend was that private equity firms were selling deals to each other. In two recent transactions, an internal review group considered their valuation and leverage, and a third party also looked at valuation. The Office of the CIO was learning the typical valuations for different types of companies. Managing Director of Private Equity Investments John Beil added that his team tried to determine a manager's area of expertise before considering an opportunity. The team compared potential opportunities with past opportunities and consulted with its network of managers in the industry. The Office of the CIO did not wish to buy the cheapest business, because that low price might signify some challenges that business is facing. Instead, it would opt for paying more for a category leader with a good trajectory. The Office of the CIO encountered enough opportunities that it could decline opportunities in search of better ones. Mr. Bachher added that the Office of the CIO's private equity benchmark was the Russell 3000 Index plus 2.5 to three percent. He did not wish to pressure his team to invest; it was not good a good practice in a heavy market regardless of the pacing schedule.

Committee Chair Sherman stated that one way to mitigate risk was ensuring full transparency so there would not be duplicated positions between managers or at least, the Office of the CIO would be aware of this and could make appropriate risk adjustments.

Regent Leib acknowledged that this was Regent's Zettel's last Committee meeting as a Regent and thanked her for her service. Regent Zettel commended the Office of the CIO for its accomplishments. Mr. Bachher thanked Regent Zettel for her contributions and guidance.

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

The meeting adjourned at 4:30 p.m.

Attest:

Secretary and Chief of Staff

UNIVERSITY OF CALIFORNIA RETIREMENT PLAN

[UCRP]

INVESTMENT POLICY STATEMENT

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

UNIVERSITY OF CALIFORNIA RETIREMENT PLAN
INVESTMENT POLICY STATEMENT

POLICY SUMMARY/BACKGROUND

The purpose of this Investment Policy Statement ("Policy") is to define the objectives, policies and guidelines for the management and oversight of the University of California ("UC") Retirement Plan ("UCRP"). The management of UCRP 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

1. ROLES AND RESPONSIBILITIES

Board of Regents
The Board defines the goals and objectives of UCRP 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", "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 UCRP 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 UCRP. 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 objective of UCRP is to provide retirement benefits, as described in the Plan document, to its participants and their beneficiaries. The overall investment goal of UCRP is to maximize the probability of satisfying the Plan's liabilities in conjunction with the Regents' funding policy.

Return Objective
UCRP 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 UCRP. The performance of UCRP will be measured relative to its objectives (e.g. actuarial rate, funded status, inflation) and policy benchmarks found in this Policy.

Accordingly, the investment objectives and strategies emphasize a long-term outlook, and interim performance fluctuations will be viewed with the corresponding perspective. The Board acknowledges that over short time periods (i.e. one quarter, one year, and even three to five year time periods), returns will vary from performance objectives and the investment policy thus serves as a buffer against ill-considered action.

Risk Objective
While the Board recognizes the importance of the preservation of capital, it also recognizes that to achieve UCRP's overall objectives requires prudent risk-taking, and that risk is the prerequisite for generating investment returns. Therefore investment risk cannot be eliminated but should be managed. Risk exposures should be identified, measured, monitored and tied to responsible parties; and risk should be taken consistent with UCRP's objectives and the expectations for return from the risk exposures.

UCRP seeks a level of risk that is prudent and reasonable to maximize the probability of achieving its overall objective consistent with capital market conditions. The expected level of UCRP funded status volatility (i.e. surplus risk, or volatility of the change in UCRP assets relative to the change in UCRP liabilities) should be monitored and the Board seeks to minimize the probability of loss of funded status over a full market cycle.

Sustainability Objective

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

3. INVESTMENT GUIDELINES

Permitted Investments

Below is a list of asset class types in which the UCRP 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 UCRP
- 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 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 will invest in core fixed income instruments, including government and investment grade corporate bonds, inflation linked securities, cash and cash equivalents, as well as higher returning growth fixed income assets including high yield and emerging markets debt. The UCRP can hold a mix of traditional (benchmark relative) strategies and unconstrained (benchmark agnostic) strategies. The objective of the core fixed income assets is to provide diversification relative to other higher risk assets and necessary liquidity for payment obligations and portfolio rebalancing needs. The growth fixed income assets are intended to provide diversification and long term growth by investing in higher yielding and less liquid growth fixed income opportunities.

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. **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, energy, royalties, 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.

7. **Absolute Return**
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 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, 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.

Investment Restrictions
The Regents established that the purchase of securities issued by tobacco companies and companies with business operations in Sudan are prohibited in separately managed accounts. The OCIO 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.

5. STRATEGIC ALLOCATION

The purpose of the Strategic Asset Allocation (SAA) is to establish a diversified long term portfolio that is best able to achieve UCRP’s long-term purpose and objectives. The SAA will reflect 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 UCRP. 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 UCRP will be based on a financial plan that will consider:

- The financial condition of the Plan, i.e., the relationship between the current and projected assets of the Plan and the projected benefit payments, and the current Funding Policy.
- Future growth of active and retired participants; expected service costs and benefit payments; and inflation and the rate of salary increases. (Together these are the principal factors determining liability growth.)
- The expected long-term capital market outlook, including expected volatility of and correlation among various asset classes.

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

Table 1

	Target Allocation	Allowable Ranges	
		Minimum	Maximum
Global Equity	53.0	43.0	63.0
Core Fixed Income	13.0	10.0	16.0
High Yield Fixed Income	2.5	0.0	5.0
Emerging Markets Fixed Income	1.5	0.0	3.0
Private Credit	3.5	0.0	7.0
Private Equity	12.0	7.0	17.0
Absolute Return	3.5	0.0	5.5
Real Assets	4.0	0.0	8.0
Real Estate	7.0	2.0	12.0
Cash	0.0	0.0	5.0
TOTAL	100%		
Combined Private Investments(1)	30.0	15.0	40.0
Combined Public Fixed Income(2)	17.0	10.0	25.0

1. Private Investments includes Private Equity, Private Credit, Real Estate, Real Assets and Absolute Return.
2. Public Fixed Income includes Core, High Yield and Emerging Markets Fixed Income

6. RISK MANAGEMENT

There are three principal factors that affect a pension fund's financial status: 1) contributions, 2) benefit payments, and 3) investment performance. Only the last factor is dependent upon the investment policy and guidelines contained herein. However, the Committee's level of risk tolerance will take all three factors into account. At certain levels of funded status, it could be impossible for the investments to achieve the necessary performance to meet the promised liabilities. The result is that either benefits have to be reduced, contributions increased, or risk tolerance changed.

Funded status risk, or the risk of a significant decline in funded position, is the ultimate aggregate risk for

UCRP. Of the three determinants of this aggregate risk (contributions, benefits and investments) investment policy and investment risk are governed by this policy. The primary investment risk for UCRP is that investment returns fall below the assumed rate of return of the UCRP over the medium to long term. The principal risk factors that determine UCRP's investment risk, 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 UCRP's investment objectives. Responsibility for determining the overall level of capital market risk lies withthe Board and OCIO.

- **Total active risk** refers to the difference between the return of the UCRP policybenchmark and the actual return and captures the impact of implementation of the SAA policy. It incorporates the aggregate of investment style risk, active management risk, and tactical/strategic risks and is thus the responsibility of the OCIO.

The OCIO is responsible for managing both active risk and total risk (the combination of 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 OCIO.

7. BENCHMARKS

UCRP's performance will be evaluated against appropriate benchmarks including a strategic asset allocation benchmark ("Total UCRP Portfolio Benchmark") and specific benchmarks for each asset class and investment manager. The Total UCRP 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
Core Fixed Income	Bloomberg Barclays 1-5 Year US Government/Credit Index
High Yield Fixed Income	Merrill Lynch High Yield Cash Pay Index Fossil Free
Emerging Market Fixed Income	JP Morgan Emerging Markets Bond Index Global Diversified Fossil Free

Private Equity	Russell 3000 + 3*%
Real Estate	NCREIF Fund Index – Open End Diversified Core Equity (ODCE) non lagged
Real Assets	Actual Real Assets Portfolio Return
Private Credit	~~Actual Private Credit Portfolio Return~~ 75% Credit Suisse Leverage Loan Fossil Free Index + 25% Merrill Lynch High Yield BB-B Fossil Free Index +1.5%
Absolute Return	HFRI Fund of Funds Composite
Cash	Bank of America 3-Month US Treasury Bill Index

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

The **Total UCRP 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.

8. 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 UCRP. Accordingly, UCRP may be rebalanced when necessary 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 UCRP 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 OCIO may delay a rebalancing program when the it believes the delay is in the best interest of UCRP.

9. 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 ~~Committee on~~ Investments Committee, ~~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 UCRP with this Policy

While short-term results will be monitored, it is understood that UCRP'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.

10. POLICY MAINTANENCE

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

11. 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.

12. DISCLOSURES

The Chief Investment Officer ("OCIO") provides investment-related information on UCRP to The Regents' Committee on Investments 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 UCRP 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 2

additions shown by underscoring; deletions shown by strikethrough

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~~ 75% Credit Suisse Leverage Loan Fossil Free Index + 25% Merrill Lynch High Yield BB-B Fossil Free Index +1.5%
Absolute Return	HFRI Fund of Funds Composite
Cash	Bank of America 3-Month US Treasury Bill Index

* The Private Equity benchmark is in transition from Russell 3000 + 2.5% for FY 2021 to 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 ~~Sub~~Committee, ~~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 3

UNIVERSITY OF CALIFORNIA RETIREMENT SAVINGS PROGRAM

~~DEFINED CONTRIBUTION PLAN, TAX DEFERRED 403(b) PLAN, and 457(b) DEFERRED COMPENSATION PLAN~~

INVESTMENT POLICY STATEMENT

Effective: July 1, 2020
Replaces the UCRSP Investment Policy Statement effective March 15, 2018

~~Approved March 15, 2018~~
~~Replaces version approved July 23, 2015~~

~~University of California Retirement Savings Program Investment Policy Statement~~

UNIVERSITY OF CALIFORNIA RETIREMENT SAVINGS PROGRAM INVESTMENT POLICY STATEMENT

POLICY SUMMARY/BACKGROUND

The purpose of this Investment Policy Statement ("Policy" or "IPS") is to define the objectives, ~~and~~ policies, and guidelines ~~established~~ for the management and oversight of ~~the investments of~~ the University of California ("UC") Retirement Savings Program ("UCRSP"). UCRSP is comprised of the 401(a) Defined Contribution Plan, Tax-Deferred 403(b) Plan, and 457(b) Deferred Compensation Plan. The management of UCRSP 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. Monitoring and Reporting
5. Policy Maintenance
6. No Right of Action
7. Disclosures

~~This policy reflects the Governance Framework outlined in Bylaws 22 and 23 of the University and the Finance and Capital Strategies Committee Charter.~~

~~The Chief Investment Officer (or "Office of the Chief Investment Officer") 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 RSP assets.~~

1. ROLES AND RESPONSIBILIES

Board of Regents

The Board of Regents ("Board") defines the goals and objectives of UCRSP and is responsible for establishing and approving changes to this Policy. The Board 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", "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 UCRSP assets.

Retirement Savings Program Advisory Committee

The Retirement Savings Program Advisory Committee ("RSPAC") obtains feedback from the University community on RSP and to discuss coordination of issues that arise between the administrative and investment functions. RSPAC is comprised of the Chief Investment Officer, the Plan

Administrator (UC Human Resources), and other members who serve at the request of the Executive Vice President – Chief Operating Officer (COO). RSPAC is responsible to assess services provided by vendors, reviews fees and expenses, provides input on the annual report and may retain consultants to review administrative and investment performance.

Investment Managers

The OCIO may delegate to external Investment Managers responsibility for managing all or a portion of the assets. 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.

Recordkeeper

The role of the recordkeeper is to process and track participants' transactions, investment selections, and account information. The recordkeeper may also help the UC with participant communications, website access to account information, and customer service.

2. OBJECTIVES

Overall Objective

The objective of UCRSP is to ensure the Program provides participants the opportunity to invest their assets among a broad range of investment alternatives in order to create portfolios appropriate to their investment and savings needs. The fund options shall enable participants and beneficiaries to achieve a diversified portfolio with aggregate risk and return characteristics appropriate for them.

Sustainability Objective

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

3. INVESTMENT GUIDELINES

To achieve the foregoing objectives, the Program offers participants and beneficiaries a broad range of investment options spanning the following three tiers.

TIER 1: UC Pathway Funds (Target Date Funds)

UCRSP will offer target date funds that may invest in a mix of actively and/or passively managed underlying investment strategies, with each target date fund addressing a different time-horizon. The UC Pathway Funds should have a glidepath profile that is appropriate for the Plan based on certain characteristics of the Plan. The construction and implementation of the glidepath may be delegated to an external Investment Manager.

TIER 2: Core Fund Options

UCRSP may offer passively and actively managed fund options in a range of asset classes that provide diversification opportunities, with appropriate fees and risk levels. Participants may select one or more of these investment options to build a portfolio that reflects their desired risk and return profile.

TIER 3: Self Directed Brokerage

The Self Directed Brokerage option available through UC's selected recordkeeper platform allows participants or beneficiary to invest in investment options outside the UCRSP fund options.

4. MONITORING AND REPORTING

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

1. Investment Performance and Attribution
2. Material Changes to Organization and Investment Strategy
3. Potential Material Issues and Risks
4. Compliance of UCRSP with this Policy

5. POLICY MAINTENANCE

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

6. 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.

7. DISCLOSURES

The OCIO provides investment-related information on UCRSP to the Board's Committee on Investments 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.

~~**6. POLICY TEXT**~~

~~The Board has designated the Office of the Chief Investment Officer (OCIO) as the primary fiduciary for investment functions of RSP, including the selection of asset classes and Fund Options and the monitoring of investment performance.~~

~~All transactions undertaken on behalf of the Fund Options are undertaken solely in the interests of the Program's participants and their beneficiaries.~~

~~The Regents have delegated responsibilities to the OCIO as follows:~~

a. ~~Develop and implement criteria for selecting appropriate asset classes and specific Fund Options within those classes for the Program, after consultation with the Retirement Savings Program Advisory Committee ("RSPAC") and the appropriate constituent groups in the University community.~~

b. ~~Create and implement a process to monitor and evaluate the Program's investment structure and the Fund Options and, based on such periodic evaluations and consultation with appropriate parties, make changes to either the asset classes or Fund Options.~~

c. ~~Select investment professionals ("managers") with demonstrated experience and expertise who are responsible for managing specific portfolios.~~

d. ~~Select fund options as needed to provide the required diversification within an asset class, taking into account value and fees.~~

e. ~~Establish and implement procedures for the selection, monitoring, evaluation, and termination of investment managers.~~

~~The Regents have delegated responsibilities to the RSPAC as follows:~~

~~RSPAC was established by the Regents to obtain feedback from the University community on RSP and to discuss coordination of issues that arise between the administrative and investment functions. RSPAC is comprised of the Chief Investment Officer (CIO), the Plan Administrator (UC Human Resources), and other members who serve at the request of the Executive Vice President – Chief Operating Officer (COO). RSPAC includes representatives from the Office of the CIO, Office of the COO, and the Office of the General Counsel. External consultants are invited to provide advice and counsel on an as-needed basis. Members serve on RSPAC without compensation. An appointed committee member can resign at any time.~~

~~RSPAC responsibilities include:~~

- ~~Assessing the quality of services provided by vendors against established criteria and/or benchmarks;~~
- ~~Reviewing Program fees and expenses;~~
- ~~Providing input on the annual report to the Regents;~~
- ~~Retaining consultants necessary to assist in reviewing administrative and investment performance.~~

~~5.~~

6. ~~The RSP Investment Policy Statement will be updated as necessary. Revisions may be recommended by the Office of the Chief Investment Officer, Investments Subcommittee, Finance & Capital Strategies Committee or RSPAC, and approved by Board of Regents.~~

~~PROCEDURES AND RELATED DOCUMENTS~~

~~Investment Managers and Fund Options~~

~~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.~~