The Regents of the University of California

INVESTMENTS COMMITTEE
May 11, 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, Cohen, Leib, Muwwakkil, Park, Sherman, and Stegura; Ex officio member Pérez; Advisory members Horwitz, Lott, and Torres; Chancellors Hawgood, Khosla, Muñoz, and Wilcox; Advisor Zager; Staff Advisor Tseng

In attendance: Regent Reilly, Regent-designate Zaragoza, 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 10:05 a.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. Lehuanani DeFranco, representative of Uprooted and Rising, called on UC to withdraw support for the Thirty Meter Telescope (TMT) project and asked the Regents to add TMT to their agenda. She criticized UC and other TMT partners who were seeking National Science Foundation (NSF) funding. The TMT would have a short lifecycle but a long-term impact on Mauna Kea's ecosystem and aquifer.

B. Puanani Brown addressed item P5, *Federal Governmental Relations Update*, to be discussed by the Public Engagement and Development Committee, and spoke in opposition to the TMT project, which she thought would be subject to a vote at this meeting. She criticized UC for prioritizing NSF funding over indigenous rights and the many who opposed the project. Due to Native Hawaiian opposition, the cost of constructing the TMT had risen to $2.4 billion. She stated that students deserved an update on UC's engagement with the NSF.

C. Robert Byrd, representative of Pro-Life San Francisco, called on UC to stop abortion-dependent fetal tissue research. He stated that UCSF abortion facilities were supplying its laboratories with tissue from elective abortions of fetuses with up to 24 weeks' gestation. Digoxin could not be used if tissues were used in research.

D. Eric Snyder, UCSD graduate student, called on UC to provide affordable, family-friendly housing. A recent survey from UCSD found that 43 percent of parenting students living on campus had a total household income of less than $25,000. The most affordable long-term housing option was scheduled to be demolished. Student parents in the U.S. were mostly people of color, and 70 percent were women.

E. Catherine Cobb, President of Teamsters Local 2010, called for a fair contract for Teamsters members and UC Davis medical residents. She stated that UC had not worked with Teamsters Local 2010 when drafting policies on COVID-19 leave hours, layoffs and curtailments, and the privatization of the UCSC childcare center. The union had asked to meet with President Drake, but it had not happened.

2. APPROVAL OF MINUTES OF PREVIOUS MEETING

Upon motion duly made and seconded, the minutes of the meeting of February 18, 2021 were approved, Regents Anguiano, Cohen, Leib, Muwwakkil, Park, Sherman, and Stegura 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 stated that, as of March 31, UC investment assets totaled over $160 billion. There was $85 billion in the defined benefit plan and $33 billion in the UC Retirement Savings Program (UCRSP), and there was about $12 billion in both the Short Term Investment Pool (STIP) and Total Return Investment Pool (TRIP). The General Endowment Pool (GEP) had about $18 billion, and the Blue and Gold Pool had $200 million. As of May 8, UC had $165 billion in investment assets, a jump from $118 billion in March 2020. Fiscal year to date, the rate of return was about 23 percent for the endowment, about 22 percent for the pension, and about 17 percent for TRIP. In the last 12 months, TRIP had returns of about 30 percent while STIP had returns of about 0.5 percent. In 25 years, the defined benefit plan was projected to return eight percent on an annualized basis, the endowment 8.7 percent, and STIP 3.5 percent. The pension had an expected return of 6.75 percent, and the endowment should hopefully deliver a return of 7.5 to eight percent. Working capital had an expected rate return of three to four percent.

Regent Cohen asked about rebalancing policies and about plans to align the equity allocation to a policy benchmark. Mr. Bachher replied that the long-term allocation in the pension was 53 percent for public equity and 12 percent for private equity. The difference between the current and goal allocations was invested in the public equity markets; this was an interim policy on public equities. UC was about two percent underweight in private assets, and the Office of the CIO invested the underweight in real assets in the public equity

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

markets. As of May 10, there was a net differential of 1.5 points overweight in public equities. In the last ten months, the Office of the CIO held equity overweight in the pension, endowment, and TRIP but de-risked the portfolio in April.

Chief of Staff Arthur Guimaraes presented data from the second annual diversified returns report. By June 30, 2020, the Office of the CIO added five new managers, two of which were majority women-owned and one of which was majority black-owned. The Office of the CIO invested an additional $650 million in those managers and one Latino(a)-owned manager, one of which was the best performing public equity manager, with about 70 percent returns fiscal-year-to-date. The Office of the CIO also hired an investment operations analyst from a diverse pool of candidates and actively engaged 16 U.S. public companies, ten of which now reported their diversity statistics.

Mr. Bachher stated that the target allocations for public equities was 53 percent in the pension, 40 percent in the endowment, 50 percent in TRIP, and 61 percent in the UCRSP. Of the $94 billion of investments assets in the stock market, about 80 percent was passively invested, predominantly in the global equity index, and $18 billion was actively managed. Not trying to surpass the index had been profitable. Managing Director of Public Equity Investments Ronnie Swinkels stated that the Office of the CIO focused on small cap stocks in the U.S. and, outside of the U.S., the team focused on emerging markets such as China and India, both of which had a large middle class and much spending power. Within emerging markets, UC investments had the most exposure in the technology, consumer, healthcare, and financial sectors. The Office of the CIO also had regional managers that focused on high-quality stocks at reasonable valuations in Europe and other developed countries. Active management was preferred where industry expertise was needed, such as in health care. The team was closely monitoring the markets for high volatility situations that could create buying opportunities.

Mr. Bachher noted that UC had $41 billion in the fixed income markets, where the Office of the CIO strategy has become more passive. Senior Portfolio Manager of Asia Investments and Global Rates and Trading Satish Ananthaswamy shared the fixed income allocation. Aside from $10 billion in UCRSP, $10 billion was also in STIP, which was expected to earn nothing for the next few years because the Federal Reserve (Fed) was holding short-term rates at zero until at least 2023. There was $6 billion in TRIP, which was expected to earn 0.2 to 0.5 percent, and $1.5 billion in the endowment and $9 billion in the pension, which were both expected to earn 20 to 50 basis points. Due to interest rate sensitivity, the Office of the CIO moved to a lower-risk, lower-maturity strategy, avoiding a loss of 1.5 percent as interest rates rose and even gaining 0.5 percent. In the pension, the allocation of growth fixed income was invested mainly in emerging markets and high-yield bonds, which have performed well. In Mr. Ananthaswamy believed that UC's portfolio would be fine in both lower- and higher-rate environments.

Mr. Bachher invited UC Berkeley Professor of Economics Christina Romer to speak about inflation concerns. Ms. Romer remarked that, in the last 15 years, inflation has not behaved as economists had expected. While there were some rises in measures of inflation, the U.S. was still below the Fed's target. Citing fiscal stimulus from the American Rescue Plan and high growth in gross domestic product (GDP), some economists were sounding the alarm that big inflation was forthcoming, but this was a minority view. GDP grew about six percent in the first quarter and was expected to remain at that level through the rest of the year, but the U.S. economy was still far from fully recovered. There were eight million fewer jobs than before the pandemic, and many who had left the labor force were not likely to return until after they were vaccinated and saw available jobs. Inflation would be more concerning if it pushed against productive capacity, but the U.S. should be far away from that point. The U.S. could grow with high interest rates for some time without generating persistent price increases. A recent study from the International Monetary Fund predicted that, even if stimulus and other factors pushed the unemployment rate to 1.5 percent, inflation would grow to only 2.3 to 2.5 percent. After struggling to hit its two percent inflation target, the Fed modified its procedures and was waiting for inflation to rise above two percent for an average of two percent over time. The Fed's slower response seemed to fuel some pundits' forecasts, but Ms. Romer expressed confidence that the Fed would intervene if necessary. Both the Fed and the U.S. Treasury anticipated some inflation over the summer. This was to be expected when an economy was trying to grow or recover, but Ms. Romer suggested watching for whether this was temporary or signaled a change to a different regime. She stated that inflation alarmist views did not carry as much weight as the views she shared, and most forecasting firms and the Fed Board of Governors believed that the inflation rate would be about 2.3 percent over the next several years. Implied expected inflation in inflation-protected securities has risen to about the same rate, an indication that the markets understood the Fed's strategy. Ms. Romer acknowledged the presence of risks and that the economy would still need to be observed closely.

Real Estate Investment Officer Jessica Hans stated that UC's real estate portfolio had about $5.2 billion in net asset value, $4.2 billion of which was allocated to the defined benefit pension plan and $1 billion to the endowment. Most real estate sectors have recovered since the onset of the COVID-19 pandemic, benefiting from monetary stimulus, low interest rates, and the gradual reopening of the economy. Pricing metrics seemed reasonably healthy despite all-time high valuations. Real estate income yields were priced at a 200- to 400-basis-point spread over the ten-year Treasury yield, in line with the historic average. Inflation could benefit real estate values, or real estate could act as a partial hedge against inflation. Companies' decisions regarding working from home were currently unknown but would affect demand for office space, and questions about the reconfiguration of and need for office space in a post-pandemic environment have created uncertainty, so investors have been hesitant to deploy capital. However, office space for life science and biotechnology tenants has performed well. UC Investments reduced its allocation of office assets from 40 percent to 28 percent though sales and strategically not deploying capital. Industrial real estate, 21 percent of UC's real estate portfolio and its best performing, saw gains due to a surge in e-commerce during the pandemic. Housing fundamentals were affected due to unemployment and decreasing rents and occupancy. Investors' expectation of the apartment sector's strong recovery has pushed values above pre-COVID highs. As a result, the Office of the CIO might sell assets if there are opportunities for strong gains.

Managing Director of Defined Contributions Products Marco Merz shared the three core messages that the Office of the CIO has reinforced to participants of UCRSP: the importance of staying the course; asset allocation being the main driver of performance; and the Office of the CIO's continuous evolution of the program so that participants have the tools and options to achieve retirement. Communication efforts, such as webinars featuring Mr. Bachher, increased at the start of the pandemic and during the 2020 election in order to calm participants' nerves. These efforts reached thousands, and over 99 percent of assets stayed in original allocations. The UC Pathway Fund was a target date fund with 12 asset classes, including high-yield, Treasury Inflation-Protected Securities (TIPS), international equities, and U.S. equities, that reduced risk over time. It has grown to nearly $13 billion from less than $2 billion about seven years ago. In March, the Office of the CIO launched the UC Global Equity ex Fossil Fuel Fund, which provided the same exposure that was in the pension and the endowment. Plans to incorporate guaranteed income into the target date fund would be implemented in the third quarter of this year.

Committee Chair Sherman asked whether the managers who were outperforming the benchmarks had been the same ones over the last three to five years. Mr. Swinkels responded that the roster of managers had changed from several years ago, particularly since moving to more passive management. Several managers were terminated. In the last two years, few changes have been made because of good performance. Mr. Bachher added that, fiscal-year-to-date, the endowment was performing around the benchmark and the pension was about one percent over the benchmark. Some of the gains by active managers in the first half of the year were lost later, but the Office of the CIO was focusing on longer-term performance.

Committee Chair Sherman asked Ms. Romer what metrics she used in determining the leading indicators of inflation. He cited high housing costs, raw material and crude oil prices, and TIPS. Ms. Romer stated that price spikes in raw materials were common. She compared the current situation to the end of the Great Depression, when bottlenecks formed as the economy tried to grow quickly; commodity prices rose and then fell back down. Policymakers were noticing the price rises. For persistent inflation, Ms. Romer would look for tightness in the labor market, consistent increase in wages, and whether people returned to the labor force so that the labor market could absorb this growth.

Regent Park asked about the future of office space. Ms. Hans replied that there was much uncertainty. Dense urban markets like New York and San Francisco, which had large amounts of office stock and the most subdued trends in employees returning to the office, were suffering the most. There might be opportunities to buy assets at distressed prices, but there were very few transactions. Forced selling was not as prevalent as in the previous financial crisis, because investors and owners had less leverage on properties and were better positioned financially. The entire real estate market seemed to be on pause. Even the investors who believed that the use of office space would revert to what it had been before the pandemic were hesitant to deploy capital into the office sector. The retail real estate sector has undergone a reckoning in the last five or more years, with the pandemic accelerating the fallout. E-commerce now made up more than 20 percent of total sales in the U.S. While retail shopping would survive, its footprint would be far smaller.

Regent Park asked if there could be creative uses of office space, such as conversions into live-work spaces. Ms. Hans responded that the idea has been suggested, but such conversions cost money and investors were reluctant to invest capital in the sector. There was a question of where people want to live and work. Some surveys indicated that working from home was becoming more popular. Mr. Bachher added that leases were likely to be much shorter. The Office of the CIO was careful about the motivations behind the opportunities being presented. Some financial firms in New York that had a stake in real estate investments were encouraging their staff to return to their offices by June. The technology sector was behaving differently.

Advisor Zager, noting the tendency of wages to go up, asked Ms. Romer how long inflation would remain transitory. Ms. Romer replied that the Fed's aggressive action during the pandemic helped the U.S. avoid a financial crisis. She disagreed with the view that the growth of money supply would turn into inflation and believed that demand pushing against productive capacity of the economy was what fundamentally determined inflation. She stated that the current situation was transitory; surges in raw material prices were the result of inputs not expanding as rapidly as production. From 1964 to 1965, the Fed saw certain issues as special factors instead of underlying inflation. These special factors were observed today and were expected to be temporary but could be a precursor of something more persistent.

Advisor Zager asked Mr. Ananthaswamy if the fixed income markets would sell off in response to inflation rising up to three percent. Mr. Ananthaswamy replied that the markets had already factored a rise in inflation, but there was still much slack in the economy. The Office of the CIO was examining other factors such as trade; globalization has been dampened by higher prices. There were many job openings but not enough qualified people in the work force, but the economy would adjust as more qualified people return to the employment market. Monetary policy always lagged, so the Office of the CIO was closely watching when the Fed would raise interest rates. Real yields were still negative 100 basis points. Ms. Romer noted the change in the Fed's expectations.

Regent Stegura, noting the implication from the press that people were not in the employment market because they were receiving more money from federal stimulus, asked whether people would flood the employment market at the end of the summer. Ms. Romer responded that benefits were one factor but not a particularly significant one. U.S. Secretary of the Treasury Janet Yellen had cited fear of the pandemic and waiting to get vaccinated, as well as childcare and schools becoming operational. Higher unemployment benefits could give workers a chance to spend more time searching for the right jobs. As these factors go away, a return to more normal amounts of slack in the labor market was likely. Regent Stegura noted the effect the current labor market had on manufacturing.

Regent Stegura asked Mr. Bachher about the Office of the CIO's plans for returning to the office. Mr. Bachher stated that, since March 2020, the health and safety of his team, their families, and the community has been his one guiding principle. Regardless of vaccination rates, he noted rises in COVID-19 infections in other parts of the world. He aimed for a return to the office in January 2022 or even fall 2021 if the situation had improved by then. This presented an opportunity to ask how his team wished to work in the future.

Regent Leib asked Ms. Romer how she would advise the Biden administration on financial policy given the significant shift in wealth. Ms. Romer replied that she would advise President Biden to do much of what he was currently doing. The American Jobs Plan and the American Families Plan would use spending to improve overall productivity and included more targeted measures to improve lower-income workers' standards of living. She praised these policies but was nervous about the $5 trillion spent in response to the pandemic, from the Trump administration to the present, and the additional $4 trillion proposed by the Biden Administration. She would be watching for balancing this spending with tax increases, which could keep debt and the deficit from swelling.

4. **AMENDMENT OF REGENTS POLICY 6110: UNIVERSITY OF CALIFORNIA BLUE AND GOLD ENDOWMENT INVESTMENT POLICY AND RESCISSION OF REGENTS POLICY 6405: UNIVERSITY OF CALIFORNIA BLUE AND GOLD ENDOWMENT ASSET AND RISK ALLOCATION POLICY**

The Chief Investment Officer recommended that the Regents:

A. Amend Regents Policy 6110 – University of California Blue and Gold Endowment Investment Policy Statement, as shown in Attachment 1.

B. Rescind Regents Policy 6405 –University of California Blue and Gold Endowment Asset and Risk Allocation Policy, as shown in Attachment 2.

These amendments are retroactively 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 objective of creating the Blue and Gold Pool, which has since grown to $2 billion, was to give UC campuses and other affiliates an opportunity to invest at low cost, access to immediate liquidity, and endowment-like returns. Earlier in the COVID-19 pandemic the Office of the CIO liquidated the Blue and Gold Pool, managing the product at the cost of one basis point, and restarted investing it in March. The asset allocation of the Blue and Gold Pool mirrored that of the endowment, and this proposal reflected the endowment's new allocation of 80 percent stocks and 20 percent bonds.

Regent Muwwakkil asked why the yield of the Blue and Gold Pool was low relative to the General Endowment Pool (GEP). Mr. Bachher replied that this year's returns were exceptional and that the long-term target for stocks was six to seven percent. The expected returns of the GEP came from six percent expected returns in stocks and 0.5 percent expected returns in bonds. The 3.75 percent payout rate in the Blue and Gold Pool was set with direction from the Office of the Chief Financial Officer. Campuses should consider a blended return from the Short Term Investment Pool (STIP), the Total Return Investment Pool (TRIP), and the Blue and Gold Pool, depending on how much was invested in each.

Regent Muwwakkil asked if a 3.75 percent payout was a target or subject to change. Mr. Bachher responded that it was a target but could be flexible. In April 2020, the spending rate of the Blue and Gold Pool had been 100 percent. It was designed to give low-cost, higher-return liquidity and flexibility to campuses to manage their operating needs.

Regent Cohen asked if the effective date of the policy amendment to July 1, 2020 was set for the sake of consistency. Mr. Bachher responded in the affirmative. When investment in the Blue and Gold Pool resumed in March 2021, it was reseeded at 80 percent stocks and 20 percent bonds, and there was enough to do so.

Regent Cohen asked how the Office of the CIO could ensure liquidity when the market is volatile. Mr. Bachher noted that volatility would increase with more allocated to stocks. Anything that the Office of the CIO did that deviated from the reference portfolio added value. This change to the asset allocation mirrored the change to the reference portfolio.

Regent Cohen asked if the 3.75 percent payout rate was guaranteed. Mr. Bachher responded in the negative. This was an estimate of an expected payout in any given year. The Office of the CIO has been tested over the years and was able to meet its goals. Its role was to provide guidance to the campuses regarding their decisions. Regent Cohen asked if the Office of the CIO communicated to the campuses that it could only pay out what it had. Mr. Bachher stated that the campuses were very good partners. Early in the pandemic, TRIP had a tactical overweight to equities, which was sold for nearly $1 billion in gains, a nest egg for payouts. The $418 million expected payout on the endowment on June 30 has been taken out and was ready to be distributed to campuses if needed.

Committee Chair Sherman, noting the uniqueness of the Blue and Gold Pool's liquidity, asked if there were restrictions for campuses that wished to move from the Blue and Gold Pool to TRIP or STIP. Mr. Baccher replied the Blue and Gold Pool allowed campuses to access money more quickly, as well as move balances to TRIP or STIP.

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

The meeting adjourned at 11:45 a.m.

Attest:

Secretary and Chief of Staff

Additions shown by underscoring; deletions shown by strikethrough

UNIVERSITY OF CALIFORNIA BLUE AND GOLD ENDOWMENT [UC BGE]

INVESTMENT POLICY STATEMENT

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

UNIVERSITY OF CALIFORNIA BLUE AND GOLD ENDOWMENT
INVESTMENT POLICY STATEMENT

PURPOSE

The purpose of this Investment Policy Statement ("Policy" or "IPS") is to define the objectives and policies established for the management of the investments of the University of California ("UC") BLUE AND GOLD ENDOWMENT (BGE). The management of BGE 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

~~POLICY SUMMARY/BACKGROUND~~

~~The purpose of this Investment Policy Statement ("Policy" or "IPS") is to define the objectives and policies established for the management of the investments of the University of California BLUE AND GOLD ENDOWMENT (BGE). The management of BGE is subject to state and federal regulations and laws, and all other University investment policies, which may not be listed in this document. The investment policy statement consists of the following sections:~~

- ~~Investment Objectives~~
- ~~Payout Policy~~
- ~~Monitoring and Reporting~~
- ~~Conflicts of Interest~~
- ~~Disclosures~~
- ~~Policy Maintenance~~

~~This policy reflects the Governance Framework outlined in Bylaws 22 and 23 of the University and the Finance and Capital Strategies Committee Charter. The Board defines the goals and objectives of BGE and is responsible for establishing and approving changes to this IPS. The Finance and Capital Strategies Committee and Investments Subcommittee are responsible for establishing the Asset and Risk Allocation Policy (with Board approval), which defines the strategic asset allocation, risk tolerance, asset types, and benchmarks of the portfolio.~~

~~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 BGE assets.~~

UNIVERSITY OF CALIFORNIA BLUE AND GOLD ENDOWMENT INVESTMENT POLICY STATEMENT

1. ROLES AND RESPONSIBILITIES

Board of Regents

The Board defines the goals and objectives of BGE 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 BGE assets.

Investment Managers

UC Investments 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 BGE. 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

BGE is an investment pool established by the Regents ~~and is available to UC campuses and other related entities.~~ with the objective ~~of BGE is~~ to provide a low cost, liquid, diversified investment vehicle in which the various UC organizations may invest their long-term excess capital reserves to earn a higher return than would otherwise be expected from short-term cash management vehicles (such as TRIP and STIP). This objective is subject to risk and liquidity tolerances established with the Office of the President, Chief Financial Officer, and campuses. ~~BGE seeks to achieve this objective by taking advantage of the economies of scale of investing a large liquid pool of assets.~~ The pool intends to invest in the most liquid and transparent investments available that provide appropriate market exposure, at the lowest possible expense, in order to provide the opportunity for immediate withdrawal of funds by an investor with minimum impact on other investors in the pool. BGE is available to all University groups and affiliates.

Return Objective

BGE seeks to maximize its return on investment, consistent with BGE's overall objectives ~~levels of investment risk as stated below~~ that are prudent and reasonable given long-term capital market expectations, including liquidity maximization and expense minimization. ~~The performance of BGE will be measured relative to its objectives and policy benchmark found in the Asset and Risk Allocation Policy.~~ Subject to the risk objective below, BGE's return objective is to earn a return consistent with a portfolio allocated between public equities and high-quality bonds.

Risk Objective

While the Board recognizes the importance of the preservation of capital, it also recognizes that achieving BGE'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 the BGE's objectives and the expectations for return from the risk exposures. The BGE should have a low probability of loss of capital and/or a loss of purchasing power over a full market cycle (typically four to eight years).

Payout Policy

BGE will have an annual payout rate that provides investors with a source of income that is perpetual, growing, and predictable.

The objective of the payout rate is to allow BGE to grow on a total return basis while "smoothing" the payout to mitigate disruptions in the budgets of end-investors throughout economic and market cycles.

The payout rate for eligible assets in BGE is 3.75%.

Sustainability Objectives

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

3. INVESTMENT GUIDELINES

Permitted Investments

Below is a list of asset class types in which the BGE 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 BGE
- Widely recognized and accepted among institutional investors

- Diversification with some or all of the other accepted asset classes

Public Equity

Includes publicly traded common stock of issuers domiciled in U.S., Non-U.S., and Emerging Markets. The objective of the growth portfolio is to generate investment returns while maintaining high levels of liquidity and transparency through a diversified portfolio of common stocks.

Fixed 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, inflation-linked securities, cash, and cash equivalents. The objective of the income portfolio is to provide interest income and necessary liquidity for cash flows and portfolio rebalancing needs and to diversify the risks present in the growth portfolio.

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.

Given the mandate for liquidity, transparency and minimal expense, a passive implementation of all assets is expected. Derivatives are expected to be used to improve liquidity and minimize tracking error to passive indices.

Each asset class is assigned a benchmark that represents the opportunity set and risk and return characteristics associated with the asset class.

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 purpose of the Strategic Asset Allocation ("SAA") is to reflect BGE's purpose and objectives, as well as the investment beliefs and organizational capability of UC Investments. The actual portfolio exposures will deviate from the Strategic Asset Allocation as a result of price drifts, opportunity set, and value-adding activities of UC Investments.

The investment strategy of BGE will incorporate the risk tolerance of the Board of Regents and the

Investments Committee, the relationship between current and projected assets, evolution of the University's financial needs, namely BGE payout, budget, contributions, and growth expectations.

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

Table 1

		Allowable Ranges	
	Strategic Asset Allocation	**Minimum**	**Maximum**
Global Equity	**80%**	**60%**	**90%**
Fixed Income	**20%**	**10%**	**40%**
Total	**100%**		

5. RISK MANAGEMENT

The primary risks to BGE are the inability to meet planned spending and/or the inability to return capital to the owners of BGE assets. The principal factors that determine BGE's asset volatility and the parties responsible for managing them are as follows:

Capital market risk is the risk that the investments decline in value or do not create a positive real rate of return over a full market cycle. Responsibility for determining the overall level of capital market risk lies with the Board at the recommendation of the Investments Committee. The implementation of this risk is the responsibility of the Chief Investment Officer, who will employ a passive investment program.

Liquidity risk is the risk that investments cannot be liquidated in time to meet requested redemption requests.

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

Tracking Error: BGE shall be managed so that its annualized tracking error budget shall not exceed 100 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.

Liquidity Risk: BGE shall be managed so that at least 20% of its total assets can be liquidated within three business days.

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

6. BENCHMARKS

BGE's performance will be evaluated against appropriate benchmarks including a strategic asset allocation benchmark ("Total BGE Portfolio Benchmark") and specific benchmarks for each asset class and investment manager. The Total BGE 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	Benchmark
Public Equity	MSCI All Country World Index (ACWI) Investable Market Index (IMI) Tobacco and Fossil Free - Net Dividends
Fixed Income	Bloomberg Barclays 1-5 Year US Government/Credit Index

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

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 BGE. Accordingly, BGE may be rebalanced when necessary to ensure adherence to this policy and the Investment Policy.

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

UC Investments shall assess and manage the trade-off between the cost of rebalancing and the active risk associated with the deviation from Strategic Asset Allocation weights. The Chief Investment Officer may delay a rebalancing program when the Chief Investment Officer believes the delay is in the best interest of BGE.

8. MONITORING AND REPORTING

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

1. Asset Allocation and Risk ~~Allocation~~ Measures and Exposures

2. Investment Performance and Attribution (against benchmarks identified in ~~the BGE Asset and Risk Allocation Policy~~ this Policy)

3. Material Changes to Organization and Investment Strategy

4. Potential Material Issues and Risks

While short-term results will be monitored, it is understood that BGE's objectives are long-term in nature and progress toward 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 UC Investments or the Investments 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 BGE 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 The Chief Investment Officer's Annual Report for the most recent fiscal year is also available on the ~~Chief Investment Officer's~~ UC Investments website.

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~~PROCEDURES AND RELATED DOCUMENTS~~
~~BGE Asset and Risk Allocation Policy~~
~~Investment Implementation Manual*~~

~~*Changes to the Investment Implementation Manual do not require Regents approval, and inclusion or amendment of references to these documents can be implemented administratively by the Office of the Chief Investment Officer.~~

Additions shown by underscoring; deletions shown by strikethrough

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~~Regents Policy 6405: University of California Blue and Gold Endowment Asset and Risk Allocation Policy~~

~~Adopted November 15, 2018~~

~~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 BLUE AND GOLD ENDOWMENT (BGE).~~

~~POLICY TEXT ASSET CLASS TYPES~~

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

- ~~Positive contribution to the investment objective~~
- ~~Widely recognized and accepted among institutional investors~~
- ~~Low cross-correlations with some or all of the other accepted asset classes~~
- ~~Highly liquid~~
- ~~Highly transparent~~
- ~~Available at minimal expense~~

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

~~1. Growth~~

~~Includes publicly traded common stock of issuers domiciled in U.S., Non-U.S., and Emerging Markets. The objective of the growth portfolio is to generate investment returns while maintaining high levels of liquidity and transparency through a diversified portfolio of common 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, inflation-linked securities, cash, and cash equivalents. The objective of the income portfolio is to provide interest income and necessary liquidity for cash flows and portfolio rebalancing needs and to diversify the risks present in the growth portfolio.~~

~~3. 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.~~

~~Given the mandate for liquidity, transparency, and minimal expense, a passive implementation of all assets is expected. Derivatives are expected to be used to improve liquidity and minimize tracking error to passive indices.~~

~~Each asset class is assigned a benchmark that represents the opportunity set and risk and return characteristics associated with the asset class.~~

~~RISK MANAGEMENT~~

~~Three principal factors affect BGE's financial status: 1) budget use, 2) payout, and 3) investment performance. The level of risk tolerance will take account of all three factors. At certain levels of assets and a given payout policy, it could be possible that the investments do not achieve the necessary performance to meet the spending budget. The result would be that either payout policy, use in budget, or risk tolerance would have to be changed.~~

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

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

- ~~Capital market risk is the risk that the investments decline in value or do not create a positive real rate of return over a full market cycle. Responsibility for determining the overall level of capital market risk lies with the Board at the recommendation of the Investments Subcommittee. The implementation of this risk is the responsibility of the Chief Investment Officer who will employ a passive investment program.~~
- ~~Liquidity risk is the risk that investments cannot be liquidated in time to meet requested redemption requests.~~

~~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.~~

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

- ~~Payout Risk (insufficient assets tomeet planned payout)~~
    - ~~Measures the risk of inappropriate investment policy and strategy~~
    - ~~Loss of purchasing power and loss of capital~~
- ~~Total Investment Risk (volatility of total return)~~
    - ~~Measure 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~~
    - ~~If passive implementation is used, active risk also captures tracking error caused by asset allocation deviations from the strategic allocation~~
- ~~Liquidity Risk~~

~~Risk Measures:~~

~~Tracking Error: BGE shall be managed so that its annualized tracking error budget shall not exceed 100 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.~~

~~Liquidity Risk: BGE shall be managed so that at least 20% of its total assets can be liquidated within 3 business days.~~

~~The Office of the Chief Investment Officer (OCIO) is responsible for managing 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 BGE'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.~~

~~The investment strategy of BGE will incorporate the risk tolerance of the Board, Finance and Capital Strategies Committee, and the Investments Subcommittee, the relationship between current and projected assets, evolution of the University's financial needs, namely BGE payout, budget, 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~~	~~70%~~	~~60%~~	~~80%~~
~~Income~~	~~30%~~	~~20%~~	~~40%~~
~~Total~~	~~100%~~		

~~The program will invest primarily in liquid, low cost, marketable securities.~~

~~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 asset 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~~	~~Bloomberg Barclays US Aggregate Index~~

~~The Total Portfolio Benchmark is a weighted average consisting of each of the monthly returns of the benchmarks noted above weighted by the Strategic Asset 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 BGE. Accordingly, BGE 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 implement the asset allocation in a manner that ensures that BGE 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 Strategic Asset Allocation weights. The Chief Investment Officer may delay a rebalancing program when the Chief Investment Officer believes the delay is in the best interest of BGE.~~

~~COMPLIANCE/DELEGATION~~

~~The BGE 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~~

~~BGE Investment Policy Statement~~
~~Investment Implementation Manual*~~

~~*Changes to the Investment Implementation Manual do not require Regents approval, and inclusion or amendment of references to that document can be implemented administratively by the Office of the Chief Investment Officer.~~

UNIVERSITY OF CALIFORNIA BLUE AND GOLD ENDOWMENT
INVESTMENT POLICY STATEMENT

~~PURPOSE~~

~~The purpose of this Investment Policy Statement ("Policy" or "IPS") is to define the objectives and policies established for the management of the investments of the University of California ("UC") BLUE AND GOLD ENDOWMENT (BGE). The management of BGE 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~~

~~POLICY SUMMARY/BACKGROUND~~
~~The purpose of this Investment Policy Statement ("Policy" or "IPS") is to define the objectives and policies established for the management of the investments of the University of California BLUE AND GOLD ENDOWMENT (BGE). The management of BGE is subject to state and federal regulations and laws, and all other University investment policies, which may not be listed in this document. The investment policy statement consists of the following sections:~~

- ~~Investment Objectives~~
- ~~Payout Policy~~
- ~~Monitoring and Reporting~~
- ~~Conflicts of Interest~~
- ~~Disclosures~~
- ~~Policy Maintenance~~

~~This policy reflects the Governance Framework outlined in Bylaws 22 and 23 of the University and the Finance and Capital Strategies Committee Charter. The Board defines the goals and objectives of BGE and is responsible for establishing and approving changes to this IPS. The Finance and Capital Strategies Committee and Investments Subcommittee are responsible for establishing the Asset and Risk Allocation Policy (with Board approval), which defines the strategic asset allocation, risk tolerance, asset types, and benchmarks of the portfolio.~~

~~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 BGE assets.~~

UNIVERSITY OF CALIFORNIA BLUE AND GOLD ENDOWMENT
INVESTMENT POLICY STATEMENT

~~1. ROLES AND RESPONSIBILITIES~~

~~Board of Regents~~
~~The Board defines the goals and objectives of BGE 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 BGE assets.~~

~~Investment Managers~~
~~UC Investments 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 BGE. 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~~
~~BGE is an investment pool established by the Regents and is available to UC campuses and other related entities. with the objective of BGE is to provide a low cost, liquid, diversified investment vehicle in which the various UC organizations may invest their long-term excess capital reserves to earn a higher return than would otherwise be expected from short-term cash management vehicles (such as TRIP and STIP). This objective is subject to risk and liquidity tolerances established with the Office of the President, Chief Financial Officer, and campuses. BGE seeks to achieve this objective by taking advantage of the economies of scale of investing a large liquid pool of assets. The pool intends to invest in the most liquid and transparent investments available that provide appropriate market exposure, at the lowest possible expense, in order to provide the opportunity for immediate withdrawal of funds by an investor with minimum impact on other investors in the pool. BGE is available to all University groups and affiliates.~~

~~Return Objective~~
~~BGE seeks to maximize its return on investment, consistent with BGE's overall objectives levels of investment risk as stated below that are prudent and reasonable given long-term capital market~~

~~expectations, including liquidity maximization and expense minimization. The performance of BGE will be measured relative to its objectives and policy benchmark found in the Asset and Risk Allocation Policy. Subject to the risk objective below, BGE's return objective is to earn a return consistent with a portfolio allocated between public equities and high-quality bonds.~~

~~Risk Objective~~

~~While the Board recognizes the importance of the preservation of capital, it also recognizes that achieving BGE'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 the BGE's objectives and the expectations for return from the risk exposures. The BGE should have a low probability of loss of capital and/or a loss of purchasing power over a full market cycle (typically four to eight years).~~

~~Payout Policy~~

~~BGE will have an annual payout rate that provides investors with a source of income that is perpetual, growing, and predictable.~~

~~The objective of the payout rate is to allow BGE to grow on a total return basis while "smoothing" the payout to mitigate disruptions in the budgets of end-investors throughout economic and market cycles.~~

~~The payout rate for eligible assets in BGE is 3.75%.~~

~~Sustainability Objectives~~

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

~~3. INVESTMENT GUIDELINES~~

~~Permitted Investments~~

~~Below is a list of asset class types in which the BGE 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 BGE~~
- ~~Widely recognized and accepted among institutional investors~~

- ~~Diversification with some or all of the other accepted asset classes~~

~~Public Equity~~

~~Includes publicly traded common stock of issuers domiciled in U.S., Non-U.S., and Emerging Markets. The objective of the growth portfolio is to generate investment returns while maintaining high levels of liquidity and transparency through a diversified portfolio of common stocks.~~

~~Fixed 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, inflation-linked securities, cash, and cash equivalents. The objective of the income portfolio is to provide interest income and necessary liquidity for cash flows and portfolio rebalancing needs and to diversify the risks present in the growth portfolio.~~

~~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.~~

~~Given the mandate for liquidity, transparency and minimal expense, a passive implementation of all assets is expected. Derivatives are expected to be used to improve liquidity and minimize tracking error to passive indices.~~

~~Each asset class is assigned a benchmark that represents the opportunity set and risk and return characteristics associated with the asset class.~~

~~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 purpose of the Strategic Asset Allocation ("SAA") is to reflect BGE's purpose and objectives, as well as the investment beliefs and organizational capability of UC Investments. The actual portfolio exposures will deviate from the Strategic Asset Allocation as a result of price drifts, opportunity set, and value-adding activities of UC Investments.~~

~~The investment strategy of BGE will incorporate the risk tolerance of the Board of Regents and the~~

~~Investments Committee, the relationship between current and projected assets, evolution of the University's financial needs, namely BGE payout, budget, contributions, and growth expectations.~~

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

~~Table 1~~

		~~Allowable Ranges~~	
	~~Strategic Asset Allocation~~	**~~Minimum~~**	**~~Maximum~~**
~~Global Equity~~	**~~80%~~**	**~~60%~~**	**~~90%~~**
~~Fixed Income~~	**~~20%~~**	**~~10%~~**	**~~40%~~**
~~Total~~	**~~100%~~**		

~~5. RISK MANAGEMENT~~

~~The primary risks to BGE are the inability to meet planned spending and/or the inability to return capital to the owners of BGE assets. The principal factors that determine BGE's asset volatility and the parties responsible for managing them are as follows:~~

~~Capital market risk is the risk that the investments decline in value or do not create a positive real rate of return over a full market cycle. Responsibility for determining the overall level of capital market risk lies with the Board at the recommendation of the Investments Committee. The implementation of this risk is the responsibility of the Chief Investment Officer, who will employ a passive investment program.~~

~~Liquidity risk is the risk that investments cannot be liquidated in time to meet requested redemption requests.~~

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~~Tracking Error:~~ ~~BGE shall be managed so that its annualized tracking error budget shall not exceed 100 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.~~

~~Liquidity Risk~~~~: BGE shall be managed so that at least 20% of its total assets can be liquidated within three business days.~~

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

UNIVERSITY OF CALIFORNIA BLUE AND GOLD ENDOWMENT
INVESTMENT POLICY STATEMENT

~~6. BENCHMARKS~~

~~BGE's performance will be evaluated against appropriate benchmarks including a strategic asset allocation benchmark ("Total BGE Portfolio Benchmark") and specific benchmarks for each asset class and investment manager. The Total BGE 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**:~~

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

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

~~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 BGE. Accordingly, BGE may be rebalanced when necessary to ensure adherence to this policy and the Investment Policy.~~

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2. ~~Investment Performance and Attribution (against benchmarks identified in the BGE Asset and Risk Allocation Policy this Policy)~~

UNIVERSITY OF CALIFORNIA BLUE AND GOLD ENDOWMENT
INVESTMENT POLICY STATEMENT

~~3. Material Changes to Organization and Investment Strategy~~

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

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